Charter Hall

Charter Hall Retail REIT

Annual Report 2019

Contents

To view our Corporate Governance Statement, go to charterhall.com.au/About-Us/Corporate-Governance

Image:
Secret Harbour Square, Perth.

Charter Hall Retail REIT (ASX: CQR)
Managed by Charter Hall Group (ASX: CHC)

Better Futures. Mutual Success.

Charter Hall Retail REIT is Australia's leading owner and manager of convenience based retail.

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

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

We achieve this through our dedicated and highly skilled retail experts who provide end-to-end property services to our portfolio.

Charter Hall Retail REIT is managed by Charter Hall Group. With over 28 years' experience in property investment and funds management, Charter Hall is one of Australia's leading fully integrated property groups. Charter Hall uses its property expertise to access, deploy, manage and invest equity across the core sectors – office, retail, industrial and social infrastructure.

Strategy

The REIT's strategy is unchanged, and its focus remains on providing a secure and growing income stream for our investors. We achieve this through maintaining our position as the leading owner and manager of convenience-based retail.

Image:
Coles,
Gateway Plaza,
Leopold, Melbourne.

Active asset management

Maintain strong tenant relationships

Enhance the customer experience

Optimise the tenancy mix through proactive leasing

Enhance portfolio quality

Active portfolio curation

Value enhancing redevelopments

Aligning investment with major tenant partners

Prudent capital management

Strong and flexible balance sheet

Sustainable gearing

Extending capital partnerships

Stable occupancy at

98.1%

175

lease renewals and

191

new leases delivering positive specialty leasing spreads of

0.8%

Stable WALE of

6.5 yrs

Portfolio value

$3bn

property portfolio value up 6.8%

$275m

in acquisitions

$387m

of divestments since beginning of FY18

$54.8m[1]

average asset size

Weighted average debt maturity of

5.0 yrs

Balance sheet gearing of

32.9%

Refinanced

$445m

of debt facilities

$165m

completed institutional placement and unit purchase plan

1. 100% value.

FY19 Performance Highlights

Operating earnings
$128.0m
↑ 3.9%

Distributions per unit
28.76c
↑ 2.0%

Payout ratio
92.4%

Operating earnings per unit
31.12c
↑ 2.0%

NPI growth[1]
2.1%

Statutory profit
$53.1m

1. Like-for-like.

"Major tenants Woolworths, Coles, Wesfarmers and Aldi combined represent 46% of rental income. We continue to diversify major tenant income; Aldi is now the fifth-largest tenant group with representation increasing from six to nine stores."

CHRISTINE KELLY
HEAD OF RETAIL FINANCE AND DEPUTY FUND MANAGER CQR

Image:
ALDI, Arana Hills,
Brisbane.

Chair and Fund Manager's Letter

We continue to focus on being the leading owner and manager of convenience-based retail.

Dear Unitholder,

Welcome to the Charter Hall Retail REIT (the REIT or CQR) 2019 Annual Report.

2019 has been a challenging year for the retail sector however our continued focus on convenience and convenience-plus Retail assets, an active asset recycling program and prudent capital management disciplines, continue to deliver a resilient portfolio with positive operating earnings and distributions growth for unitholders.

For FY2019, the portfolio achieved strong underlying same property Net Property Income (NPI) growth of 2.1%, up from 1.8% on the prior year. This in turn drove Earnings Per Security (EPS) growth of 2% per unit, enabling us to lift distributions by the same amount. The FY2019 distribution of 28.76 cents per unit represents a 92.4% payout ratio.

Resilience and a focus on strategic execution

Our strategy remains unchanged as we leverage an active asset management program and strong partnerships with our major supermarket tenant customers. Our strategic approach is predicated on building resilience across our convenience based retail operations with the clear goal of delivering resilience in our asset valuations, our property income and distributions to unitholders.

This strategy continues to drive positive trading results with 93% of income now coming from non-discretionary tenant customers whilst nearly half our rental income is derived from our major tenants, Woolworths, Coles, Wesfarmers and Aldi businesses. Pleasingly, Aldi is now our fifth-largest tenant customer with representation increasing from six to nine stores.

Supermarkets remain the foundation of our offering with 75 supermarkets across our 58 centres. These supermarkets delivered strong MAT sales growth[1] of 3.7% over the period, whilst supermarkets in turnover[2] were slightly stronger at 4%. During the period total visitations to our centres were up 1.8% to more than 150 million shoppers with total MAT sales growth[3] of 2.8%, mini-majors up 2% and retail services up 1.8%. Just as importantly, the performance of CQR's supermarkets remains above the comparative Urbis industry benchmarks and again demonstrates the defensive and resilient nature of our portfolio and the dominant position of our centres within their respective catchments.

Strong tenant customer partnerships

Our tenant customers are at the heart of our business. Our engagement, service levels and communication with them are critical to achieving our strategic objectives. Annually, we continue to undertake the industry recognised Net Promoter Score (NPS) survey with Monash University, providing us with key customer insights.

Over the past 12 months, the Charter Hall retail management team has continued to act on the feedback from our FY2018 NPS survey and, pleasingly, it is our people and the way we communicate that continue to be our greatest strengths. This results in strong retention of tenant customers and assists with securing new partnerships.

Reflective of these results, our team of retail property specialists completed 366 specialty leases consisting of 191 new leases and 175 renewals during the year. Portfolio occupancy remained stable at 98.1% whilst incentives for new leases are also stable at 11 months and we continue our policy of not incentivising on renewals. Leasing spreads were 0.8% over the 12 months, with new leases delivering a positive leasing spread of 2.4%.

Importantly, we maintain our focus on aligning our capital programs with our major tenant store renewals and this has seen us deliver 10 new or extended major tenant leases delivering a stable portfolio WALE of 6.5 years.

Enhancing portfolio quality

Our transaction activity this year continued our strategy of enhancing the portfolio quality by recycling out of lower growth properties into high growth properties. Over the past 24 months the fund has disposed of 17 assets for a total $387 million whilst over FY2019 acquiring three convenience-plus assets for a total of $275 million being Gateway Plaza and Campbellfield Plaza in Victoria and Rockdale Plaza in New South Wales. These transactions align with our approach of curating a portfolio of centres in growth markets that are the leading convenience centres in their respective catchments.

For more information, please visit charterhall.com.au/cqr2019

Image:
Roger Davis, Independent Chair and Greg Chubb, Retail CEO, Charter Hall and Executive Director and Fund Manager, Charter Hall Retail REIT

1. Comparable sales, noting some major tenants reported a 53 week year for FY2019 (estimated to be approximately 2.0% when adjusted to 52 weeks).
2. Comparable sales for stores in turnover, noting some major tenants reported a 53 week year for FY19 (estimated to be approximately 2.3% when adjusted to 52 weeks).
3. Comparable sales, noting some major tenants reported a 53 week year for FY2019 (estimated to be approximately 1.6% when adjusted to 52 weeks).

With the acquisitions of Gateway Plaza and Campbellfield Plaza, our exposure to Victoria has risen 4% over the past 12 months and now represents 14% of the total portfolio. Importantly, our weighting to the eastern States is up slightly at 80%. Post balance date we also announced the divestment of a further three assets for $60.7 million being Katherine in the Northern Territory, Balo Square in Moree, New South Wales and Carnarvon in Western Australia. These are three of our most remote assets, and we will look to redeploy these proceeds over the course of FY2020.

The redevelopment of Lake Macquarie Square in New South Wales is now complete with the opening of a new Coles in January 2019 and additional food tenancies more recently in May.

Valuations remain stable

Our total investment properties (including our wholly owned and JV properties) increased by $189 million over the 12-month period to $2.9 billion. This is due to the net impact of acquisitions and divestments of $112 million and capital expenditure totalling $77 million.

The portfolio cap rate also moved marginally from 6.15% to 6.18% over the year. However, this slight movement in the cap rate was offset by income growth over the period resulting in a stable portfolio valuation at 30 June 2019. These revaluation outcomes for 30 June 2019 reflect the quality, defensive attributes and the income growth of our portfolio and reinforce the active asset management strategy undertaken over the last 24 months.

Importantly, the entire portfolio was externally revalued during the year with 83% revalued at both December 2018 and June 2019.

Prudent capital management

Prudent capital management remains a core focus of the business and ensures we can successfully execute our growth strategy and deliver a secure and growing income stream to unitholders. During the period, we further de-levered the balance sheet by completing a $165 million capital raise ($150 million placed through institutions and $15 million through the UPP) associated with the $142 million Rockdale Plaza transaction. We also increased and extended our interest rate swaps and refinanced $445 million of bank debt across new and existing banks with no further debt maturities now until FY2022. As a result of these endeavours, our weighted average debt maturity now is 5.0 years, our weighted average cost of debt is 3% and our balance sheet gearing of 32.9% sits comfortably within our 30–40% target range.

Crucially, the interest coverage for the fund increased for the period due to the reduction in average debt balance over the period in a falling interest rate environment whilst our liquidity position also remains strong at $143 million, meaning we are well placed to enhance portfolio quality and fund future activity.

Sustainability and Community

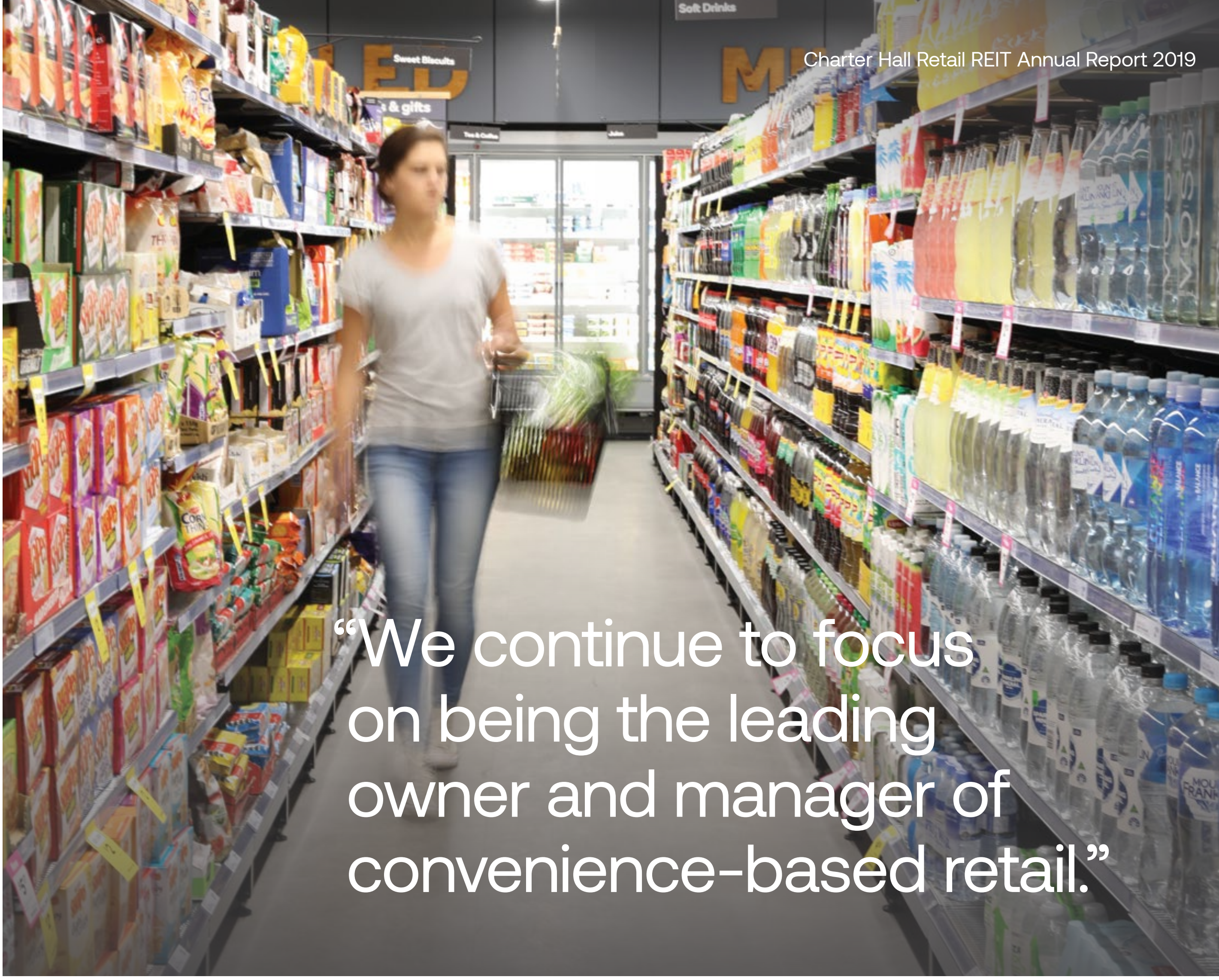
Sustainability remains a critical part of enhancing our portfolio quality and is central to Charter Hall's approach to property management. Across our platform, we continue to explore opportunities to introduce sustainability initiatives that will enhance returns for unitholders.

During the period, we entered into Power Purchase Agreements ("PPA") to deliver our solar roll-out program across 14 assets, with installation well underway. Pleasingly, the solar panels associated with the PPA program will deliver 40% of the energy needs of the 14 assets, or approximately 25% of our total portfolio's energy needs. The PPA Agreements will also provide our centres with a high level of cost certainty in a volatile energy market, thereby benefitting both the community and unitholders.

Additionally, we implemented new waste management programs to double landfill diversion rates across the portfolio and have also recycled 90 million containers through our ongoing partnership with TOMRA in New South Wales.

Finally, our commitment to our local communities is predicated on our philosophy of mutual success as expressed through the Charter Hall Group's membership of the Pledge 1% philanthropic movement. This has seen our teams actively partnering with charities and social organisations during the period, giving both time and resources.

To this end, we have extended our partnership with Two Good Co. by donating in excess of 5,200 care packs to women and children within domestic violence refuges. We also proudly partnered with Rural Aid on its Drought Relief efforts, raising $90,000 across our centres within 10 days. Charter Hall matched these community fund raising efforts "dollar for dollar", taking our total Rural Aid donation to $180,000. Additionally, we donated $1.2 million in community spaces and delivered 19 localised community campaigns across our centres.



"We continue to focus on being the leading owner and manager of convenience-based retail."

Outlook

Our focus on convenience and convenience-plus based retail with a resilient, nationally diversified portfolio, will continue to deliver long-term sustainable growth in earnings for our unitholders. This growth is underpinned by the scale, scope and size of our supermarket activities, the strength of our partners and the resilience in our core non-discretionary retail offerings. We forecast that supermarket sales will continue to remain strong over the next 12 months, thereby delivering customer visitation and growth in net property income and operating earnings.

Going forward, we maintain our commitment to shape the portfolio, both in terms of tenancy mix and place experience, by diligently continuing to enhance our centres. This is central to our strategy of positioning for future growth.

Barring unforeseen events, our FY2020 guidance is for operating earnings to grow by 1.5% to 2% per security over FY2019. The range is subject to the timing of acquisitions and divestments. Additionally, we will be looking to redeploy the proceeds from divesting the three smaller centres announced post balance date. We expect the distribution payout range to be between 90–95% of operating earnings.

Finally, I would like to thank our unitholders for your continuing investment in CQR. Our dedicated team, who have significantly contributed to this year's performance along with the Board, understand that we are here to protect and enhance your investment by delivering long-term sustainable growth in earnings. We remain committed to this goal.

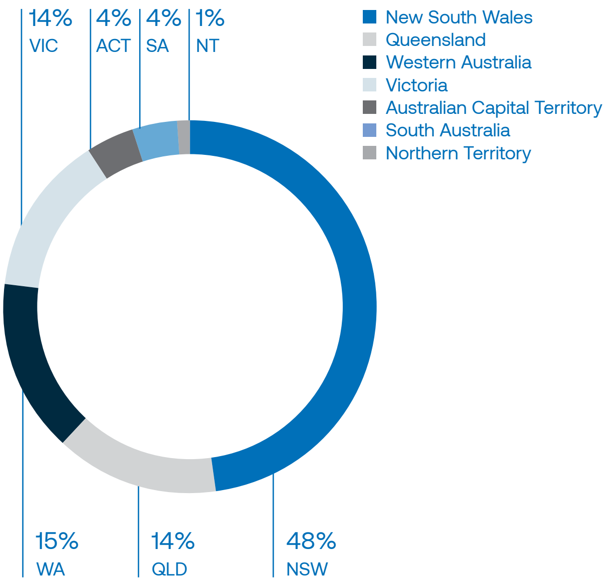
Roger Davis
Independent Chair

Greg Chubb
Retail CEO, Charter Hall
Executive Director and Fund Manager, CQR

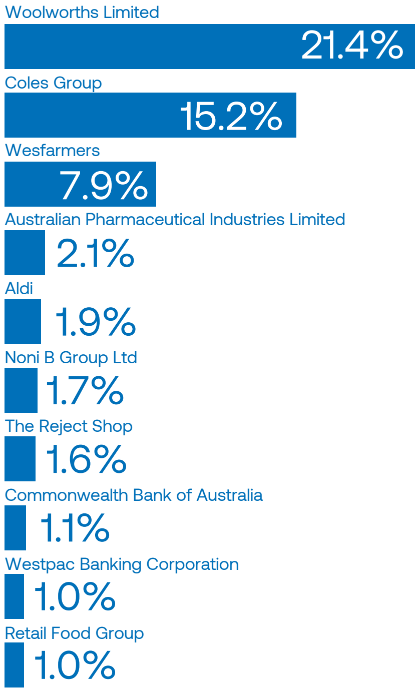
Portfolio Performance

Portfolio	Portfolio value	Occupancy
58 properties	$3.0bn	98.1%
Supermarket MAT growth[1]	Total MAT growth[2]	Resilient NPI growth[3]
4.0%	2.8%	2.1%
Major tenant lease extensions	WALE (total)	Leasing spreads
9	6.5 yrs	0.8%

Asset Value by State



Top 10 Tenant Customer Groups



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2. Comparable sales, noting some major tenants reported a 53 week year for FY2019 (estimated to be approximately 1.6% when adjusted to 52 weeks).
3. Like-for-like.

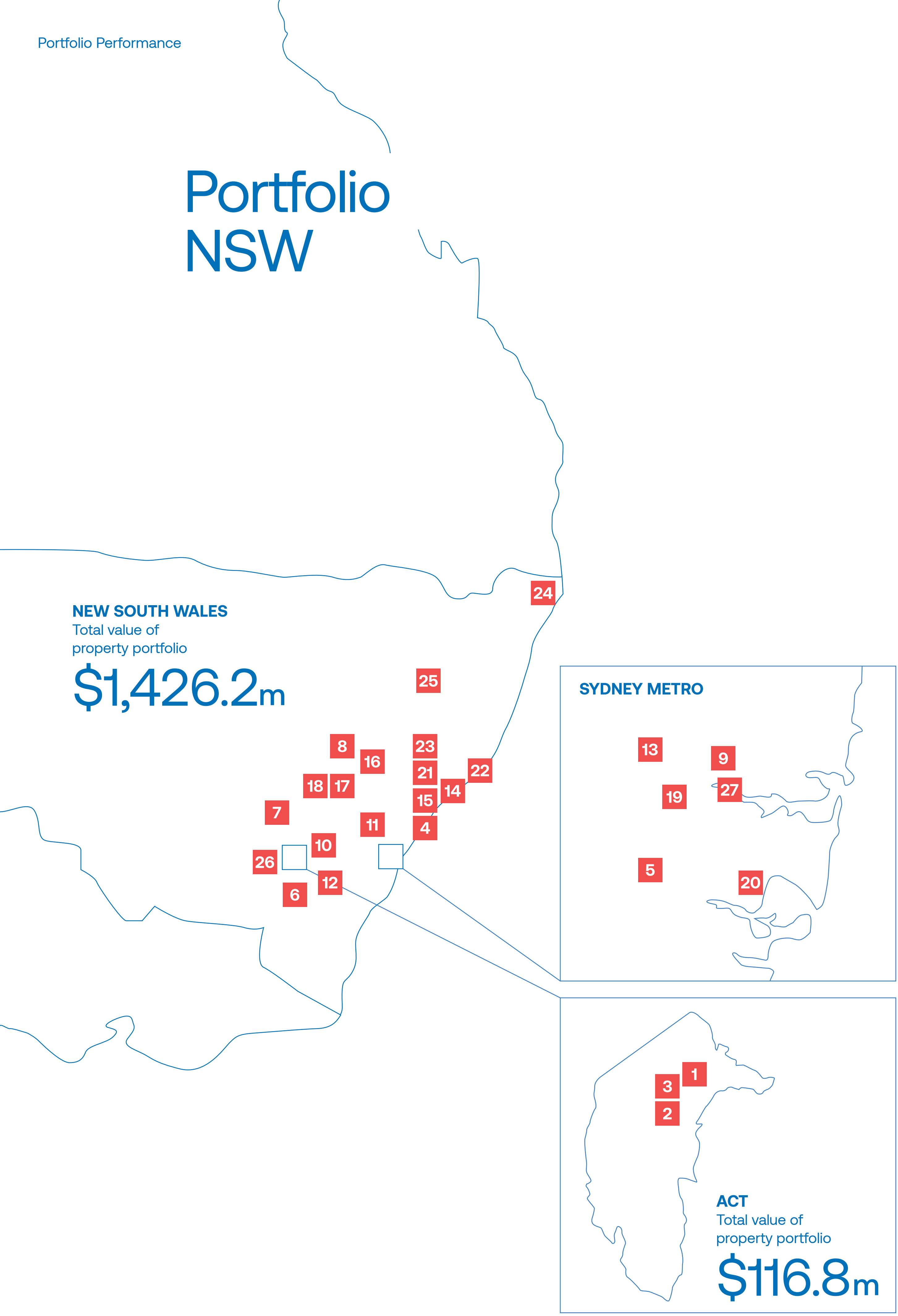
Image:
Woolworths,
Carnes Hill, Sydney.

"Our focus on convenience-based retail is delivering solid underlying NPI growth of 2.1% with 56% of supermarkets in turnover[1]."

CHRISTINE KELLY
HEAD OF RETAIL FINANCE AND DEPUTY FUND MANAGER CQR

1. Includes supermarkets with fixed rent reviews.

Portfolio NSW

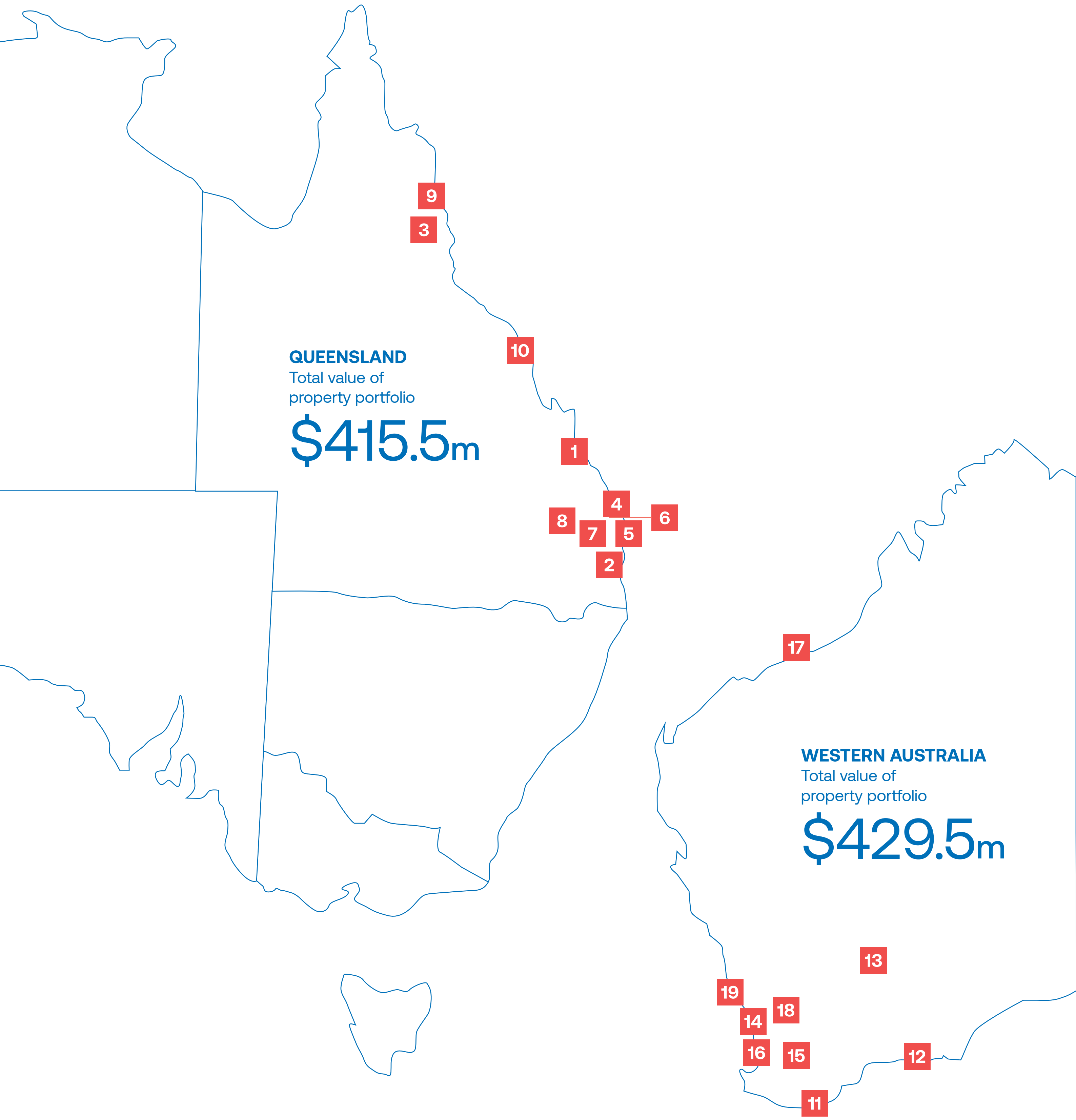


NEW SOUTH WALES
Total value of property portfolio
$1,426.2m

ACT
Total value of property portfolio
$116.8m

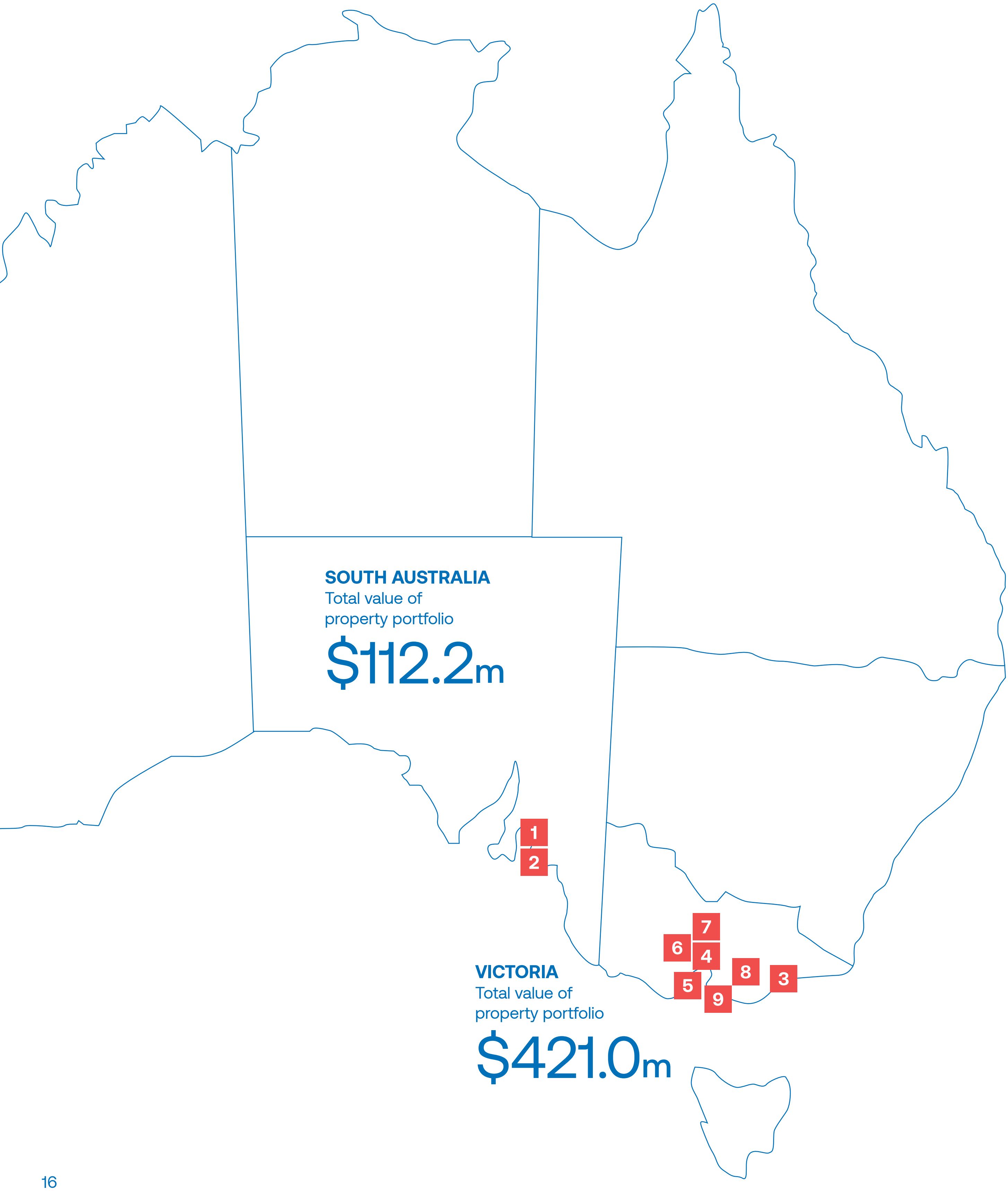
Property	Location	Ownership Interest %	Book Value ($m)	Cap Rate %
ACT				
1. Dickson Woolworths	Dickson	100.0	19.7	6.25
2. Erindale Shopping Centre	Wanniassa	100.0	38.6	6.50
3. Manuka Terrace	Manuka	100.0	58.5	6.00
ACT Total			**116.8**	
NSW				
4. Bateau Bay Square	Bateau Bay	47.5	109.3	6.00
5. Carnes Hill Marketplace	Horningsea Park	50.0	69.0	5.50
6. Cooma Woolworths	Cooma	100.0	13.2	6.25
7. Cootamundra Woolworths	Cootamundra	100.0	14.6	6.50
8. Dubbo Square	Dubbo	100.0	50.7	7.00
9. Gordon Village Centre	Gordon	100.0	142.0	5.07
10. Goulburn Square	Goulburn	100.0	82.2	6.25
11. Highlands Marketplace	Mittagong	50.0	41.3	6.00
12. Jerrabomberra Village	Jerrabomberra	100.0	29.5	6.00
13. Kings Langley Shopping Centre	Kings Langley	100.0	45.5	6.00
14. Lake Macquarie Fair	Mount Hutton	100.0	141.5	6.00
15. Morisset Shopping Centre	Morisset	100.0	43.8	6.63
16. Mudgee Metroplaza	Mudgee	100.0	27.2	6.50
17. Orange Central Square	Orange	100.0	55.0	6.25
18. Parkes Metroplaza	Parkes	100.0	23.2	6.50
19. Pemulwuy Marketplace	Greystanes	50.0	17.3	5.50
20. Rockdale plaza	Rockdale	100.0	150.5	5.75
21. Rutherford Marketplace	Rutherford	50.0	19.9	6.13
22. Salamander Bay Square	Salamander Bay	50.5	88.1	6.00
23. Singleton Square	Singleton	100.0	119.7	6.58
24. Sunnyside Mall	Murwillumbah	100.0	49.8	6.50
25. Tamworth Square	Tamworth	100.0	54.0	6.75
26. Tumut Coles	Tumut	100.0	11.2	6.00
27. West Ryde Marketplace	West Ryde	50.0	28.0	5.25
NSW Total			**1,426.2**	

Portfolio QLD, WA



Property	Location	Ownership Interest %	Book Value ($m)	Cap Rate %
QLD				
1. Allenstown Square	Rockhampton	100.0	50.9	7.00
2. Arana Hills Shopping Centre	Arana Hills	100.0	66.0	6.00
3. Atherton Square	Atherton	100.0	38.0	6.25
4. Bay Plaza	Hervey Bay	100.0	25.5	6.50
5. Bribie Island Shopping Centre	Bribie Island	100.0	64.0	6.00
6. Currimundi Markets	Currimundi	100.0	44.5	5.75
7. Gatton Square	Gatton	100.0	25.5	6.00
8. Highfields Village	Highfields	100.0	42.5	6.00
9. Mareeba Square	Mareeba	100.0	20.7	6.50
10. Sydney Street Markets	Mackay	100.0	37.9	6.14
QLD Total			**415.5**	
WA				
11. Albany Plaza	Albany	100.0	63.9	6.56
12. Esperance Boulevard	Esperance	100.0	33.8	6.50
13. Kalgoorlie Central	Kalgoorlie	100.0	44.0	6.50
14. Maylands Coles	Maylands	100.0	17.6	5.25
15. Narrogin Coles	Narrogin	100.0	12.9	5.75
16. Secret Harbour Square	Secret Harbour	100.0	99.6	6.25
17. South Hedland Square	South Hedland	100.0	76.5	7.25
18. Swan View Shopping Centre	Swan View	100.0	20.3	6.25
19. Wanneroo Central	Wanneroo	50.0	61.0	6.25
WA Total			**429.5**	

Portfolio SA, VIC



Property	Location	Ownership Interest %	Book Value ($m)	Cap Rate %
SA				
1. Brickworks Marketplace	Torrensville	50.0	33.7	6.50
2. Southgate Square	Morphett Vale	100.0	78.5	6.25
SA Total			**112.2**	
VIC				
3. Bairnsdale Coles	Bairnsdale	100.0	18.2	5.50
4. Campbellfield Plaza	Campbellfield	100.0	74.5	6.00
5. Gateway Plaza	Leopold	50.0	65.0	6.00
6. Kyneton Shopping Centre	Kyneton	100.0	20.9	5.75
7. Lansell Square	Kangaroo Flat	100.0	94.5	6.75
8. Moe Coles	Moe	100.0	22.1	5.50
9. Rosebud Plaza	Rosebud	100.0	125.8	6.00
VIC Total			**421.0**	

Sustainability

In a rapidly changing world, we engage regularly with stakeholders to better understand the horizon risks and opportunities ahead.

Charter Hall Retail REIT aligns its policies and targets to those of Charter Hall Group, for those properties within the fund's operational control. The Charter Hall Retail REIT delegates management of the properties to the Charter Hall Group and supports their sustainability and governance initiatives.

Act on Climate Change

	FY19 Achievements	FY2020 Target	FY2025 Target	FY30 Target
Resilience				
Addressing Climate Change Risk	Climate change adaptation planning underway across retail portfolio. Review of Taskforce for Climate related Financial Disclosures (TCFD) framework completed.	All retail assets have climate change adaptation plans. Transitional and physical climate change scenario analysis undertaken with alignment to TCFD Framework.	Capital improvements in portfolio in line with Climate Change Adaptation plans. Alignment to TCFD Framework.	**100% reduction in emissions within Charter Hall direct control (Scope 1 and 2)[1] by 2030, which equates to an intensity of $0kgCO_2/m^2$.**
Managing environmental risk	Draft Retail Environmental Management Plan adopted.	Seek certification of environmental management plan to AS 14001.	Maintain certified EMS to ISO 14001.	
Energy and Carbon				**Investigate opportunities to work with our tenant customers and contractors to reduce emissions outside of our control (Scope 3 emissions)[2].**
Reducing our emissions foot-print	Emissions reduction targets developed for Scope 1 and Scope 2 emissions, from base buildings in Charter Hall direct operational control.[1]	Pathway to targets identified.	Investigate opportunities to work with our tenant customers and contractors to reduce our indirect (Scope 3)[2] emissions.	
Investing in renewable technologies	Increased renewable energy footprint from 250kW, in 2018, to 500kW of solar PV across the portfolio, generating 7,598MWh of electricity per annum in green energy. Stage 1 solar rollout program for retail underway with the installation of 6 hectares of solar panels across 14 shopping centres with 12 MW of generation capacity, producing 17 GWh of electricity per annum, equivalent to powering 1,100 homes.	Stage 2 of retail PPA implementation across applicable Charter Hall-managed shopping centres. Renewable energy on all new large retail developments.	Investigate renewable energy target.	

	FY19 Achievements	FY2020 Target	FY2025 Target	FY30 Target
Improving efficiency of buildings	Maintained and expanded Australia's largest Green Star footprint, with the addition of a 4 Green Star Design rating achieved on Lake Macquarie Fair development. Maintained 3.90 Star NABERS Energy weighted Average Rating for retail assets.	3 Star average Green Star Performance Rating across the Group. Green Star ratings across all new developments, with 4 Star Green Star Design and As Built ratings sought on all new large retail developments. Improvement on NABERS Energy Ratings for retail assets. Smaller retail centres targeting 3% reduction in energy consumption, from FY19 baseline.	4 Star Green Star Design and As Built ratings sought on all new large retail developments. 4 Star NABERS Energy Weighted Average Rating for retail assets.	
Water				
Conserving our water resources	3.2 Star NABERS Water weighted average rating.	3.5 Star NABERS Water weighted average rating.	4 Star NABERS Water weighted average rating.	
Waste				
Reducing waste and increasing recycling	24% waste diversion in retail assets, a 2% increase on FY18 with roll-out of waste management plans.	50% Waste Diversion in retail assets.	70% Waste Diversion in retail assets.	

1. Emissions from our base building that are in Charter Hall direct operational control, related to energy use and refrigerants include:
   Scope 1: Gas, diesel and refrigerants from our base buildings and operations
   Scope 2: Electricity purchased for our base buildings and operations in our control.
2. Emissions that are outside of Charter Hall direct control, Scope 3 emissions, and include emissions from our tenants and contractors in development construction.

Increase the strength of communities

	FY19 Achievements	FY2020 Target	FY2025 Target
Community			
Building better communities	✓ Charter Hall Group Pledge 1% achievements: **People:** 378 employee volunteer days. **Places:** Over $1.8 Million or 37,997sqm in space utilised by community organisations and for health and wellbeing activities. **Partnerships:** • Invested $775,000 in community programs and services. • $196,000 raised for Rural Aid by our retail centres and customers to support drought affected communities.	Charter Hall Group continue Pledge 1% of Our People, Our Places, Our Partnerships.	Charter Hall Group continue Pledge 1% of Our People, Our Places, Our Partnerships.
Generating more employment opportunities	✓ Partnered with social enterprises such as Two Good for training and employment programs.	National partnerships that build inclusion through employment within our local communities.	Create a national network of innovation enterprises.
Customer			
Creating engaging customer experiences	✓ Tenant customer surveys undertaken retail portfolio. Results showed continued high levels of customer satisfaction.	Customer place experience measures implemented across the portfolio. Stakeholder engagement plans prepared for 100% of developments.	Ongoing place experience ratings across our portfolio. 100% of developments and assets have stakeholder engagement plans.
Wellbeing			
Creating better workplaces	✓ Tenant customer surveys undertaken across retail portfolio for last three years. Results showed continued high levels of customer satisfaction with Charter Hall Group employees and the way they communicate being the key primary drivers of satisfaction.	Customer place experience measures implemented across the portfolio. Stakeholder engagement plans prepared for 100% of developments/assets.	Ongoing place experience ratings across our portfolio. 100% of developments and assets have stakeholder engagement plans.
Caring for our health and safety	✓ Commenced Workplace Health and Safety review.	Workplace Health and Safety framework developed and implemented.	Workplace Health and Safety framework embedded in the Charter Hall Group business.

Embed a high standard of ethics into our actions

	FY19 Achievements	FY2020 Target	FY2025 Target
Governance			
Strengthening business ethics and compliance	Charter Hall Group developed and launched new purpose and values. Aligned corporate strategy and governance policies to new purpose and values. Risk Culture Index of 81%	Monitor and maintain high ethical standards and establish benchmarks for improvement. Build on Charter Hall Group Risk Culture Index of 81%.	Monitor and maintain high ethical standards and align with benchmarks for improvement. Build on our Charter Hall Group Risk Culture Index.
Engaging responsible supply chain	Charter Hall Group became a Signatory to the UN Global Compact. Human rights and modern slavery framework underway resulting in: • Supplier risk assessment • Development of Supplier Code of Conduct • Implementation plan developed to address Australian Modern Slavery laws. Participated in Property Council of Australia Sustainability Roundtable development of a supplier pre-qualification platform. Participated in the Cleaning Accountability Framework pilot building certification scheme.	Human rights framework implemented across Charter Hall assets, developments and operations. Engagement with our supply chain on Australian Modern Slavery risks and legislative requirements. Publish annual UN Global Compact and Modern Slavery Statement, as part of Charter Hall Group.	Integrate sustainable and equitable supply chain management into assets and developments.
Compliance			
Training in ethical behaviour and standards	100% of Charter Hall Group participation in Risk and Compliance training, including integrity and compliance. Simplification of compliance processes and increased accountability through self-certification and compliance verification. Updated Charter Hall Group purpose and values and new Code of Conduct to define expectations for employees.	Automation of routine compliance monitoring. Governance policy rationalisation. Compliance control reviews completed and aligned to business strategy. Revised compliance program implemented across all Charter Hall operations. Refresh of ongoing annual compliance training and 100% Charter Hall Group engagement in compliance training.	Integrated, comprehensive and flexible approach to maximising compliance. 100% Charter Hall Group engagement in ongoing annual compliance training.
Protecting the privacy of individuals and companies	Continued Charter Hall Group training and engagement on privacy, data security and governance. Ongoing management of Charter Hall Group information security practices in alignment with the ISO 27001 framework and regulatory requirements.	Continue understanding of the changing regulatory and threat landscape and evolving our information security practices accordingly.	Continued monitoring and alignment.

Management Team

Greg Chubb
Retail CEO, Charter Hall and Executive Director and Fund Manager, Charter Hall Retail REIT

Greg is Fund Manager of the Charter Hall Retail REIT and Charter Hall's Retail CEO, joining the Group in 2014 with 30 years property market experience. Greg is responsible for all management aspects of the Retail Funds Management platform to deliver value creation within the retail portfolio and optimise returns for our investors.

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

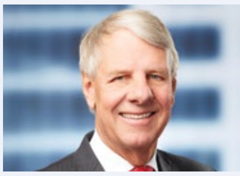
Greg holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and is Joint Deputy Chair of the Shopping Centre Council of Australia.

Christine Kelly
Head of Retail Finance, Charter Hall and Deputy Fund Manager, Charter Hall Retail REIT

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

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

Board of Directors



Roger Davis
Independent Chair

Sue Palmer
Independent Director

Michael Gorman
Independent Director

David Harrison
Managing Director and Group CEO

Gregg Chubb
Retail CEO

See pages 30–32 for Director bios.

Image:
Cambellfield Plaza,
Melbourne.

Directors’ Report and Financial Report

For the year ended 30 June 2019

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Directors' Report
For the year ended 30 June 2019

The Directors of Charter Hall Retail Management Limited (Responsible Entity or CHRML), the responsible entity of Charter Hall Retail REIT, present their report together with the consolidated financial statements of Charter Hall Retail REIT and its controlled entities (together, the REIT, the Fund) for the year ended 30 June 2019.

Principal activities

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

Directors

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

- **Roger Davis** – Chair (appointed on 13 November 2018) and Non-Executive Independent Director
- **John Harkness** – Chair and Non-Executive Director (resigned on 13 November 2018)
- **Sue Palmer** – Non-Executive Independent Director and Chair of Audit, Risk and Compliance Committee
- **Michael Gorman** – Non-Executive Independent Director
- **David Harrison** – Executive Director and Managing Director / Group CEO of Charter Hall
- **Greg Chubb** – Executive Director and Fund Manager / Retail CEO of Charter Hall

Distributions

Distributions paid or declared by the REIT to unitholders:

	2019 $'m	2018 $'m
Final distribution for the six months ended 30 June 2019 of 14.48 cents per unit payable on 30 August 2019	63.8	–
Interim distribution for the six months ended 31 December 2018 of 14.28 cents per unit paid on 28 February 2019	57.5	–
Final distribution for the six months ended 30 June 2018 of 14.20 cents per unit paid on 31 August 2018	–	57.2
Interim distribution for the six months ended 31 December 2017 of 14.00 cents per unit paid on 28 February 2018	–	56.5
	121.3	113.7

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

Distribution Reinvestment Plan

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

The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the distribution record date. The REIT raised $8.5 million from the DRP for the 31 December 2018 distribution.

Review and results of operations

The REIT recorded a statutory profit for the year of $53.1 million (2018: $146.4 million). Operating earnings amounted to $128.0 million (2018: $123.2 million).

The REIT's operating earnings increased predominantly as a result of the impact of the asset recycling strategy. The reduction in net income was a result of the divestment of wholly owned assets reducing the average value of wholly-owned investment properties from $2.5 billion at 30 June 2018 to $2.3 billion at 30 June 2019, offset by investment into joint ventures and related finance costs savings. Underlying like for like net property income grew, reflecting the positive impact of the portfolio transition.

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

Directors' Report
For the year ended 30 June 2019

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

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

	Notes	2019 $'m	2018 $'m
Net property income from wholly owned properties		146.4	158.0
Net income from joint venture entities		23.5	14.9
Interest income		0.3	0.2
Management fees		(9.4)	(9.8)
Finance costs		(29.5)	(36.8)
Other expenses		(3.3)	(3.3)
Operating earnings	A	128.0	123.2

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

	2019 $'m	2018 $'m
Operating earnings	128.0	123.2
Net revaluation (decrement)/increment on investment properties	(3.3)	55.7
Revaluation decrement on investment properties attributable to acquisition costs	(17.8)	(14.6)
Net loss on derivative financial instruments*	(42.9)	(3.7)
Loss on sale of investment properties	(1.9)	(8.4)
Write off capitalised borrowing costs related to refinancing	(0.3)	–
Straightlining of rental income and amortisation of fitout incentives	(7.1)	(4.8)
Other	(1.6)	(1.0)
Statutory profit for the year	53.1	146.4
Basic weighted average number of units (millions)	411.4	403.9
Basic earnings per unit (cents)	12.92	36.22
Operating earnings per unit (cents)	31.12	30.51
Distribution per unit (cents)	28.76	28.20

* Included in net loss on derivative financial instruments is $19.9m of realised loss associated with resetting $775.0m of interest rate swaps.

The 30 June 2019 financial results are summarised as follows:

	2019	2018
Revenue ($ millions)	202.0	221.0
Net profit after tax ($ millions)	53.1	146.4
Basic earnings per unit (cents)	12.92	36.22
Operating earnings ($ millions)	128.0	123.2
Operating earnings per unit (cents)	31.12	30.51
Distributions ($ millions)	121.3	113.7
Distributions per unit (cents)	28.76	28.20
Total assets ($ millions)	2,908.3	2,769.5
Total liabilities ($ millions)	1,107.6	1,073.0
Net assets attributable to unitholders ($ millions)	1,800.7	1,696.5
Units on issue (millions)	440.9	402.5
Net assets per unit ($)	4.08	4.22
Balance sheet gearing – total debt (net of cash) to total assets (net of cash)	32.9%	33.4%
Look through gearing – total debt (net of cash) to total assets (net of cash)	35.9%	36.1%

Significant changes in the state of affairs

Joint Venture Arrangements

In July 2018, the REIT paid $55.5 million to settle the unconditional contract to acquire 50% of Gateway Plaza, Leopold, Vic. The REIT's 50% interest is held through a joint venture with Charter Hall Prime Retail Fund.

During the period, the REIT sold a 49.5% interest in Salamander Bay shopping centre, NSW for $86.6 million by establishing a further joint venture with Charter Hall Prime Retail Fund.

Acquisitions

In February 2019, the REIT acquired Campbellfield Plaza, Vic for a gross price of $74.0 million.

In April 2019, the REIT acquired Rockdale Plaza, NSW for a gross price of $142.0 million.

Disposals

In December 2018, the REIT sold Coomera Square, Qld for a gross price of $58.5 million.

In January 2019, the REIT sold Young Woolworths, NSW for a gross price of $17.6 million.

In April 2019, the REIT entered an unconditional contract to dispose of Balo Square, NSW for a gross price of $15.5 million, with settlement in May 2020.

Capital raising

In April 2019, the REIT completed an institutional placement, raising $150.0 million through the issue of 33,259,424 new units at an issue price of $4.51 per unit.

In May 2019, the REIT completed a Unit Purchase Plan (UPP), in connection with the institutional placement. A total of $14.7 million was raised under the UPP, with 3,267,880 new units issued at an issue price of $4.51 per unit.

The REIT has extended all $775.0 million existing interest rate swaps during the period and in conjunction with the capital raise, reset the swaps to a lower weighted average hedged rate.

Financing

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

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

In November 2018, the REIT entered into two new unsecured bilateral facilities for $95.0 million and $40.0 million due to mature in November 2023 and November 2022 respectively. The REIT also repaid and cancelled $160.0 million of the existing unsecured syndicated bank debt facility which was due to mature in July 2020.

In November 2018, the REIT refinanced an existing bilateral facility, increasing the facility limit from $50.0 million to $75.0 million and extending the facility maturity date from February 2021 to November 2023.

Re-developments

During the twelve months to 30 June 2019, the REIT completed the re-development of Lake Macquarie Fair, NSW and Mount Hutton Plaza, NSW. The completed development is named Lake Macquarie Square, NSW. Charter Hall Retail Partnership No.1 Trust (CHRP1) completed the redevelopment of Wanneroo Central, WA.

Business strategies and prospects

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

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

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

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

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

Property valuations

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

Structural change in retail environment

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

Directors' Report
For the year ended 30 June 2019

Major and specialty leasing

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

Development pipeline

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

Major anchor tenants' growth

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

Funding

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

Cyber security and privacy

A breach of the REIT's information security could result in a breach of confidentiality, loss of data and impact to the REIT's reputation. Such incidents could also result in physical or information disruption and may impact the REIT's business operations. Risks are minimised through business continuity plans, including offsite data centres, vulnerability and threat detection software, information technology security policy frameworks, insurance and privacy impact assessments.

Workplace health and safety

Breaches in workplace health and safety could occur at the REIT's property, which result in injury to visitors to the properties, tenants or employees resulting in legal proceedings, reputation damage and financial loss. The REIT aims to minimise the risk of breaches by training of employees, incident reporting, contractor registration, workplace health and safety policies and procedures.

Regulatory

A breach of a legislative or legal requirement could result in REIT incurring financial loss and an impact to its reputation. The risk is minimised through use of external advisors, internal controls, internal audit, training of employees, a compliance reporting framework and an annual audit of compliance plans.

Other business risks

Further key strategic and operational risks including environmental, social and governance risks.

Events occurring after balance date

In July 2019, the REIT entered into a conditional contract to sell Carnarvon Central, WA for a gross price of $16.1 million.

In August 2019, the REIT entered into an unconditional contract to sell Katherine Shopping Centre, NT for a gross price of $28.9 million.

In August 2019, CHRP2 refinanced and increased existing debt facilities from $105 million to $110 million and extended the maturity to July 2024.

Likely developments and expected results of operations

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

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

Indemnification and insurance of Directors, officers and auditor

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

Provided the officers of the Responsible Entity act in accordance with the REIT's constitution and the *Corporations*

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

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

Base fees of $10,952,057 (2018: $11,322,644) were paid or are payable to the Responsible Entity, its associates or third party service providers for the services provided during the year, in accordance with the REIT's constitution as disclosed in Note D1 to the consolidated financial statements.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2019 and fees paid to its associates during the year are disclosed in Note D1 to the consolidated financial statements.

Interests in the REIT

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

	2019	2018
Units on issue at the beginning of the year	402,483,504	405,777,734
Units issued during the year		
– via Distribution Reinvestment Plan	1,891,076	–
– via Placement issue	33,259,424	–
– via Unit Purchase Plan	3,267,880	–
Units cancelled during the year*	–	(3,294,230)
Units on issue at the end of the year	**440,901,884**	402,483,504

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

Value of assets

	2019 $'m	2018 $'m
Value of REIT assets	**2,908.3**	2,769.5

The value of the REIT's assets is derived using the basis set out in the notes to the consolidated financial statements for the year ended 30 June 2019.

Environmental regulations

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

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

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

(a) ensure that in carrying out the contractor's activities:
  - (i) it complies with all statutory requirements and other requirements of the contract for the protection of the environment;
  - (ii) it does not pollute, contaminate or otherwise damage the environment; and
  - (iii) its subcontractors comply with the requirements referred to in the contract;

(b) make good any pollution, contamination or damage to the environment arising out of, or in any way in connection with, the contractor's activities, whether or not it has complied with all statutory requirements or other requirements of the contract for the protection of the environment; and

(c) indemnify the REIT to the full extent permitted by law against:
  - (i) any liability to or a claim by a third party; and
  - (ii) all fines, penalties, costs, losses or damages suffered or incurred by the REIT, arising out of or in connection with the contractor's breach of the contract.

Directors' Report
For the year ended 30 June 2019

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

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

Information on current Directors

Director	Experience	Special responsibilities	Interest in units of the REIT
Roger Davis	Appointed 7 June 2018 Roger was appointed to the Board of the management company of the Charter Hall Retail REIT on 7 June 2018 as Independent Non-Executive Director and Chair Elect. Roger was appointed Chair of the Board on 13 November 2018. Roger brings over 35 years' experience in banking and investment banking in Australia, the US and Japan. He is currently a Consulting Director at Rothschild (Australia) Limited, a Director of Argo Investments Limited, as well as the Chairman of Bank of Queensland. In his career as senior executive, Roger was a Managing Director at Citigroup, where he worked for over 20 years in Australia, Japan and the US. More recently, he was a Group Managing Director at ANZ Banking Group responsible for all the Commercial, Investment and Institutional Banking activities. Roger has a Bachelor of Economics (Hons) from the University of Sydney and a Master of Philosophy from Oxford. He is also a qualified CPA. **Current listed directorships** Argo Investments Limited (ASX: ARG) Bank of Queensland (ASX: BOQ) **Former listed directorships in the last three years** Aristocrat Leisure Limited (ASX: ALL) Ardent Leisure Management Limited (ASX: AAD)	Chair of Board of Directors, Member of Audit, Risk and Compliance Committee	28,325
John Harkness	Appointed 18 August 2003 and resigned 13 November 2018 John was appointed to the Board of the management company for the Charter Hall Retail REIT on 18 August 2003, and was appointed Chair on 27 April 2011. John stepped down as Chair and Non-Executive Director on 13 November 2018. John brought extensive financial and business skills to the Board. A partner at KPMG for 25 years and National Executive Chair for five years, John also held a number of Non-Executive Director roles since leaving KPMG in 2000. John is a Fellow of both The Institute of Chartered Accountants (Australia and New Zealand) and the Australian Institute of Company Directors. **Current listed directorships** Nil **Former listed directorships in last three years** Goodman Group (ASX: GMG)	Chair of Board of Directors, Member of Audit, Risk and Compliance Committee	Nil

<table>
<tr><th>Director</th><th>Experience</th><th>Special responsibilities</th><th>Interest in units of the REIT</th></tr>
<tr><td>Sue Palmer</td><td>Appointed 10 November 2015

Sue was appointed to the Board of the management company for the Charter Hall Retail REIT on 10 November 2015. Sue is a professional non-executive director and experienced corporate and finance executive. Sue has held senior finance roles across a range of diversified industries, with the most recent being as Chief Finance Officer of the large construction and mining company Thiess. During her executive career and subsequently, Sue has held a number of non-executive director roles on ASX listed, government and private company boards.

Sue is a Chartered Accountant and Fellow of the Australian Institute of Company Directors.

Current listed directorships
New Hope Corporation Limited (ASX: NHC)
Qube Holdings Limited (ASX: QUB)

Former listed directorships in last three years
RCR Tomlinson Limited (ASX: RCR)</td><td>Chair of Audit, Risk and Compliance Committee</td><td>Nil</td></tr>
<tr><td>Michael Gorman</td><td>Appointed 10 November 2016

Michael joined the Board in 2016. He brings more than 30 years' extensive experience in both real estate and the public equity and debt markets.

In his 11 years with Novion Property Group, an ASX top 50 entity, and its predecessors, Michael held a number of executive positions including Deputy Chief Executive Officer, Chief Investment Officer and Fund Manager. In these roles, Michael was directly responsible for raising several billion dollars in equity on the Australian Securities Exchange and corporate bonds in the domestic and US markets.

Also in 2016, Michael was appointed Non-Executive Director of GPT Funds Management Limited, the Responsible Entity of the GPT wholesale unlisted funds platform. Michael is also a Non-Executive Director of Adelaide Airport Limited and a member of its Property Development Committee and the Aeronautical and Related Infrastructure Committee.

Michael completed the Advanced Management Programme at INSEAD, France, holds an MBA from the Australian Graduate School of Management of UNSW, a Bachelor of Science (Architecture) UNSW and a Bachelor of Architecture (First Class Honours, University Medal) at UNSW.

Michael is a Graduate Member of the Australian Institute of Company Directors, a Fellow of the Australian Property Institute and a Fellow of the Royal Society of Arts.

Current listed directorships
Nil

Former listed directorships in last three years
Nil</td><td>Member of Audit, Risk and Compliance Committee</td><td>14,725</td></tr>
</table>

Directors' Report
For the year ended 30 June 2019

Director	Experience	Special responsibilities	Interest in units of the REIT
David Harrison	Appointed 1 March 2010 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 the organisation always deliver on its promise of putting people at the heart of what it does and ensure team-members are given opportunities to excel in their service to customers. B.Bus (Land Economy); FAPI; Grad.Dip (Applied Finance & Investment) **Current listed directorships** Charter Hall Group (ASX: CHC) Charter Hall Long WALE REIT (ASX: CLW) **Former listed directorships in last three years** Nil	Nil	124,378
Greg Chubb	Appointed 5 February 2016 Greg is Fund Manager of the Charter Hall Retail REIT and Charter Hall's Retail CEO, joining the Group in 2014 with 30 years property market experience. Greg is responsible for all management aspects of the Retail Funds Management platform to deliver value creation within the retail portfolio and optimise returns for our investors. Prior to joining Charter Hall, Greg was the Property Director at Coles Supermarkets Australia and Managing Director and Head of Retail for Sandalwood/Jones Lang LaSalle in Greater China. Greg has also held executive leadership roles at Mirvac and Lend Lease. Greg holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and is Joint Deputy Chair of the Shopping Centre Council of Australia. **Current listed directorships** Nil **Former listed directorships in last three years** Nil	Nil	Nil

Meetings of Directors

	FULL MEETINGS OF DIRECTORS		MEETINGS OF AUDIT, RISK AND COMPLIANCE COMMITTEE	
Name	Eligible to attend	Attended	Eligible to attend	Attended
John Harkness	3	3	2	2
Roger Davis	7	7	4	4
Sue Palmer	7	7	4	4
Michael Gorman	7	7	4	4
David Harrison	7	6	–	–
Greg Chubb	7	7	–	–

Company Secretary

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

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

Non-audit services

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

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

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

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

Auditor's independence declaration

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

Rounding of amounts to the nearest hundred thousand dollars

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

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

Directors' authorisation

The Directors' report is made in accordance with a resolution of the Directors. The financial statements were authorised for issue by the Directors on 15 August 2019. The Directors have the power to amend and re-issue the financial statements.

Roger Davis
Chair

Sydney
15 August 2019

Auditor's Independence Declaration
For the year ended 30 June 2019

Auditor's Independence Declaration

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

R W McMahon
Partner
PricewaterhouseCoopers

Sydney
15 August 2019

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Consolidated Statement of Comprehensive Income
For the year ended 30 June 2019

	Notes	2019 $'m	2018 $'m
Revenue			
Property income	A1	201.7	220.8
Interest income		0.3	0.2
Total revenue		202.0	221.0
Other income			
Share of net profit on investment in joint venture entities	B2	20.0	18.0
Net gain on movement in fair value of investment properties		–	36.7
Total revenue and other income		222.0	275.7
Expenses			
Property expenses		(63.4)	(67.7)
Net loss on movement in fair value of investment properties		(21.5)	–
Net loss from derivative financial instruments		(37.0)	(3.6)
Net loss on disposal of investment properties		(1.9)	(8.1)
Management fees	D1	(9.4)	(9.8)
Finance costs	C2	(32.4)	(36.8)
Other expenses		(3.3)	(3.3)
Total expenses		(168.9)	(129.3)
Profit for the year		53.1	146.4
Other comprehensive income*			
Change in the fair value of cash flow hedges	C4	1.5	2.2
Other comprehensive income		1.5	2.2
Total comprehensive income for the year		54.6	148.6
Basic earnings per ordinary unitholder of the REIT			
Earnings per unit (cents)	A2	12.92	36.22

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

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

Consolidated Balance Sheet
As at 30 June 2019

	Notes	2019 $'m	2018 $'m
Assets			
Current assets			
Cash and cash equivalents		4.8	61.4
Receivables and other assets	D2	14.9	13.0
Derivative financial instruments	C3	4.9	4.5
Deposits on investment properties		–	3.0
Prepayments		1.5	1.7
Assets classified as held for sale	B	60.7	33.6
Total current assets		86.8	117.2
Non-current assets			
Investment properties	B	2,388.6	2,385.6
Investments in joint venture entities	B2	382.8	245.8
Derivative financial instruments	C3	50.1	20.9
Total non-current assets		2,821.5	2,652.3
Total assets		2,908.3	2,769.5
Liabilities			
Current liabilities			
Payables and other liabilities	D2	31.8	36.4
Distribution payable	A2	63.8	57.2
Total current liabilities		95.6	93.6
Non-current liabilities			
Borrowings	C2	974.2	930.1
Derivative financial instruments	C3	37.8	49.3
Total non-current liabilities		1,012.0	979.4
Total liabilities		1,107.6	1,073.0
Net assets		1,800.7	1,696.5
Equity			
Contributed equity	C4	2,428.8	2,257.9
Reserves	C4	0.3	(1.2)
Accumulated losses		(628.4)	(560.2)
Total equity		1,800.7	1,696.5

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

	Notes	Contributed equity $'m	Reserves $'m	Accumulated losses $'m	Total $'m
Total equity at 1 July 2017		2,276.3	(3.4)	(598.4)	1,674.5
Profit for the year		–	–	146.4	146.4
Other comprehensive income		–	2.2	–	2.2
Total comprehensive income for the year		–	2.2	146.4	148.6
Transactions with unitholders in their capacity as unitholders					
– Cancellation of units	C4	(18.4)		5.5	(12.9)
– Distributions paid and payable	A2	–	–	(113.7)	(113.7)
Total equity at 30 June 2018		2,257.9	(1.2)	(560.2)	1,696.5
Total equity at 1 July 2018		**2,257.9**	**(1.2)**	**(560.2)**	**1,696.5**
Profit for the year		**–**	**–**	**53.1**	**53.1**
Other comprehensive income		**–**	**1.5**	**–**	**1.5**
Total comprehensive income for the year		**–**	**1.5**	**53.1**	**54.6**
Transactions with unitholders in their capacity as unitholders					
– Contributions of equity, net of issue costs	C4	**170.9**	**–**	**–**	**170.9**
– Distributions paid and payable	A2	**–**	**–**	**(121.3)**	**(121.3)**
Total equity at 30 June 2019		**2,428.8**	**0.3**	**(628.4)**	**1,800.7**

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

Consolidated Cash Flow Statement
For the year ended 30 June 2019

	Notes	2019 $'m	2018 $'m
Cash flows from operating activities			
Property income received		222.9	242.8
Property expenses paid		(72.1)	(75.5)
Distributions received from investment in joint venture entities		19.7	14.6
Other operating expenses paid		(14.4)	(14.7)
Finance costs paid		(30.5)	(35.4)
Interest and other income		0.3	0.2
Net GST paid to ATO on operating activities		(12.6)	(13.8)
Net GST received from/(paid to) from ATO on investing activities		0.5	(0.4)
Net cash flows from operating activities	A3	113.8	117.8
Cash flows from investing activities			
Proceeds from sale of investment properties and units in a fixed trust		160.8	262.5
Deposit received for investment property		0.6	–
Payments for investment properties, joint ventures and capital expenditure		(367.8)	(278.9)
Capital distribution received from joint venture entity		14.3	7.6
Deposit paid for investment property		–	(3.0)
Net cash flows from investing activities		(192.1)	(11.8)
Cash flows from financing activities			
Proceeds from borrowings		410.9	315.3
Repayment of borrowings		(425.6)	(292.4)
Reset of derivative financial instruments		(19.9)	–
Proceeds from issue of units		162.4	–
Repurchase of units		–	(12.9)
Distributions paid to unitholders, net of DRP		(106.1)	(113.3)
Net cash flows from financing activities		21.7	(103.3)
Net (decrease)/increase in cash held		(56.6)	2.7
Cash and cash equivalents at the beginning of the year		61.4	58.7
Cash and cash equivalents at the end of the year		4.8	61.4

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

Non-cash financing and investing activities

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

	Notes	2019 $'m	2018 $'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	A2, C4	8.5	–

Notes to the Financial Statements
For the year ended 30 June 2019

ABOUT THIS REPORT

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

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

Critical accounting estimates

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

The areas involving significant estimates or judgements are:

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

Notes to the Financial Statements
For the year ended 30 June 2019

A. FUND PERFORMANCE

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

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

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

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

A1. Segment information

(a) Description of segments

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

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

(b) Segment information provided to the Board

The operating earnings reported to the Board for the operating segment for the years ended 30 June 2019 and 30 June 2018 are as follows:

	2019 $'m	2018 $'m
Property rental income	**160.8**	184.8
Other income	**40.9**	36.0
Add back: non-cash adjustments	**8.1**	4.9
Property expenses	**(63.4)**	(67.7)
Total net property income from wholly owned properties (NPI)	**146.4**	158.0
Net income from joint venture entities	**23.5**	14.9
Interest income	**0.3**	0.2
Management fees (refer to note D1)	**(9.4)**	(9.8)
Finance costs	**(29.5)**	(36.8)
Other expenses	**(3.3)**	(3.3)
Operating earnings	**128.0**	123.2

Property rental income

Property rental income represents income earned from the long term rental of REIT properties and is recognised on a straight line basis over the lease term. The portion of rental income relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties. Turnover rent is recognised on an accruals basis.

Minimum lease payments to be received includes future amounts to be received on non-cancellable operating leases, not recognised in the financial statements at balance date. A proportion of this balance includes amounts receivable for recovery of operating costs on gross and semi-gross leases which will be accounted for as revenue from contracts with customers as this income is earned. The remainder will be accounted for as property rental income as it is earned. Amounts receivable under non-cancellable operating leases where the REIT's right to consideration for a service directly corresponds with the value of the service provided to the customer have not been included (for example, variable amounts payable by tenants for their share of the operating costs of the asset).

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

	0 to 1 year $'m	1 to 5 years $'m	Over 5 years $'m	Total $'m
2019	195.1	569.0	482.7	1,246.8
2018	186.7	549.9	475.6	1,212.2

Other income

Other income principally includes non-lease income derived under lease agreements with tenants. Non-lease income relates to the proportion of shopping centre operating costs which are recoverable from tenants in accordance lease agreements and relevant Retail Tenancy Acts. See note D8 for further details.

Property expenses

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

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

	2019 $'m	2018 $'m
Operating earnings	128.0	123.2
Net revaluation (decrement)/increment on investment properties	(3.3)	55.7
Revaluation decrement on investment properties attributable to acquisition costs	(17.8)	(14.6)
Net loss on derivative financial instruments*	(42.9)	(3.7)
Loss on sale of investment properties	(1.9)	(8.4)
Write off capitalised borrowing costs related to refinancing	(0.3)	–
Straightlining of rental income and amortisation of fitout incentives	(7.1)	(4.8)
Other	(1.6)	(1.0)
Profit for the year	53.1	146.4
Basic weighted average number of units (millions)	411.4	403.9
Operating earnings per unit (cents)	31.12	30.51

* Included in net loss on derivative financial instruments is $19.9m of realised loss associated with resetting $775.0m of interest rate swaps.

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	Distribution Cents per unit	Total amount $'m
Ordinary unitholders		
Distributions for the half year ended:		
31 December 2018 (paid 28 February 2019)	14.28	57.5
30 June 2019 (payable 30 August 2019)*	14.48	63.8
	28.76	121.3
Ordinary unitholders		
Distributions for the half year ended:		
31 December 2017 (paid 28 February 2018)	14.00	56.5
30 June 2018 (paid 31 August 2018)	14.20	57.2
	28.20	113.7

* The distribution of 14.48 cents per unit for the six months period ended 30 June 2019 was declared prior to 30 June 2019 and will be paid on 30 August 2019.

Notes to the Financial Statements
For the year ended 30 June 2019

A2. Distributions and earnings per unit continued

(a) Distributions paid and payable continued

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

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

Under current Australian income tax legislation, the REIT is not liable to pay income tax provided the trustee has attributed all the taxable income of the REIT to unitholders.

(b) Earnings per unit

	2019	2018
Basic earnings per ordinary unitholder of the REIT		
Earnings per unit (cents)	12.92	36.22
Operating earnings per unit (cents)	31.12	30.51
Earnings used in the calculation of basic earnings per unit		
Net profit for the year ($'m)	53.1	146.4
Operating earnings for the year ($'m)	128.0	123.2
Weighted average number of units used in the calculation of basic earnings per unit (millions)*	411.4	403.9

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

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

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

Diluted earnings per unit is determined by dividing the profit by the weighted average number of ordinary units and dilutive potential ordinary units on issue during the year. The REIT has no dilutive or convertible units on issue.

A3. Reconciliation of net profit to operating cash flow

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

	Notes	2019 $'m	2018 $'m
Profit after tax		53.1	146.4
Non-cash items			
Straightlining and amortisation of lease incentives		7.1	4.9
Share of unrealised net loss/(profit) on investment in joint venture entities		3.3	(3.2)
Property valuation loss/(gain)		21.5	(36.7)
Loss on sale of investment properties		1.9	8.1
Net loss on derivative financial instruments	B2, C3	39.7	3.6
Write off of capitalised borrowing costs related to refinancing		0.3	–
Change in assets and liabilities			
(Increase)/decrease in assets			
Receivables and other assets		(3.3)	(3.1)
Accrued interest on cross currency and interest rate swap		(0.4)	(0.1)
Net income receivable from investment in joint venture entities		(3.8)	(0.3)
Prepayments		0.2	(0.7)
Unamortised borrowing costs		(0.2)	1.0
Decrease in liabilities			
Payables and other liabilities		(5.6)	(2.1)
Net cash flows from operating activities		113.8	117.8

B. PROPERTY PORTFOLIO ASSETS

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

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

	Notes	2019 $'m	2018 $'m
Non-current assets			
Investment properties	B1	**2,388.6**	2,385.6
Joint venture investment property		**532.6**	373.6
Joint venture adjustment*	B2	**(149.8)**	(127.8)
Total non-current assets		**2,771.4**	2,631.4
Current assets			
Assets held for sale**	B1	**60.7**	33.6
Property portfolio assets, including interests in joint venture properties		**2,832.1**	2,665.0

* Joint venture adjustment includes non-investment property assets and liabilities of the REIT's joint ventures.
** The REIT has classified three properties as held for sale.

B1. Investment properties

Investment properties

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

Assets held for sale

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

Development properties

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

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

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

(a) Valuation process

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

The use of independent external valuers is on a progressive basis over a three year period, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property. For properties not under development or classified as held for sale, if the external valuation is more than 12 months old then the property is externally valued. For others, an assessment is made as to which properties are likely to have had material movements in the book value reported at the last reporting period to determine whether they should be revalued externally or whether an internal valuation is applicable.

During the year ended 30 June 2019, 100% of non-development investment properties (excluding assets held for sale) were externally valued (2018: 100%).

Notes to the Financial Statements
For the year ended 30 June 2019

B1. Investment properties continued

(b) Valuation techniques and key judgements

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

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

	Fair value $'m	Gross market rent ($ p.a./sqm)	Adopted capitalisation rate (% p.a.)	Adopted terminal yield (% p.a.)	Adopted discount rate (% p.a.)
2019	2,449.3	136 – 673	4.9 – 8.3	5.3 – 8.8	6.3 – 9.3
2018	2,419.2	136 – 666	5.3 – 7.8	5.5 – 8.0	6.0 – 8.0

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

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

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

	2019 $'m	2018 $'m
Carrying amount at the beginning of the year	2,385.6	2,208.9
Add back prior period held for sale	33.6	158.3
Additions	295.3	277.5
Acquisition costs incurred	14.5	14.6
Revaluation decrement attributable to acquisition costs	(14.5)	(14.6)
Net revaluation (decrement)/increment	(7.0)	51.3
Straightlining and amortisation of lease incentives	(7.1)	(4.9)
Disposals	(251.1)	(271.9)
Reclassification of investment properties as held for sale	(60.7)	(33.6)
Carrying amount at the end of the year	2,388.6	2,385.6

B2. Investment in joint venture entities

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

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

Information relating to the joint venture entities is detailed below:

			OWNERSHIP INTEREST	
Joint venture entity	Country of establishment	Principal activity	2019 %	2018 %
Charter Hall Retail Partnership No.1 Trust (CHRP1)	Australia	Property investment	50.0%	50.0%
Charter Hall Retail Partnership No.2 Trust (CHRP2)	Australia	Property investment	47.5%	47.5%
CH Salamander Bay Square Trust (CHSBT)*	Australia	Property investment	50.5%	–
CH Gateway Plaza Trust (CHGWT)**	Australia	Property investment	50.0%	–

* The REIT sold 49.5% of CHSBT by establishing a further joint venture with Charter Hall Prime Retail Fund. CHSBT was sold at fair value. On sale the REIT deconsolidated CHSBT and equity accounts its share in the joint venture.

** The REIT settled the unconditional contract to acquire 50% of Gateway Plaza, Leopold, Vic in July 2018. The REIT's 50% interest is held through a joint venture with Charter Hall Prime Retail Fund. The REIT equity accounts it's share in the joint venture.

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

	2019 $'m	2018 $'m
Balance at the beginning of the year	245.8	250.4
Acquisition of interest in joint venture	62.1	–
Joint venture establishment through loss of control	88.9	–
Share of profits and net property valuation gains	20.0	18.0
Distributions paid and payable	(36.2)	(22.6)
Distribution reinvested	2.1	
Balance at the end of the year	382.8	245.8

Notes to the Financial Statements
For the year ended 30 June 2019

B2. Investment in joint venture entities continued

(b) Share of results attributable to joint venture entities

The tables below provides summarised information about the financial performance of the joint venture entities as a whole as at 30 June 2019, not the REIT's proportionate share.

2019	CHRP1 100% interest $'m	CHRP2 100% interest $'m	CHSBT 100% interest $'m	CHGWT 100% interest $'m	Total 100% interest $'m
Income					
Property income	46.7	18.2	12.3	11.0	88.2
Property expenses	(15.5)	(4.5)	(2.7)	(3.4)	(26.1)
Net property income	31.2	13.7	9.6	7.6	62.1
Finance costs	(7.2)	(4.2)	–	–	(11.4)
Other expenses	(2.4)	(1.0)	–	–	(3.4)
Total expenses	(9.6)	(5.2)	–	–	(14.8)
Operating earnings	21.6	8.5	9.6	7.6	47.3
Net revaluation increment/(decrement) on investment properties	6.4	(6.7)	(3.7)	4.6	0.6
Net unrealised loss on derivative financial instruments	(4.8)	(1.7)	–	–	(6.5)
Other	(1.2)	(0.9)	0.1	0.4	(1.6)
Statutory profit for the year	22.0	(0.8)	6.0	12.6	39.8
Total comprehensive income	22.0	(0.8)	6.0	12.6	39.8
REIT's interest in total comprehensive income	11.0	(0.4)	3.1	6.3	20.0

2018	CHRP1 100% interest $'m	CHRP2 100% interest $'m	Total 100% interest $'m
Income			
Property income	47.9	18.2	66.1
Property expenses	(16.6)	(4.8)	(21.4)
Net property income	31.3	13.4	44.7
Finance costs	(7.0)	(4.0)	(11.0)
Other expenses	(2.4)	(1.0)	(3.4)
Total expenses	(9.4)	(5.0)	(14.4)
Operating earnings	21.9	8.4	30.3
Net revaluation increment on investment properties	6.2	2.7	8.9
Loss on disposal	(0.5)	–	(0.5)
Net unrealised (loss)/gain on derivative financial instruments	(0.2)	(0.1)	(0.3)
Other	(1.2)	(0.5)	(1.7)
Statutory profit for the year	26.2	10.5	36.7
Other comprehensive income	–	–	–
Total comprehensive income	26.2	10.5	36.7
REIT's interest in total comprehensive income	13.1	4.9	18.0

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

The tables below provides summarised information about the financial position of the joint venture entities as a whole as at 30 June 2019, not the REIT's proportionate share.

2019	CHRP1 $'m	CHRP2 $'m	CHSBT $'m	CHGWT $'m
Current assets				
Cash and cash equivalents	1.1	1.0	0.8	0.6
Receivables	1.5	1.8	0.2	1.4
Other assets	0.5	0.2	0.1	–
Total current assets	3.1	3.0	1.1	2.0
Non-current assets				
Investment properties	540.5	230.0	174.5	130.0
Total assets	543.6	233.0	175.6	132.0
Current liabilities				
Payables	10.7	5.0	1.1	1.3
Total current liabilities	10.7	5.0	1.1	1.3
Non-current liabilities				
Borrowings	185.5	102.2	–	–
Derivative financial instruments	5.6	2.8	–	–
Total liabilities	201.8	110.0	1.1	1.3
Net assets	341.8	123.0	174.5	130.7
REIT's interest in net assets	170.9	58.4	88.1	65.4

2018	CHRP1 $'m	CHRP2 $'m
Current assets		
Cash and cash equivalents	3.3	1.6
Receivables	0.9	0.7
Other assets	0.4	0.2
Total current assets	4.6	2.5
Non-current assets		
Investment properties	526.8	232.0
Total assets	531.4	234.5
Current liabilities		
Payables	14.7	4.0
Total current liabilities	14.7	4.0
Non-current liabilities		
Borrowings	146.2	101.3
Derivative financial instruments	0.7	1.0
Total liabilities	161.6	106.3
Net assets	369.8	128.2
REIT's interest in net assets	184.9	60.9

Notes to the Financial Statements
For the year ended 30 June 2019

B2. Investment in joint venture entities continued

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

In August 2018, CHRP1 made a return of equity of $28.5 million to unitholders. This represents part of the proceeds from the sale of Thornleigh Marketplace, NSW in June 2018 for $43.1 million. The REIT's share of return of equity was $14.3 million and share of asset was $21.6 million.

In January 2019, CHRP2 turned on its DRP for the December 2018, March 2019 and June 2019 distributions.

Joint ventures with debt facilities maintain a proactive cash management practice of using excess available cash to reduce drawn revolving debt facilities. This practice, when combined with distribution liability at the end of the reporting period, may result in an excess of current liabilities over current assets. At 30 June 2019, CHRP1 had a net current asset deficiency of $7.6 million and CHRP2 had a net current asset deficiency of $2.0 million.

All the joint ventures have sufficient operating cash flows to meet current liabilities. In addition, as at 30 June 2019, CHRP1 had undrawn debt capacity of $33.6 million and CHRP2 had undrawn debt capacity of $2.6 million.

B3. Expenditure commitments

The REIT and joint venture entities may enter into contracts for the acquisition, construction and development of properties in Australia. The commitments of the REIT in relation to such contracts are nil (2018: $88.3 million). The REIT's share in the commitments of the joint venture entities total nil (2018: $1.1 million). These commitments have not been reflected in the consolidated financial statements of the REIT.

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

C. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

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

C1. Capital risk management

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

The REIT sources its capital through:

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

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

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

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

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

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

C2. Borrowings and liquidity

(a) Borrowings

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

	2019				2018			
	Current $'m	Non-current $'m	Total carrying amount $'m	Fair value $'m	Current $'m	Non-current $'m	Total carrying amount $'m	Fair value $'m
US Private Placement notes*	–	461.7	461.7	467.4	–	402.6	402.6	415.4
Bank loan – term debt**	–	512.5	512.5	517.5	–	527.5	527.5	533.3
Total unsecured borrowings	–	974.2	974.2	984.9	–	930.1	930.1	948.7
Undrawn bank facility			143.0				128.3	

* Includes a fair value hedge adjustment of $(1.3)m (2018: $(36.3)m).
** Includes unamortised transaction costs of $(4.5)m (2018: $(4.2)m).

Notes to the Financial Statements
For the year ended 30 June 2019

C2. Borrowings and liquidity continued

(a) Borrowings continued

US Private Placement notes

Information about USPP notes is summarised in the table below:

	US dollar fixed coupon	Issue date	Maturity date	Australian dollar equivalent at issue date $'m	Carrying amount 30 Jun 2019 $'m
USPP	3.55%	July 2015	July 2027	251.6	284.9
USPP	3.76%	May 2016	May 2026	177.4	178.1
Total exposure				429.0	463.0
Fair value hedge adjustment				-	(1.3)
Total				429.0	461.7

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

Bank loans – Bilateral revolving facility agreements

Maturity date	Facility limit $'m	Drawn amount at 30 Jun 2019 $'m
June 2022	175.0	175.0
July 2022	150.0	7.0
November 2022	40.0	40.0
July 2023	75.0	75.0
August 2023	50.0	50.0
November 2023	75.0	75.0
November 2023	95.0	95.0
	660.0	517.0

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

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

In November 2018, the REIT entered into two new unsecured bilateral facilities for $95.0 million and $40.0 million due to mature in November 2023 and November 2022 respectively. The REIT also repaid and cancelled $160.0 million of the existing unsecured syndicated bank debt facility which was due to mature in July 2020.

In November 2018, the REIT refinanced an existing bilateral facility, increasing the facility limit from $50 million to $75 million and extending the facility maturity date from February 2021 to November 2023.

Net debt reconciliation

	2018 $'m	Movement in derivatives and foreign exchange $'m	Movement in transaction costs $'m	Movement in cash $'m	2019 $'m
Bank loans	531.7	–	–	(14.7)	**517.0**
Unamortised transaction costs	(4.2)	–	(0.3)	–	**(4.5)**
USPP	438.9	24.1	–	–	**463.0**
Fair value hedge adjustment	(36.3)	35.0	–	–	**(1.3)**
Total unsecured borrowings	930.1	59.1	(0.3)	(14.7)	**974.2**
Cash	(61.4)	–	–	56.6	**(4.8)**
Net Debt	868.7	59.1	(0.3)	41.9	**969.4**

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

Covenants

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

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

Other significant contract terms

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

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

Notes to the Financial Statements
For the year ended 30 June 2019

C2. Borrowings and liquidity continued

(b) Finance costs

	2019 $'m	2018 $'m
Finance costs paid or payable*	36.7	39.6
Less: Capitalised finance costs	(4.3)	(2.8)
	32.4	36.8

* Included in finance costs is $35.4m of interest on financial liabilities measured at amortised cost.

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

C3. Derivative financial instruments

(a) Derivative financial instruments

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

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

Fair value hedges

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

Cash flow hedges

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

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

Amounts reflected in the financial statements are as follows:

	2019		2018	
Consolidated balance sheet	Asset $'m	Liability $'m	Asset $'m	Liability $'m
Current				
Derivatives	4.9	–	4.5	–
Total current derivative financial instruments	4.9	–	4.5	–
Non-current				
Derivatives	50.1	37.8	20.9	49.3
Total non-current derivative financial instruments	50.1	37.8	20.9	49.3
Total derivative financial assets/liabilities	55.0	37.8	25.4	49.3

The effects of hedge accounting on the REIT's financial position and performance are as follows:

Cross currency interest rate swaps	2019 $'m	2018 $'m
Carrying amount	35.9	(23.0)
Notional amount	429.0	429.0
Maturity date	22 July 2027	22 July 2027
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 July	58.9	(3.0)
Change in value of hedged item used to determine hedge effectiveness	(57.5)	2.3

(b) Interest rate swaps

At 30 June 2019, the weighted average fixed rate is 1.52% per annum (2018: 2.25% per annum).

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

	1 year or less $'m	2 – 3 years $'m	3 – 4 years $'m	4 – 5 years $'m	More than 5 years $'m	Net position – REIT pays fixed rate and receives floating rate $'m
2019	–	–	200.0	100.0	652.3	952.3
2018	–	175.0	200.0	200.0	177.0	752.0

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

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

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

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

Notes to the Financial Statements
For the year ended 30 June 2019

C4. Contributed equity and reserves

(a) Contributed equity

No. of units	Details	Date of income entitlement	2019 $'m	2018 $'m
405,777,734	Units on issue	30 June 2017		2,276.3
(200,634)	Cancellation of units	August 2017		(1.1)
(566,858)	Cancellation of units	September 2017		(3.2)
(1,027,841)	Cancellation of units	October 2017		(5.8)
(235,062)	Cancellation of units	November 2017		(1.3)
(180,426)	Cancellation of units	February 2018		(1.0)
(575,506)	Cancellation of units	March 2018		(3.2)
(507,903)	Cancellation of units	April 2018		(2.8)
402,483,504	Units on issue	30 June 2018	2,257.9	2,257.9
1,891,076	DRP issue	28 February 2019	8.5	
33,259,424	Placement issue	5 April 2019	147.7	
3,267,880	Unit purchase plan	9 May 2019	14.7	
440,901,884	Units on issue	30 June 2019	2,428.8	2,257.9

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

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

Distribution Reinvestment Plan (DRP)

The REIT has established a DRP under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new units rather than being paid in cash. The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the distribution record date. The DRP was active for the 30 June 2019 distribution.

Placement issue

For the year ended 30 June 2019, the REIT issued 33,259,424 units, on market, for a total consideration of $150.0 million ($4.51 per unit).

Unit Purchase Plan (UPP)

For the year ended 30 June 2019, the REIT issued 3,267,880 units, on market, for a total consideration of $14.7 million ($4.51 per unit).

(b) Reserves

	Cash flow hedge reserve $’m	Foreign currency basis reserve $’m	Total reserves $’m
Opening balance 1 July 2018	(1.2)	–	(1.2)
Adoption of AASB 9	(2.5)	2.5	–
Changes in the fair value of reserves	3.1	(1.6)	1.5
Balance 30 June 2019	(0.6)	0.9	0.3
Opening balance 1 July 2017	(3.4)	–	(3.4)
Changes in the fair value of reserves	2.2	–	2.2
Balance 30 June 2018	(1.2)	–	(1.2)

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

When cross currency interest rate swaps are used to hedge the market risks of borrowings denominated in foreign currencies, the REIT does not designate the currency basis spread as part of the hedging instrument within the hedge relationship. Currency basis spread is a liquidity premium that is charged for exchanging different currencies, and changes over time impacting the fair value of cross currency swaps. The changes in the fair value of currency basis spread is recognised in other comprehensive income in the hedging reserve in equity. Prior to 1 July 2018, the REIT recognised these changes in the cash flow hedge reserve.

C5. Financial risk management

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

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

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

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

Notes to the Financial Statements
For the year ended 30 June 2019

C5. Financial risk management continued

(i) Market risk – Foreign exchange risk

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

(ii) Market risk – Interest rate risk

The table below shows the REIT's exposure to interest rate risk. At balance date, the REIT fixed 74.9% (2018: 59.0%) of its direct and joint venture interest rate exposure.

	AUSTRALIAN DOLLARS		US DOLLARS[1]		TOTAL	
	2019 $'m	2018 $'m	2019 $'m	2018 $'m	2019 $'m	2018 $'m
Fixed rate						
USPP[2]	–	–	(463.0)	(438.9)	(463.0)	(438.9)
Net fixed rate exposure	–	–	(463.0)	(438.9)	(463.0)	(438.9)
Floating rate						
Cash	4.8	61.4	–	–	4.8	61.4
Cash – joint venture entities[3]	1.7	2.4	–	–	1.7	2.4
Borrowings[2]	(517.0)	(531.7)	–	–	(517.0)	(531.7)
Borrowings – joint venture entities[3]	(141.9)	(121.9)	–	–	(141.9)	(121.9)
	(652.4)	(589.8)	–	–	(652.4)	(589.8)
Derivative financial instruments						
Cross currency interest rate swaps – fixed to floating[4]	(429.0)	(429.0)	463.0	438.9	34.0	9.9
Interest rate swaps – floating to fixed[5]	1,026.1	816.1	–	–	1,026.1	816.1
	597.1	387.1	463.0	438.9	1,060.1	826.0
Net floating rate exposure	(55.3)	(202.7)	–	–	(55.3)	(202.7)

1 Australian dollar equivalents of foreign denominated balances.
2 Represents the notional principal of the borrowings. Unamortised borrowing costs are excluded as they are not impacted by interest rate risk.
3 The REIT's share of financial assets and liabilities included within its net investment in joint venture entity.
4 The amounts represent the notional principal receivable and payable under the derivative contracts.
5 The amounts represent the notional principal payable under the derivative contracts (excluding derivatives where cash flows have not commenced at balance sheet date and including derivative contracts held by joint venture entities).

Sensitivity analysis

The table below reflects the potential net increase/(decrease) in the REIT's profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2019, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2018.

	2019		2018	
	Profit and loss $'m	Reserves $'m	Profit and loss $'m	Reserves $'m
Australian interest rates				
+ 1.00% (2018: + 1.00%)	21.5	–	13.1	–
– 1.00% (2018: – 1.00%)	(22.7)	–	(13.9)	–

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

(iii) Liquidity risk

The following table provides the contractual maturity of the REIT's fixed and floating rate financial liabilities and derivatives as at 30 June 2019. The amounts presented represent the future contractual undiscounted principal and interest cash inflows/(outflows) based on interest rates and foreign exchange rates prevailing at balance date and therefore do not equate to the value shown in the consolidated balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

Liquidity risk	Carrying value $'m	Less than 1 year $'m	1 to 5 years $'m	Over 5 years $'m	Total $'m
2019					
Financial liabilities					
Payables	(31.8)	(31.8)	–	–	(31.8)
Distribution payable	(63.8)	(63.8)	–	–	(63.8)
Borrowings	(980.0)	(30.8)	(620.2)	(511.7)	(1,162.7)
Derivative financial instruments	(37.8)	(4.3)	(15.8)	(197.2)	(217.3)
Total financial liabilities	(1,113.4)	(130.7)	(636.0)	(708.9)	(1,475.6)
2018					
Financial liabilities					
Payables	(36.4)	(36.0)	–	–	(36.0)
Distribution payable	(57.2)	(57.2)	–	–	(57.2)
Borrowings	(970.6)	(30.7)	(622.5)	(479.0)	(1,132.2)
Derivative financial instruments	(49.3)	(1.4)	(5.8)	(22.2)	(29.4)
Total financial liabilities	(1,113.5)	(125.3)	(628.3)	(501.2)	(1,254.8)

The amount of credit facilities unused by the REIT at 30 June 2019 is $143 million (2018: $128.3 million).

(iv) Credit risk

The maximum exposure to credit risk at the end of each reporting period is equivalent to the carrying value of the financial assets. The REIT has policies to review the aggregate exposures of receivables and tenancies across its portfolio. As at 30 June 2019 the REIT has no significant concentrations of credit risk on its receivables other than exposure to the Woolworths, Coles and Wesfarmers businesses which contribute 57.3% (2018: 43.6%) of the total portfolio property income including income generated by joint venture entities. The REIT holds collateral in the form of security deposits or bank guarantees over some receivables where appropriate.

The table below shows the ageing analysis of rent receivables of the REIT.

	Less than 30 days $'m	31 to 60 days $'m	61 to 90 days $'m	More than 90 days $'m	Total $'m
2019					
Rent receivables	2.8	0.2	0.1	0.4	3.5
Provision for expected credit losses					0.2
2018					
Rent receivables	1.6	0.5	0.2	0.3	2.6
Provision for expected credit losses					0.2

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 loss allowances for trade 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.

Notes to the Financial Statements
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C6. Offsetting financial assets and liabilities

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

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

	Gross amounts of financial instruments $'m	Amounts subject to set-off $'m	Net amount post set-off $'m
2019			
Derivative assets	**55.0**	**(34.9)**	**20.1**
Derivative liabilities	**(37.8)**	**34.9**	**(2.9)**
Borrowings	**(974.2)**	**–**	**(974.2)**
	(957.0)	**–**	**(957.0)**
2018			
Derivative assets	25.4	(25.4)	–
Derivative liabilities	(49.3)	25.4	(23.9)
Borrowings	(930.1)	–	(930.1)
	(954.0)	–	(954.0)

D. FURTHER INFORMATION

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

D1. Related party information

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

(a) Responsible Entity

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

(b) Directors

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

Audit, Risk and Compliance Committee fees and Directors' fees totalling $379,327 (2018: $373,076) were paid or payable by the REIT to the Independent Directors, being Roger Davis, John Harkness (resigned 13 November 2018), Sue Palmer and Michael Gorman, for the year, refer to Note D1(g) for a detailed breakdown of these payments. These amounts are reviewed from time to time in consultation with external experts to ensure that remuneration reflects the services expected to be performed.

(c) Management fees

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

Base fee

The base fee is calculated as:

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

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

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

Performance fee

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

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

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

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

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

Management fee expenses in CHRP1

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

Base fee

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

Management fee expenses in CHRP2

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

Base fee

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

Performance fee

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

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

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

Notes to the Financial Statements
For the year ended 30 June 2019

D1. Related party information continued

(c) Management fees continued

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

	2019 $'000	2018 $'000
Base fees	9,431	9,787
Management fees paid by the REIT	9,431	9,787
REIT's share of management fees paid by CHRP1	1,071	1,095
REIT's share of management fees paid by CHRP2	450	441
Total management fees paid	10,952	11,323

No performance fee was earned by the Responsible Entity of the REIT during the year. In the calculation of the performance fee, outperformance will be assessed on a cumulative basis and, accordingly, underperformance for the period from 1 January 2004 to 30 June 2018 will need to be recovered before the Responsible Entity is entitled to any future performance fees. For the period from 1 January 2004 to 30 June 2019, the Index increased in value by 182.3% compared to the REIT's cumulative performance which increased by 109.3% (difference of 72.9%).

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

The Responsible Entity and its related parties held 71,321,744 units in the REIT as at 30 June 2019 (2018: 75,321,744).

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

		BASIS OF FEE CALCULATION		FEE AMOUNT	
Type of fee	Method of fee calculation	2019 $'m	2018 $'m	2019 $'000	2018 $'000
Management fees – wholly owned	Refer note D1(c)	2,449.3	2,419.2	9,431	9,787
Management fees – joint ventures	Refer note D1(c)	532.6	373.6	1,521	1,536
Acquisition	0.75% of sale price	274.6	216.2	2,059	1,621
Disposal	0.25% of sale price less amounts paid to external agents	76.1	272.4	190	680
Due diligence	0.25% of sale price	350.7	450.6	878	1,126
Development management (including cost recovery)	3% of development cost if > $1m 5% of development cost if < $1m	14.1	37.9	422	1,304
Project management	6% of project cost	19.9	11.8	1,192	707
Majors leasing	7.5% – 15.0% of year one gross rent	10.3	3.0	1,540	453
Property management and specialty leasing costs	Cost recovery			11,742	11,761
Other related party costs*	Cost recovery			12,833	13,585
				41,808	42,560

* Charter Hall Holdings Pty Limited was also reimbursed $12.8m (2018: $13.6m) for centre, IT, occupation health & safety, environmental, finance and accounting services expenses incurred. These expenses include salaries and related finance management and IT costs.

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

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

	2019 $	2018 $
Charter Hall Holdings Pty Limited	7,878,328	4,161,776
	7,878,328	4,161,776

(f) Key management personnel

Key management personnel (KMP) powers have not been delegated by the Responsible Entity to any other person.

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

(g) Directors' fees

Independent Directors' fees are as follows:

Total director fees	John Harkness	Sue Palmer	Alan Rattray-Wood	Michael Gorman	Roger Davis	Total
2019	52,725	102,500	–	97,375	126,727	379,327
2018	140,000	100,000	31,667	95,000	6,409	373,076

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

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

(h) Directors' interests in REIT units

The number of units held directly, indirectly or beneficially by the Directors of the Responsible Entity or the Directors' related parties at 30 June 2019 is as follows:

	Units held 2019	Units held 2018
Roger Davis	28,325	–
Michael Gorman	14,725	–
David Harrison	124,378	124,378

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

	Units 2019	Units 2018
Roger Davis	28,325	–
Michael Gorman	14,725	–

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

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

Notes to the Financial Statements
For the year ended 30 June 2019

D2. Working capital

The REIT maintains a proactive cash management practice of using excess available cash to reduce drawn revolving debt facilities. This practice, when combined with the REIT's distribution liability at the end of the reporting period, results in the excess of current liabilities over current assets of $8.8 million.

The entity has readily accessible credit facilities with $143 million of undrawn non-current debt facilities at 30 June 2019 and operating cash flows to meet current liabilities. The REIT does not foresee any issues in meeting the current liabilities over the course of the next 12 months, and therefore, these financial statements have been prepared on a going concern basis.

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

(a) Receivables and other assets

	2019 $'m	2018 $'m
Trade receivables	3.5	2.6
Provision for expected credit losses	(0.2)	(0.2)
Net rent receivable	3.3	2.4
Turnover rent receivable	3.4	3.7
Accrued income	3.6	3.1
Other receivables	4.6	3.8
	14.9	13.0

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

The REIT's receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for expected credit losses. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(b) Payables and other liabilities

	2019 $'m	2018 $'m
Current		
Accrued capital expenditure	8.7	8.4
Accrued property expenses	9.9	11.3
Income received in advance	3.4	6.6
Deposit received for divestment	0.6	–
Interest payable on interest bearing liabilities	5.6	5.7
Other	3.6	4.4
	31.8	36.4

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

D3. Parent entity information

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

(i) Investments in controlled entities

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

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

(ii) Receivables and payables

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

(iii) Recoverable amount of assets

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

(a) Summary financial information

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

	Parent 2019 $'m	Parent 2018 $'m
Balance sheet		
Current assets	148.0	108.2
Non-current assets	2,747.2	2,620.3
Total assets	2,895.2	2,728.5
Current liabilities	123.4	80.0
Non-current liabilities	1,012.0	979.4
Total liabilities	1,135.4	1,059.4
Equity		
Contributed equity	2,428.8	2,257.9
Reserves	(155.0)	(156.5)
Accumulated losses	(514.0)	(432.3)
Total equity	1,759.8	1,669.1
Statement of comprehensive income		
Profit after tax	39.6	139.5
Total comprehensive income	39.6	139.5

(b) Guarantees and contingent liabilities

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

(c) Commitments

The parent entity may enter into contracts for the acquisition, construction and development of properties in Australia. The commitments of the parent entity in relation to such contracts are nil (2018: $88.3 million). These commitments have not been reflected in the financial information of the parent entity.

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

D4. Significant contract terms and conditions

Pre-emptive rights

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

Notes to the Financial Statements
For the year ended 30 June 2019

D5. Remuneration of the auditor

	2019 $'000	2018 $'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	239	271
Other audit services	–	10
Total amount paid or payable to PricewaterhouseCoopers Australian firm	**239**	**281**

D6. Interest in other entities

Material subsidiaries

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

Name of entity	Country of incorporation	Place of business	OWNERSHIP INTEREST HELD BY THE REIT 2019	2018	Principal activities
Charter Hall Retail JV Trust	Australia	Australia	100%	100%	Property investment
CH SC Trust	Australia	Australia	100%	100%	Property investment
CH Campbellfield Plaza Trust	Australia	Australia	100%	–	Property investment
CH Rockdale Plaza Trust	Australia	Australia	100%	–	Property investment

D7. Events occurring after balance date

In July 2019, the REIT entered into a conditional contract to sell Carnarvon Central, WA for a gross price of $16.1 million.

In August 2019, the REIT entered into an unconditional contract to sell Katherine Shopping Centre, NT for a gross price of $28.9 million.

In August 2019, CHRP2 refinanced and increased existing debt facilities from $105 million to $110 million and extended the maturity to July 2024.

D8. Other significant accounting policies

(a) Basis of preparation

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

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

Compliance with IFRS

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

Historical cost convention

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

(b) Principles of consolidation

Controlled entities

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

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

(c) Foreign currency translation

(i) Functional and presentation currencies

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

(ii) Transactions and balances

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

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

(d) Comparative information

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

(e) Rounding of amounts

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

(f) Changes in accounting standards

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

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition 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 materially 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 Jun 2019 $m
Receivables and other assets	Loans and receivables	Financial asset at amortised cost	14.9
Prepayments	Loans and receivables	Financial asset at amortised cost	1.5

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.

Notes to the Financial Statements
For the year ended 30 June 2019

D8. Other significant accounting policies continued

(f) Changes in accounting standards continued

AASB 9 Financial Instruments continued

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. Measurement under an ECL model 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 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 measured at amortised cost, other than trade receivables, on a forward looking basis and measured using the expected lifetime ECL.

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

Hedging

The adoption of AASB 9 has not impacted the carrying value of the REIT's derivatives or the application of hedge accounting. CQR's risk management strategies and hedge documentation are aligned with the requirements of AASB 9 and therefore hedging relationships are treated as continuing.

AASB 9 includes a new general hedge accounting model which better aligns hedge accounting with the Group's risk management policies. The 80%–125% hedge effectiveness requirement of AASB 139 has been removed. Under AASB 9, the REIT is required to determine the effectiveness of hedges in accordance with risk management policies on a prospective basis which are more qualitative in nature.

When cross currency interest rate swaps are used to hedge the market risks of borrowings denominated in foreign currencies, the REIT does not designate the currency basis spread as part of the hedging instrument within the hedge relationship. Currency basis spread is a liquidity premium that is charged for exchanging different currencies, and changes over time impacting the fair value of cross currency swaps. The changes in the fair value of currency basis spread is recognised in other comprehensive income in the hedging reserve in equity. Prior to 1 July 2018, the REIT recognised these changes in the cash flow hedge reserve.

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.

Type of revenue	Description	Revenue recognition policy under AASB 118	Revenue recognition policy under AASB 15
Recoveries revenue	The Group recovers the costs associated with tenancy operation from 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 Group 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.	Revenue recognised when costs are incurred	Point in time

An assessment has been undertaken of when the REIT's performance obligations are satisfied and no material changes have been identified that impact the timing of revenue recognition.

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

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

Directors' Declaration to Unitholders
For the year ended 30 June 2019

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

(a) the consolidated financial statements and notes set out on pages 35 to 67 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

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

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

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

Roger Davis
Chair

Sydney
15 August 2019

Independent Auditor's Report
For the year ended 30 June 2019

Independent auditor's report

To the unitholders of Charter Hall Retail REIT

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

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

Basis for opinion

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

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

Independence

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

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Independent Auditor's Report
For the year ended 30 June 2019

Our audit approach

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

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

Materiality

- For the purpose of our audit we used overall materiality of $6.4 million, which represents approximately 5% of the Group's operating earnings.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose operating earnings (which is an adjusted profit metric) as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured and is a generally accepted benchmark within the property industry.
- We selected a 5% threshold based on our professional judgement and noting it is within the range of commonly accepted adjusted profit materiality thresholds.

Audit Scope

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Investment properties *(Refer to note B)* The Group's investment property portfolio is comprised of retail shopping centres generally anchored with major supermarket tenants. The investment properties are included in the consolidated balance sheet as "Investment properties", the carrying value of which at 30 June 2019 was \$2,388.6 million (2018: \$2,385.6 million). In measuring the carrying value of investment properties, the Group applied the principles of accounting for investment property at fair value under Australian Accounting Standards and applied the valuation methodology described in Note B of the financial report. We considered this a key audit matter due to the magnitude of the balance noted above and because of the judgement required by the Group given: a) the fair value of investment properties is inherently subjective regarding factors such as prevailing market conditions, the individual nature and location and the expected future income for each property b) significant estimation uncertainty exists with respect to the key inputs and assumptions used by the Group in developing fair value estimates, including, capitalisation rates and discount rates.	We inspected recent independent property market reports detailing the prevailing conditions in the market in which the Group invests. We met with management and discussed the Group's investment property portfolio, including key drivers affecting the value of the investment properties such as significant new leases entered into and expiries during the year, capital expenditure and vacancy rates. Where external valuations were obtained and used by the Group to determine the fair value of the investment properties as at 30 June 2019, we read a sample of these valuation reports and agreed the fair value identified in these valuations to the accounting records of the Group. For a sample of external property valuations, we compared the tenancy schedule used in the external valuation to the tenancy schedule per the accounting records. For a sample of properties where the Group obtained an external valuation, we assessed the competency and capabilities of the relevant external valuer engaged by the Group and considered whether the valuations were performed in accordance with the Group's valuation policy. We also read a sample of the valuers' terms of engagement to identify any clauses that might affect their objectivity or impose limitations on their work. From the population of all internal and external valuations used by the Group, we selected a risk based sample of investment property valuations as at 30 June 2019 for detailed testing. For this sample, we tested certain key assumptions and inputs applied in the Group's property valuations as follows: - We compared the capitalisation rates and discount rates used to industry benchmarks and market data, including comparable transactions, where possible - For those in the sample with external valuations, we compared the tenancy schedule included in the valuation reports to the tenancy schedule per the accounting records - For the sample selected, we also considered and compared other key assumptions in the Group's property valuations that were not market observable, such as vacancies, let up

Independent Auditor's Report
For the year ended 30 June 2019

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Key audit matter	How our audit addressed the key audit matter
	allowances and incentives, to the corresponding data for that property at 30 June 2019 where relevant.
Application of hedge accounting *(Refer to note C3)* The Group enters into foreign currency and domestic debt as a source of funding and enters into derivative financial instruments (derivatives) contracts to manage foreign exchange risk and interest rate risk associated with the debt. The Group currently holds a portfolio of derivatives, of which the cross currency interest rate swaps are in hedge accounting relationships with the foreign currency (USD) US Private Placement debt facilities disclosed in the consolidated balance sheet. At 30 June 2019, the total carrying value of the Group's derivatives disclosed in the financial report (including current assets, non-current assets, current liabilities and non-current liabilities) was a net asset position of $17.2m (2018: $23.9m net liability position). The Group has transitioned to the hedge accounting requirements under AASB 9 Financial Instruments during the period. We considered the application of hedge accounting to be a key audit matter because of the: - relative size of the derivative balances and potential for fluctuation in the size of these balances year on year - complexity involved in applying hedge accounting in accordance with Australian Accounting Standards.	We tested certain controls relevant to derivatives including IT general controls within the Group's treasury IT system. To test the application of hedge accounting in accordance with Australian Accounting Standards, we performed the following procedures amongst others, in conjunction with PwC treasury specialists, for all hedge accounting relationships: - compared key items of the hedge documentation to the AASB 9 requirements - examined the hedge effectiveness test to determine compliance with AASB 9 requirements - agreed the year on year movement within the consolidated balance sheet to the amount recorded in the consolidated statement of comprehensive income and cash flow hedge reserve for the year ended 30 June 2019 - obtained independent counterparty confirmations to confirm the existence of each derivative at the financial year end - together with PwC valuation experts, we assessed the reasonableness of the fair value of the derivatives by comparing inputs in the valuations calculations to market data.

Other information

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

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

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

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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 for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

R W McMahon

R W McMahon
Partner

Sydney
15 August 2019

Unitholder Analysis

Top 20 registered unitholders as at 16 September 2019

Rank	Name	A/C designation	Units	%IC
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		145,299,354	32.83
2	TRUST COMPANY LIMITED	<CHARTER HALL CO-INVEST A/C>	67,928,628	15.35
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED		63,443,822	14.34
4	CITICORP NOMINEES PTY LIMITED		50,946,249	11.51
5	NATIONAL NOMINEES LIMITED		23,259,924	5.26
6	BNP PARIBAS NOMINEES PTY LTD	<AGENCY LENDING DRP A/C>	12,137,659	2.74
7	BNP PARIBAS NOMS PTY LTD	<DRP>	8,089,329	1.83
8	PERPETUAL CORPORATE TRUST LTD	<TTCAL>	5,469,900	1.24
9	CITICORP NOMINEES PTY LIMITED	<COLONIAL FIRST STATE INV A/C>	4,407,240	1.00
10	WARBONT NOMINEES PTY LTD	<UNPAID ENTREPOT A/C>	4,006,838	0.91
11	AMP LIFE LIMITED		3,372,766	0.76
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA		1,812,310	0.41
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	<NT-COMNWLTH SUPER CORP A/C>	1,604,913	0.36
14	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP RE LIMITED	<SCA PROPERTY RETAIL A/C>	1,308,759	0.30
15	CS THIRD NOMINEES PTY LIMITED	<HSBC CUST NOM AU LTD 13 A/C>	1,241,423	0.28
16	BNP PARIBAS NOMS (NZ) LTD	<DRP>	633,743	0.14
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		630,746	0.14
18	NATIONAL NOMINEES LIMITED	<N A/C>	558,989	0.13
19	ECAPITAL NOMINEES PTY LIMITED	<ACCUMULATION A/C>	520,626	0.12
20	AKAT INVESTMENTS PTY LIMITED	<TAG FAMILY - CORE A/C>	503,325	0.11
Total			**397,176,543**	**89.75**
Balance of register			**45,364,913**	**10.25**
Grand total			**442,541,456**	**100.00**

Range of units summary as at 16 September 2019

Range	Securities	%	No. of holders
100,001 and Over	402,495,851	90.95	47
50,001 to 100,000	2,100,649	0.47	32
10,001 to 50,000	17,314,307	3.91	935
5,001 to 10,000	10,229,592	2.31	1,439
1,001 to 5,000	9,643,284	2.18	3,571
1 to 1,000	757,773	0.17	1,678
Total	**442,541,456**	**100.00**	**7,702**
Unmarketable Parcels	11,010	0.00	434

Substantial unitholder notices as at 16 September 2019

Company	Date of change	Units	Ownership (%)
Charter Hall Limited	09 Apr 2019	71,960,898	16.44
The Vanguard Group, Inc	21 Mar 2019	23,122,553	5.72
Mondrian Investment Partners Limited (in capacity of fund manager)	13 Mar 2019	27,379,969	6.74
Legg Mason Asset Management Australia Limited	04 Dec 3018	28,823,823	7.09

Investor Information

How do I invest in Charter Hall Retail REIT?

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

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

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

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

Can I receive my Annual Report electronically?

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

How do I receive my distribution?

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

The REIT no longer pays distributions by cheque.

Can I reinvest my distribution?

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

Do I need to supply my Tax File Number?

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

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

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

How do I make a complaint?

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

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

Financial Ombudsman Service

GPO Box 3
Melbourne VIC 3001

Tel: 1300 780 808
Fax: +61 3 9613 6399

Email: info@fos.org.au
Web: www.fos.org.au

Contact Details

Registry

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

Link Market Services Limited

Locked Bag A14
Sydney South NSW 1235

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

Email: charterhall@linkmarketservices.com.au
Web: www.linkmarketservices.com.au

Investor Relations

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

Charter Hall Retail Management Limited

GPO Box 2704
Sydney NSW 2001

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

Email: reits@charterhall.com.au
Web: www.charterhall.com.au

Corporate Directory

Responsible Entity (and Manager)

Charter Hall Retail Management Limited

ABN 46 069 709 468
AFSL 246996

Registered office

Level 20, No.1 Martin Place
Sydney NSW 2000

Directors of the Responsible Entity

Roger Davis (Chair), Greg Chubb, Michael Gorman, David Harrison, Sue Palmer

Fund Manager

Greg Chubb

Company Secretary

Mark Bryant/Charisse Nortje

Responsible Entity's office

Level 20, No.1 Martin Place
Sydney NSW 2000

GPO Box 2704
Sydney NSW 2001

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

Email: reits@charterhall.com.au
Web: www.charterhall.com.au/cqr

ASX code: CQR

Custodian

Perpetual Limited

Level 12, Angel Place
123 Pitt Street
Sydney NSW 2000

Auditor

PricewaterhouseCoopers

One International Towers Sydney
Watermans Quay, Barangaroo
Sydney NSW 2000

Unit registry

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

Link Market Services Limited

Locked Bag A14
Sydney South NSW 1235

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

Email: charterhall@linkmarketservices.com.au
Web: www.linkmarketservices.com.au

DISCLAIMER

Important Notice

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