

APPENDIX 4E

Annual Financial Report for the year ended 30 June 2021

Name of Entity: Charter Hall Long WALE REIT comprising of the two Australian registered schemes listed below (collectively referred to as the “Stapled Trusts”):

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

Results for announcement to the market

	12 months to 30 June 2021 \$'000	12 months to 30 June 2020 \$'000	Variance (%)
Revenue from ordinary activities ¹	154,602	126,678	22.0
Profit from ordinary activities after tax attributable to members	618,314	122,415	405.1
Operating earnings ¹	159,005	121,863	30.5

¹ Gross revenue does not include share of net profits of joint ventures of \$349.3 million (2020: \$109.4 million).

² Operating earnings is a financial measure which represents profit under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straight lining of rental income and amortisations and other unrealised or one-off items. Operating earnings includes the rental revenue recognised in respect of tenants who have been (or will be) provided with rent free incentives as a result of COVID-19. This approach is consistent with the REIT’s treatment of rent free incentives provided in the ordinary course of its operations which are amortised over the term of the lease. The inclusion of operating earnings as a measure of Charter Hall Long WALE REIT’s (the REIT) 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. A reconciliation of the REIT’s statutory profit to operating earnings is provided in Note A1 of the financial statements.

	12 months to 30 June 2021 cents per stapled security	12 months to 30 June 2020 cents per stapled Security	Variance (%)
Basic earnings per unit	113.56	28.47	298.9
Operating earnings per unit	29.20	28.34	3.0

Results for announcement to the market

The REIT recorded a statutory profit of \$618.3 million for the year ended 30 June 2021 (2019: \$122.4 million). Operating earnings amounted to \$159.0 million (29.2 cents per stapled security) for the year ended 30 June 2021 (2020: \$121.9 million; 28.3 cents per stapled security) and a distribution of \$166.2 million (29.2 cents per stapled security) was declared for the same period (2020: \$125.7 million; 28.3 cents per stapled security).

The REIT’s statutory accounting profit of \$618.3 million includes the following unrealised, non-cash and other items:

- \$454.4 million of net fair value movements on investment properties;
- \$ 5.3 million of net gains on derivative financial instruments;
- \$ 4.6 million of straightlining of rental income and amortisation of lease fees and incentives;
- \$ 0.3 million of foreign exchange gains;
- (\$ 1.8) million of acquisition and disposal related costs;
- (\$ 1.7) million of income support;
- (\$ 1.3) million of loss on debt extinguishment;
- (\$ 0.3) million of provision for rent relief; and
- (\$ 0.2) million of net fair value movements on investments at fair value through profit or loss.

Refer to attached consolidated balance sheet, consolidated statement of comprehensive income and consolidated cash flow statement for further detail.

Details of Distributions

Distributions	Amount per stapled security (cents per stapled security)
<i>Current year:</i>	
Distributions made by:	
- DIF	29.20
- Other Stapled Trusts	<u>0.00</u>
	29.20
<i>Previous corresponding year:</i>	
Distributions made by:	
- DIF	28.30
- Other Stapled Trusts	<u>0.00</u>
	28.30
Record date for determining entitlements to the distribution	30 June 2021

Refer attached financial statements (Directors Report and Note A2: Distributions and earnings per unit).

Details of 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 issues of new securities rather than being paid in cash.

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date.

During the year, the REIT raised \$25.7 million from the DRP (2020: \$21.6 million). An additional \$11.4 million is expected to be raised from the DRP for the 30 June 2021 distribution to be allotted on 13 August 2021 (2020: \$5.1 million from DRP for the 30 June 2020 distribution allotted on 14 August 2020).

Net Tangible Assets

	30 June 2021	30 June 2020
Net tangible asset backing per stapled security ¹	5.22	4.47

¹ Under the listing rules NTA Backing must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (i.e. all liabilities, preference shares, outside equity interest, etc.)

Control gained or lost over entities during the year

Refer to attached financial statements (Note D6: Interest in other entities).

Details of Associates and Joint Venture entities

Refer to attached financial statements (Note B2: Investment in joint venture entities).

Other significant information

For additional information regarding the results of the REIT for the year ended 30 June 2021, refer to the FY21 Full Year Results Presentation lodged with the ASX. Also refer to attached financial statements.

Segment results

Refer to attached financial statements (Note A1: Segment information).

Other factors

Refer to attached financial statements (Directors Report).

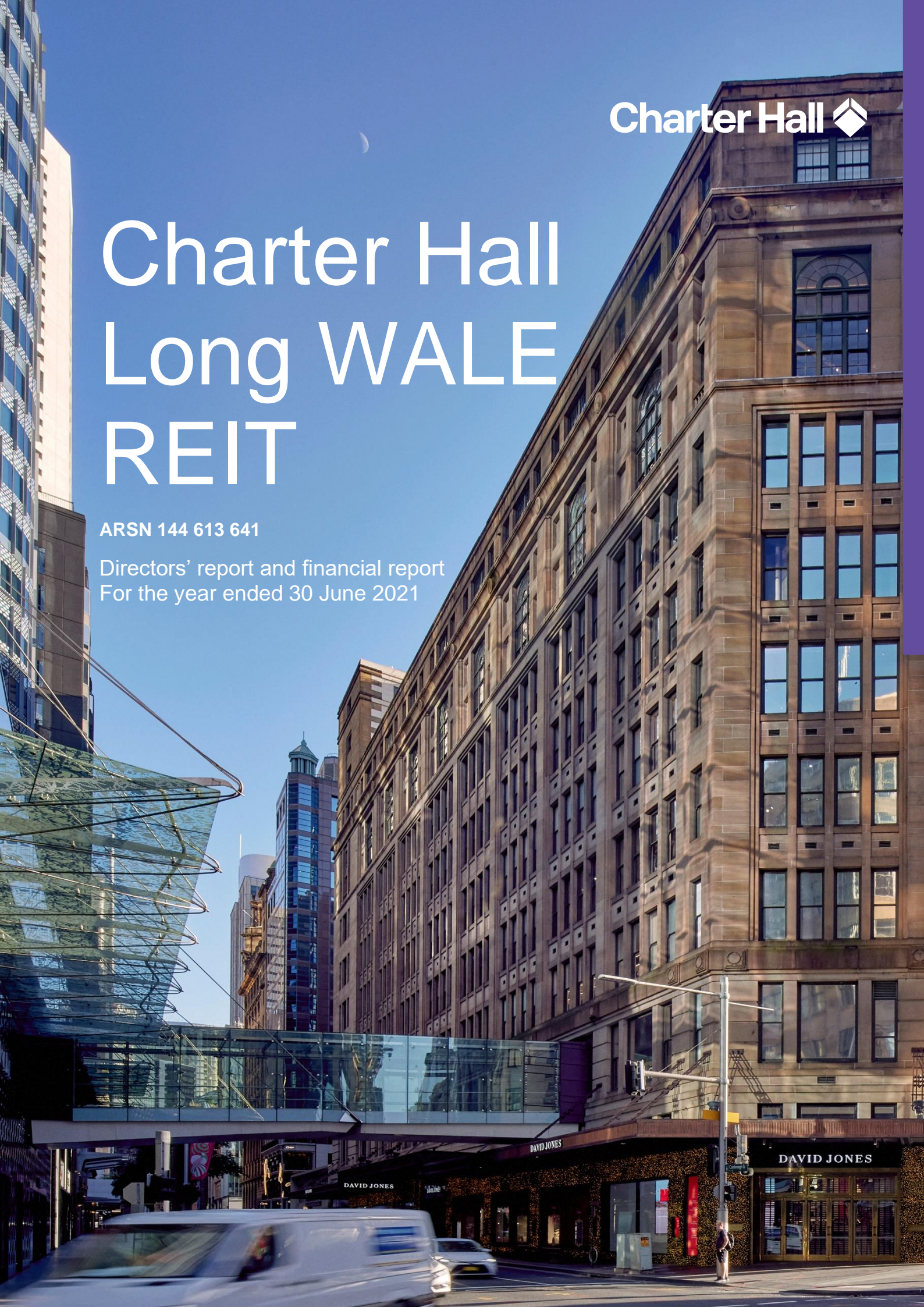
Audit

The accounts have been audited (refer to attached financial statements).

Charter Hall Long WALE REIT

ARSN 144 613 641

Directors' report and financial report
For the year ended 30 June 2021



Important Notice

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

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

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

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

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

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

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Directors' report	4
Auditor's independence declaration	16
Consolidated statements of comprehensive income	17
Consolidated balance sheets	18
Consolidated statements of changes in equity	19
Consolidated cash flow statements	20
About this report	21
A. REIT performance	23
B. Property portfolio assets	27
C. Capital structure and financial risk management	33
D. Further Information	43
Directors' declaration to stapled securityholders	51
Independent auditor's report to stapled securityholders	52

Contents

Directors' report

The Directors of Charter Hall WALE Limited (CHWALE) present their report together with the consolidated financial report of the Charter Hall Long WALE REIT ("CLW" or "REIT") and the consolidated financial report of LWR Finance Trust (Finance Trust) for the year ended 30 June 2021, and the Independent Auditor's Report thereon. The financial report of CLW comprises Charter Hall Direct Industrial Fund ("DIF") and its controlled entities, which include LWR Finance Trust and its controlled entity. The financial report of Finance Trust comprises LWR Finance Trust and its controlled entity. DIF and Finance Trust are collectively referred to as "Stapled Trusts". One of the stapled entities of a stapled structure is to be identified as the parent entity for the purposes of preparing a consolidated annual financial report. In accordance with this requirement, DIF has been identified as the parent entity (see D8(b)). The stapled securities cannot be traded or dealt with separately.

DIF and Finance Trust are registered schemes, and CHWALE is a company limited by shares. DIF, Finance Trust and CHWALE are incorporated and domiciled in Australia with the registered office and principal place of business located at Level 20, 1 Martin Place, Sydney NSW 2000.

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

Principal activities

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

Directors

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

- Peeyush Gupta AM – Chair and Non-Executive Director
- Glenn Fraser – Non-Executive Director
- Ceinwen Kirk-Lennox – Non-Executive Director
- David Harrison – Executive Director and Chief Executive Officer / Managing Director of Charter Hall Group
- Carmel Hourigan – Executive Director (appointed 30 November 2020)
- Adrian Taylor – Executive Director (resigned 22 July 2020)

Distributions

Distributions paid or declared during the year are as follows:

	Number of securities on issue entitled to	2021 Cents per security	\$'000	Number of securities on issue entitled to distribution	2020 Cents per security	\$'000
Ordinary securityholders of DIF						
30 September	502,626,793	7.20	36,189	376,622,409	7.00	26,364
31 December	571,402,774	7.30	41,712	421,606,411	7.00	29,512
31 March	572,407,678	7.30	41,785	487,931,538	7.10	34,643
30 June	628,215,732	7.40	46,488	489,111,617	7.20	35,216
Total distributions		29.20	166,174		28.30	125,735

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

Distribution Reinvestment Plan (DRP)

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

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. During the year, the REIT raised \$25.7 million from the DRP (2020: \$21.6 million). An additional \$11.4 million is expected to be raised from the DRP for the 30 June 2021 distribution to be allotted on 13 August 2021 (2020: \$5.1 million from DRP for the 30 June 2020 distribution allotted on 14 August 2020).

Directors' Report (continued)

Review and results of operations

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

	Charter Hall Long WALE REIT		Finance Trust	
	Year to 30 Jun 2021	Year to 30 Jun 2020	Year to 30 Jun 2021	Year to 30 Jun 2020
Revenue (\$'000)	154,602	126,678	30,168	26,469
Statutory profit/(loss) for the year (\$'000)	618,314	122,415	9,957	(4,181)
Basic earnings per stapled security (cents)	113.56	28.47	1.83	(0.97)
Operating earnings of the REIT (\$'000)	159,005	121,863	-	-
Operating earnings of the REIT per stapled security (cents)	29.20	28.34	-	-
Distributions (\$'000)	166,174	125,735	-	-
Distributions per stapled security (cents)	29.20	28.30	-	-
	30 Jun 2021	30 Jun 2020	30 Jun 2021	30 Jun 2020
Total assets (\$'000)	4,687,389	3,086,493	1,329,652	826,533
Total liabilities (\$'000)	1,408,279	900,576	1,343,402	850,240
Net assets attributable to securityholders (\$'000)	3,279,110	2,185,917	(13,750)	(23,707)
Stapled securities on issue ('000)	628,216	489,112	628,216	489,112
Net assets per stapled security (\$)	5.22	4.47	(0.02)	(0.05)
Balance sheet gearing – total debt (net of cash) to total assets (net of cash)	27.4%	26.1%		
Look through gearing – total debt (net of cash) to total assets (net of cash)	36.6%	39.0%		

The REIT recorded a statutory profit of \$618.3 million for the year ended 30 June 2021 (2019: \$122.4 million). Operating earnings amounted to \$159.0 million (29.2 cents per stapled security) for the year ended 30 June 2021 (2020: \$121.9 million; 28.3 cents per stapled security) and a distribution of \$166.2 million (29.2 cents per stapled security) was declared for the same period (2020: \$125.7 million; 28.3 cents per stapled security).

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

	30 Jun 2021 \$'000	30 Jun 2020 \$'000
Net property income	221,660	173,730
Distribution income	-	2,885
Interest income	200	480
Fund management fees	(18,661)	(13,899)
Finance costs	(40,760)	(38,107)
Administration and other expenses	(3,434)	(3,226)
Operating earnings*	159,005	121,863

* Further detail on Operating Earnings is contained in Note A1

Operating earnings is a financial measure which represents profit under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straight lining of rental income and amortisations and other unrealised or one-off items that are not in the ordinary course of business or are capital in nature.

Operating earnings includes the rental revenue recognised in respect of tenants who have been (or will be) provided with rent free incentives as a result of COVID-19. This approach is consistent with the REIT's treatment of rent free incentives provided in the ordinary course of its operations which are amortised over the term of the lease. The inclusion of operating earnings as a measure of the REIT's profitability provides investors with the same basis that is used internally for evaluating operating segment performance. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare.

Directors' Report (continued)

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

	30 Jun 2021	30 Jun 2020
	\$'000	\$'000
Operating earnings	159,005	121,863
Net fair value movements on investment properties ¹	454,412	39,251
Net gain/(loss) on derivative financial instruments ¹	5,348	(21,416)
Net fair value movements on investments at fair value through profit or loss	(198)	(2,267)
Straightlining of rental income, amortisation of lease fees and incentives ¹	4,607	4,320
Acquisition and disposal related costs ¹	(1,785)	(17,586)
Loss on debt extinguishment	(1,343)	-
Income support and development rebate	(1,755)	(1,695)
Provision for rent relief ²	(259)	(55)
Foreign exchange gains	282	-
Statutory profit for the year	618,314	122,415
Basic weighted average number of stapled securities ('000)	544,482	430,000
Basic earnings per stapled security (cents)	113.56	28.47
Operating earnings per stapled security (cents)	29.20	28.34

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

² Rent free incentives (including the REIT's proportionate share relating to equity accounted investments) relating to COVID-19 agreed after balance date.

Property valuation gains

Valuation gains totalling \$523.5 million were recorded during the year (2020: \$96.0 million). These gains were partially offset by revaluation decrements attributable to acquisition costs of \$64.5 million (2020: \$52.4 million) and straightlining of rental income, amortisation of lease fees and incentives of \$4.6 million (2020: \$4.3 million).

The uncertainty of the impact of COVID-19 did not have a significant impact on property valuations. During the year the REIT's portfolio valuation increased by 11.1% (2020: 3.4%). External valuations were conducted at 30 June 2021 for 100% of the REIT's portfolio, including joint ventures.

Significant changes in the state of affairs

Equity raising

In September 2020, the REIT raised \$60.0 million of equity via an Institutional Placement, issuing 12.3 million stapled securities at \$4.87 per stapled security. In October 2020, the REIT raised \$66.1 million of equity via a Security Purchase Plan, issuing 13.8 million stapled securities at \$4.80 per stapled security. Together, the proceeds were used to partially fund the acquisition of an effective 24.5% interest in the bp New Zealand portfolio comprising of 70 convenience retail properties in New Zealand together with associated transaction and capital raising costs.

In December 2020, the REIT raised \$250.0 million of equity via an Institutional Placement, issuing 53.8 million stapled securities at \$4.65 per stapled security. The proceeds were used to partially fund the acquisition of Telstra Exchange, Sydney NSW together with the associated transaction and capital raising costs.

In May 2021, the REIT raised \$250.0 million of equity via an Accelerated Non-Renewable Entitlement Offer (ANREO), issuing 53.8 million stapled securities at \$4.65 per stapled security. The proceeds were used to partially fund the acquisition of an effective 50.0% interest in the AIP portfolio, a national office portfolio of four properties together with the associated transaction and capital raising costs.

Directors' Report (continued)

Acquisitions

During the year, the REIT acquired the following assets:

	Acquisition date	Acquisition price \$'000
Bunnings Palmerston, NT ¹	28/09/2020	27,300
Parap Tavern, NT (49.9% interest) ²	13/10/2020	9,830
Telstra Exchange, Sydney NSW	18/12/2020	281,500
bp New Zealand Portfolio (50% interest) ³	22/12/2020	122,166
David Jones, Sydney NSW (50% interest) ⁴	12/03/2021	255,000
Ampol, Redbank Plains QLD	20/04/2021	25,400
Red Cross, Alexandria NSW (50% interest) ⁴	03/06/2021	79,500
Services Australia, Greenway ACT (50% interest) ⁴	03/06/2021	152,500
ATO, Albury NSW (50% interest) ⁴	03/06/2021	42,250
ATO, Box Hill VIC (50% interest) ⁴	03/06/2021	115,000
		1,110,446

¹ Represents capital expenditure paid during the year. Total value on completion was \$42.3 million with the initial \$15.0 million paid in November 2019 to acquire the land.

² Acquired by the underlying property trust which holds the asset.

³ 50% interest in a Charter Hall managed partnership which acquired a 49% interest in a portfolio of 70 long WALE, NNN convenience retail properties in NZ via a sale and leaseback transaction with bp.

⁴ This asset is held as a tenants in common arrangement with a related party.

In addition, on 30 June 2021, the REIT exchanged contracts for the acquisition of 33.3% interest in Myer Bourke St, Melbourne VIC with the purchase price of \$135.2 million. This acquisition was settled on 30 July 2021.

Disposals

During the year, the REIT disposed the following assets:

	Disposal date	Disposal price \$'000
Waypoint REIT (5% interest) ¹	28/07/2020	101,619
Suez, Bairnsdale VIC	15/01/2021	630
		102,249

¹ The REIT sold its entire 5% holding in Waypoint REIT (ASX:WPR) for \$2.61 per WPR security. CLW received a distribution of 7.41 cents per WPR security for the half year ended 30 June 2020, which together with the sale price, provided CLW with a positive total return of \$0.3 million on its February 2020 entry price. The proceeds from the sale were used to partially repay the syndicated debt facility.

Debt arrangements and hedging

Balance sheet debt facilities

In August 2020, Finance Trust on behalf of the REIT, restructured \$485.0 million of interest rate swaps, reducing the average fixed rate on these swaps from 1.30% p.a. to 0.20% p.a. at a cost of \$19.9 million.

In December 2020, as part of the bp NZ Portfolio acquisition, the REIT increased its bilateral balance sheet debt facilities by \$150 million with an offshore lender. The new \$150 million facility has a maturity date of December 2025. \$122.2 million of this facility was drawn in NZ dollars to hedge against foreign exchange (FX) risk associated with the investment. In addition, the REIT entered into forward foreign exchange contracts (FEC's) to sell NZ dollars and receive Australian dollars with a total notional amount of NZ\$9.5 million to hedge FX exposure on distribution income from the bp New Zealand investment.

In March and in June 2021, Finance Trust on behalf of the REIT, issued \$700 million of fixed-rate, Australian dollar medium term notes (A\$MTNs) comprising \$300 million 7-year notes, \$200 million 8.5-year notes and \$200 million 10-year notes. Following the issuance of the notes, the REIT entered into contracts with two major Australian banks to swap the fixed rate exposure of the A\$MTNs to a floating rate exposure with the terms that match the issued notes.

Debt facilities in joint ventures and associates

In September 2020, Charter Hall Exchange Investment Trust, a wholly owned subsidiary of Charter Hall Exchange Wholesale Trust, issued ten year A\$MTNs totalling \$300 million (CLW share: \$150 million) with the proceeds used to partially repay its existing \$300 million debt facility (CLW share: \$150 million). In addition, interest rate swaps were restructured by reducing the notional amount of the interest rate swaps at the associate level from \$190.0 million to \$80.0 million (CLW share: \$40.0 million).

In October 2020, LWIP Trust established a new 3 year debt facility with a total facility limit of \$25.0 million (CLW share \$12.5 million).

Directors' Report (continued)

COVID-19 rent relief

The REIT has continued to work with tenants impacted by COVID-19 to provide rental relief in line with the relevant State Governments' legislation (Code of Conduct) which has resulted in an increased number of rent incentives and deferrals. During the year, the REIT provided \$508,601 in rental relief (2020: \$295,973). Rent free incentives of \$259,280 (2020: \$106,146) comprising \$148,164 (2020: \$51,369) of lease incentives were finalised by the balance date and treated as a lease modification and \$111,116 (2020: \$54,777) was expensed as provision for rental relief for the incentives that were expected to be provided.

The remaining rent relief of \$249,321 (2020: \$189,827) was provided in the form of rent deferrals against which an expected credit loss provision has been made. The current outstanding balance of the deferred rent receivable is \$110,106 (2020: \$189,827), following the early collection of \$329,042 from these tenants.

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

Business strategies and prospects

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

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

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

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

Risk	Description	Mitigation
External Risks		
Property cycle risk and adverse market or economic conditions	Failure to insulate against property cycle downturns and slowing economic conditions may have an impact on asset values and investor returns.	We ensure we consistently deliver on strategy with a focus on investing in long WALE assets with contracted growth attributes. We undertake a detailed annual strategic review of all assets to inform recycling of capital into new areas and formal exit strategies for investments.
Structural change in commercial property	Disruptive competitors may have an impact on key tenants and on marginal tenancies. This may impact space requirements from tenants. Evolving technology is changing tenant expectations.	By undertaking ongoing due diligence including demographics, environmental analysis, competitor threats, and by leveraging consultant expertise we ensure that we remain informed of market changes.
Strategic challenges posed by COVID-19	COVID-19 will have tactical and economic impacts in the short term and portfolio consequences are expected in the longer term.	The senior management team is deeply connected to industry, tenants and key partners to inform ongoing planning to manage COVID-19 implications for the REIT.

Directors' Report (continued)

<p>Financial Risks</p>	<p>Debt and equity capital management</p>	<p>Effective capital management is required to meet the REIT's ongoing liquidity and funding requirements. The inability to raise new capital to pursue growth opportunities or to raise replacement capital at challenging points in the debt or equity markets cycle is a key risk.</p> <p>A relationship breakdown or termination of joint venture partnership may result in reputational or financial damage.</p>	<p>We mitigate these risks by the implementation of our debt diversity strategy combined with regular monitoring and reporting on debt covenants and stress testing of liquidity positions. We have demonstrated strong performance and equity raising track record and access to diversified equity partners across sources. We manage our relationships with our partners through investment agreements including investment committee oversight of all key decisions with structured and pre-agreed reporting.</p>
<p>Operational Risks</p>	<p>Work, Health & Safety (WHS) obligations, critical safety incident or significant crisis</p> <p>Technology and cyber security</p> <p>Organisational culture and conduct</p>	<p>We have a commitment to promote and protect the health, safety and wellbeing of our people, customers, contractors and all users of the REIT's assets.</p> <p>There is increasing sophistication in cyber-attacks, particularly the denial of service impact on Building Management Security. A reportable data breach may result in adverse impact on reputation and / or financial penalty.</p> <p>Our ongoing success depends on our ability to attract, engage and retain a motivated and high-performing workforce to deliver our strategic objectives and an inclusive culture that supports our values.</p>	<p>Our Group WHS Manager collaborates closely with property management teams to ensure the roll-out of enhanced contractor registration / on-boarding platforms, incident notification platform, ongoing Risk Audits and training on incident response and management.</p> <p>The cyber security strategy and program continues with external validation and yearly review of IT policies against best practice. We undertake annual penetration tests against critical systems and properties and have brought all critical systems under IT General Controls (ITGC) including regular user access reviews. Our internal audit includes risk identification and assessment of new platforms. We also have a formal cyber insurance policy in place which covers incident remediation costs.</p> <p>We have a Code of Conduct in place with all employees and undertake consistent messaging and tone from the top down regarding desired behaviours. We have a formal Whistleblower Policy in place and process and obtain regular employee feedback on culture and behaviours which are used to inform management decisions.</p>

Directors' Report (continued)

Environmental	Climate change	There is an increasing interest and expectation amongst investor groups on reporting against climate change risk. The Task Force on Climate-related Financial Disclosures (TCFD) has been introduced as a framework to address climate change through governance, risk management, metrics and targets.	We have aligned with the TCFD framework and developed our Climate Strategy for a Low Carbon Economy and Business as Usual Scenario. We have created a TCFD Working Group to inform climate resilience and our reporting approach. We have set a pathway to net zero Scope 1 and Scope 2 emissions by 2030. We have undertaken physical climate change risk exposure assessments across our assets and climate change adaptation plans are in development. Climate change adaptation due diligence is also undertaken during the acquisition process.
Regulatory	AFSL compliance	We are required to comply with Australian Financial Services Licence requirements through our established policies and frameworks.	Regular compliance reporting is undertaken for the Audit, Risk and Compliance Committee (ARCC) including mandatory annual compliance training requirements for all employees. In addition, we have formalised compliance committees with annual external audit of compliance plans.
	Management of conflicts of interest	Inadequate management of tenant and acquisition conflicts may arise between Charter Hall managed funds or related party transactions may be inappropriately managed. There is also a risk that the REIT fails to pay market rate for related party services.	Conflict of Interest protocols are embedded in the business including annual declarations from all employees and directors, board reporting / approval for all related party transactions. We have in place a Compliance Plan / function including oversight of Conflict of Interest / Related Party protocols and formalised asset allocation protocols.

Matters subsequent to the end of the financial period

In July 2021, the REIT acquired a 100% interest in Bunnings, Baldivis WA and Simon Transport, Carole Park QLD for \$49.0 million and \$83.1 million respectively. In addition, the REIT also settled on the acquisition of a 33.3% interest in Myer, Bourke St Melbourne VIC for \$135.2 million.

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

Likely developments and expected results of operations

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

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

Directors' Report (continued)

Indemnification and insurance of Directors, Officers and Auditor

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

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

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

Base fees of \$18.7 million (2020: \$13.9 million) by the REIT and \$0.1 million (2020: \$0.1 million) by the Finance Trust and other fees of \$15.2 million (2020: \$16.9 million) were paid or are payable to the Responsible Entity and its Associates by the REIT for the services provided during the year, in accordance with the REIT's and Finance Trust's constitutions as disclosed in Note D1 in the consolidated financial statements.

Interests in the REIT and Finance Trust held by the Responsible Entity or its Associates as at 30 June 2021 are also disclosed in Note D1 in the consolidated financial statements.

Interests in the REIT and Finance Trust

	2021	2020
Securities on issue at the beginning of the year	489,111,617	322,986,420
Securities issued during the year		
- via Distribution Reinvestment Plan	5,452,888	4,189,217
- via Entitlement Offers / Placement / Security Purchase Plan	133,651,227	161,935,980
Securities on issue at the end of the year	628,215,732	489,111,617

Environmental Regulations

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

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

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

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

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

Directors' Report (continued)

Information on Current Directors

Director	Experience	Special responsibilities	Interest in securities of the REIT/ Finance Trust
Peeyush Gupta AM	<p>Appointed 6 May 2016</p> <p>Peeyush was the co-founder and the inaugural Chief Executive Officer of Ipac Securities Limited, a pre-eminent wealth management firm. He has experience in starting and growing businesses, acquisitions and divestments, roll-ups and integration, general management, investment management and corporate governance.</p> <p>He is a Non-Executive Director of National Australia Bank Limited, Special Broadcasting Service ("SBS"), Link Administration, BNZ Life, and Insurance & Care (NSW). He is also currently the Chair of Charter Hall Direct Property Management Limited and serves in a pro bono capacity as a trustee of Western Sydney University, and the Australian School of Business Dean's Advisory Committee.</p> <p>In 2019, Peeyush was awarded the Order of Australia (AM) "for significant service to business, and to the community, through governance and philanthropic roles".</p> <p>Peeyush holds a Master of Business Administration in Finance from the Australian Graduate School of Management and a Bachelor of Arts in Computing Studies from the University of Canberra. Peeyush is also a Fellow of the Australian Institute of Company Directors.</p> <p>Current listed directorships: National Australia Bank Limited (ASX: NAB) Link Administration Holdings Limited (ASX: LNK)</p> <p>Former listed directorships in the last three years: Nil</p>	Chair	397,676

Directors' Report (continued)

Director	Experience	Special responsibilities	Interest in securities of the REIT
Glenn Fraser	<p>Appointed 6 May 2016</p> <p>Glenn is a professional non executive director with significant experience in finance, infrastructure and property. He was a member of Transfield Holdings Advisory Board from 1999 to 2015. He was instrumental in Transfield Holding's acquisition of a 50% interest in Charter Hall and its subsequent expansion and ASX listing in 2005. Glenn also served as a Non-Executive Director of the Charter Hall Group from April 2005 to August 2012.</p> <p>Joining Transfield Holdings in 1996, Glenn was General Manager – Finance Project Development, where he was responsible for the financial elements of infrastructure and property projects. Glenn was subsequently appointed Chief Financial Officer of Transfield Holdings when it had turnover in excess of \$1 billion per annum and over 8,000 staff.</p> <p>Glenn was a principal and director of a project finance advisory business, Perry Development Finance Pty Limited from 1985; which was sold to Hambros Corporate Finance Limited in 1995.</p> <p>Glenn holds a Bachelor of Commerce and is a member of the Institute of Chartered Accountants and a graduate of the Australian Institute of Company Directors.</p> <p>Current listed directorships: Nil</p> <p>Former listed directorships in the last three years: Nil</p>	Audit, Risk & Compliance Committee Chair	76,721
Ceinwen Kirk-Lennox	<p>Appointed 28 June 2016</p> <p>Ceinwen has over 35 years' experience in many aspects of property including agency, development, project and construction management, property management, and community development.</p> <p>Her executive career includes 26 years at Lendlease Corporation, where she held executive roles, running commercial business units, client accounts and functions across the Lendlease Group.</p> <p>Ceinwen now runs her own consultancy, with clients across both private and public sectors.</p> <p>Ceinwen holds a Bachelor of Business (Land Economy) from the University of Western Sydney and is a graduate of the Australian Institute of Company Directors.</p> <p>Ceinwen brings over 20 years' experience as an executive and non-executive director serving on a number of boards including both for-profit and not-for-profit companies.</p> <p>Ceinwen was appointed to the Greater Sydney Parklands Board in 2020 and is an ongoing member of the Sydney Archdiocesan Property Committee.</p> <p>Current listed directorships: Nil</p> <p>Former listed directorships in the last three years: Nil</p>	Nil	56,803

Directors' Report (continued)

Director	Experience	Special responsibilities	Interest in securities of the REIT
David Harrison	<p>Appointed 16 February 2016</p> <p>With a specific focus on strategy, David is responsible for all aspects of the Charter Hall Group business. Recognised as a multi-core sector market leader, David has over 34 years' global property market experience and has led transactions exceeding \$40 billion of commercial, retail and industrial property assets.</p> <p>Under his stewardship, the Charter Hall Group portfolio has grown from \$500 million to \$52 billion of assets under management.</p> <p>David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.</p> <p>David is a Fellow of the Australian Property Institute (FAPI) and Property Male Champions of Change. He is also National President of the Property Council of Australia and a member of the Nominations Committee (Director since 14 April 2016, National Vice-President from 2017-2021, National President since 30 March 2021) and a member of the Board for NSW Rugby Union.</p> <p>Current listed directorships: Charter Hall Group (ASX: CHC) Charter Hall Retail REIT (ASX: CQR)</p> <p>Former listed directorships in the last three years: Nil</p>	Nil	471,555
Carmel Hourigan	<p>Appointed 30 November 2020.</p> <p>Carmel is the Charter Hall Office CEO and brings a wealth of experience to the CHWALE Board, with more than 28 years' experience in the real estate investment industry, spanning key senior leadership positions and roles in funds management across public and private markets, investment, research and advisory services.</p> <p>Carmel's previous roles include the Global Head of Real Estate AMP Capital, CIO GPT Group and Head of Investment Management Lendlease.</p> <p>Carmel has served as a Director of the Property Council of Australia for 9 years, including Vice President. Carmel currently serves as a member of the Property Male Champions of Change group; and is a Fellow of the Australian Property Institute. Carmel is also a former member of the Trustee Board and Deputy Chancellor of Western Sydney University</p> <p>Current listed directorships: Nil</p> <p>Former listed directorships in the last three years: Nil</p>	Nil	Nil

Meetings of Directors

Name	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
Peeyush Gupta AM	16	14	4	4
Glenn Fraser	16	16	4	4
Ceinwen Kirk-Lennox	16	16	4	4
David Harrison	16	15	-	-
Carmel Hourigan	7	7	-	-
Adrian Taylor	-	-	-	-

Directors' Report (continued)

Company Secretary

Mark Bryant was appointed as Company Secretary for the REIT and Finance Trust on 21 November 2017. Mark holds a Bachelor of Business (Accounting) and a Bachelor of Laws (Hons) and has over 15 years' experience as a solicitor, including advising on listed company governance, securities law, funds management, real estate and general corporate law. Mark is the Group General Counsel and Company Secretary for the Charter Hall Group.

Non-audit services

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

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

The Board of Directors has considered the position and, in accordance with the advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compliant with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in 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 16.


Rounding of amounts to the nearest hundred thousand dollars

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

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

Directors' authorisation

The Directors' report is made in accordance with a resolution of the Directors. The financial statements were authorised for issue by the Directors on 9 August 2021. The Directors have the power to amend and re-issue the financial statements.



Peeyush Gupta AM
Chairman

Sydney
9 August 2021



Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Long WALE REIT and Finance Trust for the year ended 30 June 2021, 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 Direct Industrial Fund ("DIF") and the entities it controlled during the period and LWR Finance Trust and the entity it controlled during the period (together "Charter Hall Long WALE REIT") and LWR Finance Trust and the entity it controlled during the period (together "Finance Trust").

A handwritten signature in black ink, appearing to read 'R. W. McMahon', written in a cursive style.

Ryan McMahon
Partner
PricewaterhouseCoopers

Sydney
9 August 2021

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Consolidated statements of comprehensive income

For the year ended 30 June 2021

	Notes	Charter Hall Long WALE REIT		Finance Trust	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Revenue					
Property income	A1	154,431	123,389	-	-
Distribution income	A1	-	2,885	-	-
Interest income	A1	171	404	30,168	26,469
Total revenue		154,602	126,678	30,168	26,469
Other income					
Share of equity accounted profit	B2	349,255	109,424	-	-
Net fair value gain on investment properties	B1	181,189	-	-	-
Net gain from derivative financial instruments		926	-	926	-
Foreign exchange gains		282	-	291	-
Total other income		531,652	109,424	1,217	-
Total revenue and other income		686,254	236,102	31,385	26,469
Expenses					
Property expenses		(23,558)	(19,371)	-	-
Fund management fees	D1	(18,084)	(13,575)	(141)	(111)
Finance costs	C2	(20,374)	(21,240)	(20,374)	(21,101)
Administration and other expenses		(2,977)	(2,914)	(26)	(28)
Net loss from derivative financial instruments		-	(9,410)	-	(9,410)
Net fair value loss on investment properties	B1	-	(28,118)	-	-
Net fair value loss on financial assets	B3	(198)	(2,267)	-	-
Acquisition and disposal related costs	B	(1,713)	(16,737)	-	-
Loss on debt extinguishment		(887)	-	(887)	-
Provision for rent relief*		(149)	(55)	-	-
Total expenses		(67,940)	(113,687)	(21,428)	(30,650)
Net profit / (loss) for the year		618,314	122,415	9,957	(4,181)
Other comprehensive income		(366)	-	-	-
Total comprehensive income / (loss)		617,948	122,415	9,957	(4,181)
Total comprehensive income / (loss) attributable to:					
DIF		607,991	126,596	-	-
Stapled Trusts other than DIF		9,957	(4,181)	9,957	(4,181)
		617,948	122,415	9,957	(4,181)
Basic and diluted earnings / (loss) per ordinary securityholder					
Earnings per unit of parent entity (cents)	A2	111.73	29.44	(0.03)	(0.03)
Earnings per stapled security (cents)	A2	113.56	28.47	1.83	(0.97)

* Provision for rent free incentives relating to COVID-19 agreed after balance date.

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

Consolidated balance sheets

As at 30 June 2021

	Notes	Charter Hall Long WALE REIT		Finance Trust	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Assets					
Current assets					
Cash and cash equivalents		76,971	38,425	69,923	14,339
Receivables	D2	17,050	20,322	62	-
Derivative financial instruments	C3	3,818	-	3,818	-
Other assets	D2	15,361	850	-	-
Total current assets		113,200	59,597	73,803	14,339
Non-current assets					
Investment properties	B1	3,092,885	1,852,615	-	-
Investments accounted for using the equity method	B2	1,473,403	1,067,174	-	-
Intra-group facility receivable	C2	-	-	1,252,712	812,194
Investment in financial assets at fair value	B3	4,764	107,107	-	-
Derivative financial instruments	C3	3,137	-	3,137	-
Total non-current assets		4,574,189	3,026,896	1,255,849	812,194
Total assets		4,687,389	3,086,493	1,329,652	826,533
Liabilities					
Current liabilities					
Payables	D2	17,708	8,638	6,313	266
Distribution payable	A2	46,488	35,216	-	-
Derivative financial instruments	C3	233	-	233	-
Other liabilities	D2	6,994	6,748	-	-
Total current liabilities		71,423	50,602	6,546	266
Non-current liabilities					
Borrowings	C2	1,335,162	829,906	1,335,162	829,906
Derivative financial instruments	C3	1,694	20,068	1,694	20,068
Total non-current liabilities		1,336,856	849,974	1,336,856	849,974
Total liabilities		1,408,279	900,576	1,343,402	850,240
Net assets / (liabilities)		3,279,110	2,185,917	(13,750)	(23,707)
Equity					
<i>Equity holders of DIF</i>					
Contributed equity	C4	2,790,095	2,148,676	-	-
Reserves		(366)	-	-	-
Retained profits		503,131	60,948	-	-
Parent entity interest		3,292,860	2,209,624	-	-
<i>Equity holders of Finance Trust</i>					
Contributed equity	C4	1,952	1,952	1,952	1,952
Accumulated losses		(15,702)	(25,659)	(15,702)	(25,659)
Equity holders of Finance Trust		(13,750)	(23,707)	(13,750)	(23,707)
Total equity		3,279,110	2,185,917	(13,750)	(23,707)

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

Consolidated statements of changes in equity

For the year ended 30 June 2021

	Notes	Attributable to securityholders of DIF			Total \$'000
		Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	
Balance at 1 July 2019		1,280,894	-	60,087	1,340,981
Total comprehensive income		-	-	126,596	126,596
Contributions of equity, net of issue costs	C4	867,782	-	-	867,782
Distributions provided for or paid	A2	-	-	(125,735)	(125,735)
Balance at 30 June 2020		2,148,676	-	60,948	2,209,624
Balance at 1 July 2020		2,148,676	-	60,948	2,209,624
Total comprehensive income		-	(366)	608,357	607,991
Contributions of equity, net of issue costs	C4	641,419	-	-	641,419
Distributions provided for or paid	A2	-	-	(166,174)	(166,174)
Balance at 30 June 2021		2,790,095	(366)	503,131	3,292,860

	Notes	Attributable to securityholders of Finance Trust			Total \$'000
		Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	
Balance at 1 July 2019		1,952	-	(21,478)	(19,526)
Total comprehensive income		-	-	(4,181)	(4,181)
Balance at 30 June 2020		1,952	-	(25,659)	(23,707)
Balance at 1 July 2020		1,952	-	(25,659)	(23,707)
Total comprehensive income		-	-	9,957	9,957
Balance at 30 June 2021		1,952	-	(15,702)	(13,750)

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

Consolidated cash flow statements

For the year ended 30 June 2021

	Note	Charter Hall Long WALE REIT		LWR Finance Trust	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Cash flows from operating activities					
Property rental income received		163,116	131,804	-	-
Property expenses paid		(27,530)	(18,866)	-	-
Distributions received from investment in joint venture entities		69,385	48,526	-	-
Distributions received from investment in financial assets		2,885	-	-	-
Interest received		171	404	112	272
Other income received		3,849	-	-	-
Finance costs paid		(18,034)	(19,429)	(18,034)	(19,429)
Fund management fees paid		(18,043)	(15,726)	(102)	(132)
Administration and other expenses paid		(3,199)	(3,394)	(28)	(109)
Net GST paid with respect to operating activities		(10,304)	(6,779)	(55)	33
Net cash flows from operating activities	A3	162,296	116,540	(18,107)	(19,365)
Cash flows from investing activities					
Payments for investment properties		(1,067,931)	(551,559)	-	-
Receipts from sale of investment property		635	-	-	-
Receipts from sale of financial asset		101,009	-	-	-
Payments for investments in joint venture entities		(129,739)	(476,894)	-	-
Payments for financial assets at fair value		-	(103,566)	-	-
Draws from income support fund		1,527	1,043	-	-
Repayment under Intra-Group Facility Agreement		-	-	(1,212,611)	(1,147,331)
Drawdowns under Intra-Group Facility Agreement		-	-	802,531	887,863
Net cash flows from investing activities		(1,094,499)	(1,130,976)	(410,080)	(259,468)
Cash flows from financing activities					
Proceeds from issue of securities, net of equity raising costs		615,754	846,192	-	-
Distributions paid to securityholders		(128,776)	(91,863)	-	-
Settlement of interest rate swaps		(19,873)	(10,879)	(19,873)	(10,879)
Proceeds from borrowings (net of borrowing costs)		1,510,792	824,198	1,510,792	824,198
Repayment of borrowings		(1,007,148)	(521,200)	(1,007,148)	(521,200)
Net cash flows from financing activities		970,749	1,046,448	483,771	292,119
Net increase in cash and cash equivalents		38,546	32,012	55,584	13,286
Cash and cash equivalents at the beginning of the year		38,425	6,413	14,339	1,053
Cash and cash equivalents at the end of the half year		76,971	38,425	69,923	14,339

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

Non-cash financing and investing activities

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

	Note	Charter Hall Long WALE REIT		LWR Finance Trust	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Distributions by the REIT during the year satisfied by the issue of stapled securities under the DRP	A2, C4	(25,664)	(21,590)	-	-

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 and Finance Trust. They are organised in four key sections:

- A. REIT performance** – provides key metrics used to measure financial performance.
- B. Property portfolio assets** – explains the investment property portfolio structure.
- C. Capital structure and financial risk management** – details how the REIT manages its exposure to capital and financial risks.
- D. Further information** – provides additional disclosures relevant in understanding the REIT's financial statements.

A. REIT performance	23	B. Property portfolio assets	27
A1. Segment information	23	B1. Investment properties	27
A2. Distributions and earnings per security	25	B2. Investment in joint venture entities	30
A3. Reconciliation of net profit to operating cash flows	26	B3. Investment in financial assets at fair value	32
		B4. Commitments and contingent liabilities	32
C. Capital structure and financial risk management	33	D. Further information	43
C1. Capital risk management	33	D1. Related party information	43
C2. Borrowings and liquidity	33	D2. Working capital	45
C3. Derivative financial instruments	35	D3. Parent entity information	46
C4. Contributed equity	37	D4. Significant contract terms and conditions	47
C5. Financial risk management	38	D5. Remuneration of the auditor	47
C6. Offsetting financial assets and liabilities	42	D6. Interest in other entities	47
		D7. Events occurring after balance date	48
		D8. Other significant accounting policies	49

Critical accounting estimates and judgements

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

The areas involving significant estimates or judgements are:

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

Coronavirus (COVID-19) impact

The COVID-19 pandemic's current and ongoing impact on the REIT's business operations and business operations of the REIT's tenant customers has been considered. In assessing such impacts management have relied upon certain key estimates to evaluate current and future business conditions. Inherent in any estimate is a level of uncertainty. In particular, due to COVID-19, estimation uncertainty is associated with:

- the extent and duration of the disruption to the REIT's tenant customers arising from the actions by governments, businesses and consumers to contain the spread of the new variants of the virus;
- the extent and duration of the expected economic market volatility, including:
 - the disruption to capital markets;
 - deteriorating credit and liquidity concerns, impacting the ability of the REIT's tenants to meet their rental obligations;
 - timing and efficiency of the roll out of the vaccination program;
 - increasing unemployment and declines in the need for commercial leasing space;

which the REIT will continue to monitor and adapt as new information is available;

- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic volatility,

- judgements in property valuations such as letting up time, incentives provided and vacancy.

During the year, the COVID-19 pandemic did not have an immediate material impact on the REIT given the REIT'S defensive, non-discretionary income profile. The introduction of State Governments' legislation (Code of Conduct) in the prior year created a framework to administer tenant support to those tenants whose operations were negatively impacted by COVID-19. The REIT's share of tenant support included \$259,280 in the form of rent free incentives (2020: \$106,416) and \$249,321 in the form of deferrals (2020: \$189,827).

The REIT's process to determine the impact of COVID-19 for these financial statements is consistent with the processes disclosed and applied in its 30 June 2020 and 31 December 2020 financial statements.

Those processes identified that impairment testing (Notes B2), methodology and calculation of expected credit losses (Note C5(d)), fair value measurement of investment properties (Note B1) and associated disclosures within the financial statements required continued judgement as a result of the impact of COVID-19. As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, actual outcomes may differ to those forecasted which may impact the accounting estimates included in these financial statements. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods. The impact of COVID-19 has been discussed further in each of the related notes.

A. REIT performance

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

Operating earnings is a financial measure which represents profit under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straight lining of rental income and amortisations and other unrealised or one-off items. Operating earnings includes the rental revenue recognised in respect of tenants who have been (or will be) provided with rent free incentives as a result of COVID-19. This approach is consistent with the REIT's treatment of rent free incentives provided in the ordinary course of its operations which are amortised over the term of the lease.

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

A1. Segment information

(a) Description of segments

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The REIT has one operating segment being its Australasian operations. Finance Trust results are not separately identified and reported, and therefore, segment information for Finance Trust is not prepared and provided to the Board.

(b) Segment information provided to the Board

The operating earnings reported to the Board for the year ended 30 June 2021 are as follows:

	30 Jun 2021	30 Jun 2020
	\$'000	\$'000
Property lease revenue	147,876	118,395
Services income	6,555	4,994
Property income	154,431	123,389
Income support and development rebate	1,755	1,695
Non-cash adjustments	(3,826)	(4,033)
Property expenses	(23,558)	(19,371)
Net property income from wholly owned properties (NPI)	128,802	101,680
Share of operating earnings from investments accounted for using equity method	71,467	54,623
Distribution income	-	2,885
Interest income	171	404
Fund management fees	(18,084)	(13,575)
Finance costs	(20,374)	(21,240)
Administration and other expenses	(2,977)	(2,914)
Operating earnings	159,005	121,863
Weighted average number of stapled securities	544,482	430,000
Operating earnings per stapled security (cents)	29.20	28.34

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

	30 Jun 2021	30 Jun 2020
	\$'000	\$'000
Net property income	221,660	173,730
Distribution income	-	2,885
Interest income	200	480
Fund management fees	(18,661)	(13,899)
Finance costs	(40,760)	(38,107)
Administration and other expenses	(3,434)	(3,226)
Operating earnings	159,005	121,863

A. REIT performance (continued)

The table below sets out the top five tenants' contribution to Net property income presented on a proportionate consolidation basis:

Tenant	2021 %	2020 %
Federal and State government	20	17
Telstra	15	14
bp	11	11
Endeavour Group (previously Woolworths Group)	10	14
Ingham's	6	8

The reconciliation between operating earnings to statutory profit is set out below:

	30 Jun 2021 \$'000	30 Jun 2020 \$'000
Operating earnings	159,005	121,863
Net fair value movements on investment properties ¹	454,412	39,251
Net gain/(loss) on derivative financial instruments ¹	5,348	(21,416)
Net fair value movements on investments at fair value through profit or loss	(198)	(2,267)
Straightlining of rental income, amortisation of lease fees and incentives ¹	4,607	4,320
Acquisition and disposal related costs	(1,785)	(17,586)
Loss on debt extinguishment	(1,343)	-
Income support and development rebate	(1,755)	(1,695)
Provision for rent relief ²	(259)	(55)
Foreign exchange gains	282	-
Statutory profit for the year	618,314	122,415

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

² Rent free incentives relating to COVID-19 expected to be agreed after balance date.

Property lease revenue

Property lease revenue 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.

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. 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 are receivable as follows:

	30 Jun 2021 \$'000	30 Jun 2020 \$'000
Less than 1 year	181,968	119,364
1 – 2 years	185,263	121,960
2 – 3 years	182,934	123,202
3 – 4 years	177,658	119,303
4 – 5 years	171,557	112,439
Over 5 years	1,417,293	971,586
Total	2,316,673	1,567,854

Lease modification

Rent free incentives agreed by 30 June have been treated as lease modifications. The impact of modification accounting is that the reduced rental income will be recognised on a straight-line basis over the remaining lease term. If agreements were not finalised by 30 June the equivalent of the rent free incentive has been expensed as provision for rent relief.

A. REIT performance (continued)

Services income

Other income principally includes non-lease income derived under lease agreements with tenants. Non-lease income relates to the proportion of property operating costs which are recoverable from tenants in accordance with lease agreements and relevant legislative acts.

Property expenses

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

A2. Distributions and earnings per security

(a) Distributions paid and payable

	Number of securities on issue entitled to	2021 Cents per security	\$'000	Number of securities on issue entitled to distribution	2020 Cents per security	\$'000
Ordinary securityholders of DIF						
30 September	502,626,793	7.20	36,189	376,622,409	7.00	26,364
31 December	571,402,774	7.30	41,712	421,606,411	7.00	29,512
31 March	572,407,678	7.30	41,785	487,931,538	7.10	34,643
30 June	628,215,732	7.40	46,488	489,111,617	7.20	35,216
Total distributions		29.20	166,174		28.30	125,735

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

Pursuant to the REIT's constitutions, the amount distributed to securityholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings as a guide to assess an appropriate distribution to declare. Operating earnings amounted to \$159.0 million (29.2 cents per stapled security) for the year ended 30 June 2021 (2020: \$121.9 million; 28.3 cents per stapled security) and a distribution of \$166.2 million (29.2 cents per stapled security) was declared for the same period (2020: \$125.7 million; 28.3 cents per stapled security).

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

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

(b) Earnings per stapled security

	Charter Hall Long WALE REIT		LWR Finance Trust	
	2021	2020	2021	2020
Basic and diluted earnings				
Earnings/(loss) per stapled security (cents)	113.56	28.47	1.83	(0.97)
Operating earnings of the REIT per stapled security (cents)	29.20	28.34	N/A	N/A
Earnings of the parent entity (cents)	111.73	29.44	(0.03)	(0.03)
Earnings used in the calculation of basic and diluted earnings per stapled security				
Net profit/(loss) for the year (\$'000)	618,314	122,415	9,957	(4,181)
Net profit/(loss) of the parent entity for the year (\$'000)	608,357	126,596	(161)	(139)
Operating earnings of the REIT for the year (\$'000)	159,005	121,863	N/A	N/A
Weighted average number of stapled securities used in the calculation of basic and diluted earnings per stapled security ('000)	544,482	430,000	544,482	430,000

Basic and diluted earnings per unit is determined by dividing statutory profit attributable to the stapled securityholders by the weighted average number of stapled securities on issue during the year. The REIT has no dilutive or convertible stapled securities on issue.

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

A. REIT performance (continued)

A3. Reconciliation of net profit to operating cash flow

	Charter Hall Long WALE REIT		LWR Finance Trust	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Profit for the year	618,314	122,415	9,957	(4,181)
Non-cash items				
Net fair value movements on financial assets	198	2,267	-	-
Net fair value movements on investment properties	(181,189)	28,118	-	-
Net fair value movements on derivative financial instruments	(926)	9,410	(926)	9,410
Share of non-operating earnings from investments accounted for using the equity method	(277,788)	(54,801)	-	-
Straightlining of rental income and amortisation of incentives	(3,826)	(4,033)	-	-
Amortisation of borrowing costs	1,259	1,891	1,259	1,739
Loss on debt extinguishment	887	-	887	-
Provision for rent relief *	149	55	-	-
Capitalised interest on Intra-Group Facility	-	-	(30,056)	(26,197)
Foreign exchange gains	(282)	-	(291)	-
Classified as investing activities				
Acquisition and disposal related costs	1,713	16,737	-	-
(Increase) / decrease in trade and other receivables	1,372	(11,701)	(42)	21
Increase / (decrease) in trade and other payables	2,415	6,182	1,105	(157)
Net cash flows from operating activities	162,296	116,540	(18,107)	(19,365)

* Rent free incentives relating to COVID-19 expected to be agreed after balance date.

B. Property portfolio assets

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

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

	Note	2021 \$'000	2020 \$'000
Investment properties	B1	3,092,885	1,852,615
Investments in joint ventures	B2	1,473,403	1,067,174
Investment in financial asset at fair value	B3	4,764	107,107
Total property portfolio assets		4,571,052	3,026,896

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

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

Costs in relation to transactions with:	Note	2021 \$'000	2020 \$'000
Investment properties		258	180
Investments in joint ventures	B2	1,455	16,557
Total		1,713	16,737

B1. Investment properties

Investment properties

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

Assets held for sale

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

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.

Each investment property is valued by an independent external valuer at least once every 12 months, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property. Independent valuers are engaged on a rotational basis. External valuations were conducted at 30 June 2021 for 100% of the REIT's portfolio, including joint ventures

(b) Valuation techniques and key judgements

In determining fair value of investment properties and assets held for sale, management has considered the nature, characteristics and risks of its investment properties. Such risks include but are not limited to the property cycle, structural changes in the current and future macro-economic environment. In particular, the impact of COVID-19 on underlying tenant businesses was considered.

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

	Fair value \$'000	Net market rent (\$ sq.m./p.a.)	Adopted capitalisation rate (% p.a.)	Adopted terminal yield (% p.a.)	Adopted discount rate (% p.a.)
2021	3,092,885	17 - 887	3.75 - 7.75	4.00 - 8.00	5.25 - 8.00
2020	1,852,615	17 - 896	4.25 - 8.00	4.25 - 8.25	5.75 - 8.50

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

If the capitalisation rate expanded by 25 basis points, the fair value of all wholly owned investment properties would reduce by \$148.8 million from the fair value as at 30 June 2021 (including the REIT's share of joint venture properties \$262.0 million). And if the capitalisation rate compressed by 25 basis points, the fair value would increase by \$164.6 million from the fair value as at 30 June 2021 (including the REIT's share of joint venture properties \$291.1 million).

The REIT considers capitalisation rates the most significant assumption that is subject to estimation uncertainty given the nature of its portfolio. Accordingly, sensitivities to the fair value of investment properties (including those owned by the REIT's joint ventures) have been provided around reasonable possible movements in the capitalisation rate.

In addition to the above, all valuations have considered the impact of COVID-19 including any rent relief to be provided to tenants.

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

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

	Notes	2021 \$'000	2020 \$'000
Carrying amount at the beginning of the period		1,852,615	1,328,445
Additions		992,141	513,377
Acquisition costs incurred		63,744	34,878
Disposals		(630)	-
Revaluation increment		248,850	10,793
Revaluation decrement attributable to acquisition costs, straightlining of rental income and amortisation of incentives and leasing fees		(67,661)	(38,911)
Straightlining of rental income and amortisation of incentives and leasing fees		3,826	4,033
Carrying amount at the end of the period		3,092,885	1,852,615

(d) List of investment properties

As at 30 June 2021, the investment properties have been valued as set out below:

Properties	Sector	Acquisition date	Date of latest independent valuation	Independent valuation \$'000	2021 Fair value \$'000	2020 Fair value \$'000
Investment properties						
ATO, Adelaide SA ¹	Office	10/11/16	30/06/21	158,750	158,750	142,500
56 Edmondstone Road, Bowen Hills QLD	Office	04/01/18	30/06/21	52,500	52,500	52,500
40 Tank Street, Brisbane QLD ¹	Office	20/08/18	30/06/21	45,750	45,750	45,500
85 George Street, Brisbane QLD ¹	Office	19/10/18	30/06/21	56,750	56,750	53,585
Optima Centre, Perth WA ¹	Office	26/10/18	30/06/21	68,000	68,000	64,000
Telstra, Canberra ACT ²	Office	14/06/19	30/06/21	110,000	110,000	109,100
Bunnings, Mackay QLD	Retail	03/07/17	30/06/21	35,500	35,500	32,250
Coles, Waterford, Brisbane QLD	Retail	10/09/18	30/06/21	26,000	26,000	23,100
Toll Holdings, Altona North VIC	Industrial	02/07/10	30/06/21	36,500	36,500	33,700
Australia Post, Kingsgrove NSW	Industrial	05/11/10	30/06/21	29,000	29,000	25,450
Woolworths, Hoppers Crossing VIC	Industrial	22/06/12	30/06/21	65,000	65,000	56,900
Coates Hire, Kingston QLD	Industrial	12/09/12	30/06/21	40,300	40,300	35,500
Electrolux, Beverly SA	Industrial	17/12/12	30/06/21	52,500	52,500	41,650
Coles, Truganina VIC ¹	Industrial	10/11/16	30/06/21	78,375	78,375	63,500
Metcash, Canning Vale WA	Industrial	10/11/16	30/06/21	172,000	172,000	171,000
Suez Portfolio (National)	Industrial	23/12/16	30/06/21	125,060	125,060	105,378
National Archives, Chester Hill NSW	Industrial	23/10/18	30/06/21	78,000	78,000	64,100
Ingham's Portfolio (National)	Agrilogistics	28/12/18	30/06/21	302,250	302,250	240,502
Thales, Homebush NSW ²	Office	10/07/19	30/06/21	52,000	52,000	48,000
ATO, Upper Mount Gravatt SA	Office	09/09/19	30/06/21	67,500	67,500	64,000
Bunnings, Palmerston NT	Retail	14/11/19	30/06/21	48,000	48,000	15,000
Arnott's, Huntingwood NSW ¹	Industrial	27/12/19	30/06/21	243,500	243,500	198,908
Glasshouse, Macquarie Park NSW ¹	Office	03/04/20	30/06/21	184,000	184,000	166,492
Telstra Exchange, Sydney NSW	Office	17/12/20	30/06/21	291,000	291,000	-
David Jones, Sydney NSW ¹	Retail	12/03/21	30/06/21	260,000	260,000	-
Ampol, Redbank Plains QLD	Retail	20/04/21	30/06/21	25,400	25,400	-
Red Cross, Alexandria NSW ¹	Office	03/06/21	30/06/21	79,500	79,500	-
Services Australia, Greenway ACT ^{1,2}	Office	03/06/21	30/06/21	152,500	152,500	-
ATO, Albury NSW ¹	Office	03/06/21	30/06/21	42,250	42,250	-
ATO, Boxhill VIC ¹	Office	03/06/21	30/06/21	115,000	115,000	-
Total				3,092,885	3,092,885	1,852,615

¹ 50% ownership accounted for as joint operations with related party.

² Leasehold.

Joint operations

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

B2. Investment in joint venture entities

The REIT accounts for investments in joint venture entities and associates using 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 of the REIT. Distributions received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

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

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

The REIT exercises joint control over the joint venture entities, but neither the REIT nor its joint venture partners have control in their own right, irrespective of their ownership interest. An associate is an entity over which the REIT has significant influence. The principal activity of all joint venture entities and associates during the year was property investment.

Management regularly reviews equity accounted investments for impairment by reference to changes in circumstances or contractual arrangements, external independent property valuations and market conditions, using generally accepted market practices. When a recoverable amount is estimated through a value in use calculation, critical judgements and estimates are made regarding future cash flows and an appropriate discount rate.

Information relating to the joint venture entities is detailed below:

Name of entity*	Properties	2021 Ownership %	2020 Ownership %	2021 \$'000	2020 \$'000
Perth RDC Trust	Coles, Perth WA	49.9%	49.9%	162,752	145,973
LWIP	ALH (National Portfolio)	49.9%	49.9%	343,003	249,596
CH DC Fund	Woolworths, Dandenong VIC	26.0%	26.0%	82,390	68,216
Kogarah Trust	Westpac, Kogarah NSW	50.1%	50.1%	123,288	111,809
CH BBD Trust	Brisbane Bus Depot, Brisbane QLD	50.0%	50.0%	35,277	26,368
Charter Hall Exchange Wholesale Trust ("Exchange Trust")	49% in Telstra Portfolio (National Portfolio)	50.0%	50.0%	212,143	160,276
CH 242 Exhibition Street Holding Trust	242 Exhibition St, Melbourne VIC	15.0%	15.0%	68,680	60,024
Charter Hall Australian Convenience Retail Trust ("bp Aus")	49% in bp Portfolio (National Portfolio)	50.0%	50.0%	279,731	244,912
CH Dartmouth NZ Wholesale Fund ("bp NZ")	49% in bp NZ Portfolio (NZ Portfolio)	50.0%	-	166,139	-
				1,473,403	1,067,174

Note: Country of establishment of all joint venture entities is Australia.

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

	2021 \$'000	2020 \$'000
Balance at the beginning of the year	1,067,174	551,051
Additions (including acquisition costs)	129,322	476,894
Acquisition costs written off	(1,455)	(16,557)
Share of equity accounted profit	349,255	109,424
Distributions received and receivable	(70,893)	(53,638)
Balance at the end of the year	1,473,403	1,067,174

(b) Summarised financial information for material joint ventures

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

	LWIP	bp Aus	Exchange Trust	bp NZ	Perth Trust	Kogarah Trust	Other trusts*	Total
2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Summarised balance sheet:								
Cash and cash equivalents	4,003	426	2,572	-	1,183	2,280	5,916	16,380
Other current assets	3,139	11,680	2,892	3,464	226	410	2,696	24,507
Non-current assets	1,066,600	986,113	804,164	332,279	327,000	246,000	1,343,500	5,105,656
Current liabilities	(12,823)	(9,641)	(3,719)	(3,464)	(2,252)	(2,607)	(14,092)	(48,598)
Derivative financial instruments – non-current liabilities	-	(3,765)	(749)	-	-	-	(4,838)	(9,352)
Borrowings – non-current liabilities	(373,538)	(425,350)	(380,874)	-	-	-	(487,875)	(1,667,637)
Net assets	687,381	559,463	424,286	332,279	326,157	246,083	845,307	3,420,956
REIT's share in %	49.9	50.0	50.0	50.0	49.9	50.1		
REIT's share in \$'000 and carrying value	343,003	279,731	212,143	166,139	162,752	123,288	186,347	1,473,403

*Includes CH DC Fund, CH BBD Trust and 242 Exhibition Trust

Summarised statement of comprehensive income:

Revenue	59,049	108,361	136,835	95,981	19,441	12,818	77,668	510,153
Interest expense	(15,019)	(12,052)	(10,082)	-	-	-	(12,646)	(49,799)
Profit/(loss) for the year	209,468	103,904	124,717	95,981	50,385	34,460	166,843	785,758
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	209,468	103,904	124,717	95,981	50,385	34,460	166,843	785,758
REIT's share in \$'000	104,525	51,952	62,359	48,006	25,142	17,264	40,007	349,255
REIT's share of distribution received in \$'000	17,205	17,128	10,492	3,651	8,363	5,786	8,268	70,893

	LWIP	bp Aus	Exchange Trust	bp NZ [^]	Perth Trust	Kogarah Trust	Other trusts*	Total
2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Summarised balance sheet:								
Cash and cash equivalents	4,586	462	5,026	-	2,545	2,276	7,061	21,956
Other current assets	3,909	11,536	2,668	-	337	450	2,295	21,195
Non-current assets	871,900	924,140	697,966	-	292,000	223,020	1,214,000	4,223,026
Current liabilities	(11,607)	(9,658)	(2,850)	-	(2,350)	(2,574)	(15,804)	(44,843)
Derivative financial instruments – non-current liabilities	(1,957)	(11,794)	(9,440)	-	-	-	(8,663)	(31,854)
Borrowings – non-current liabilities	(366,639)	(424,861)	(372,818)	-	-	-	(483,625)	(1,647,943)
Net assets	500,192	489,825	320,552	-	292,532	223,172	715,264	2,541,537
REIT's share in %	49.9	50.0	50.0	-	49.9	50.1		
REIT's share in \$'000 and carrying value	249,596	244,912	160,276	-	145,973	111,809	154,608	1,067,174

*Includes CH DC Fund, CH BBD Trust and 242 Exhibition Trust

Summarised statement of comprehensive income:

Revenue	57,203	108,352	25,360	-	20,551	12,811	45,676	269,953
Interest expense	(15,622)	(6,264)	(8,498)	-	-	-	(8,007)	(38,391)
Profit for the year	56,195	68,535	(5,976)	-	43,655	23,630	54,859	240,898
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	56,195	68,535	(5,976)	-	43,655	23,630	54,859	240,898
REIT's share in \$'000	28,041	34,268	(2,988)	-	21,784	11,839	10,029	102,973
REIT's share of distribution received in \$'000	15,994	9,088	8,356	-	7,420	5,834	6,946	53,638

[^] No comparative information is provided for bp NZ because the REIT acquired interest in this entity in the year ended 30 June 2021.

B3. Investments in financial assets at fair value

	2021 \$'000	2020 \$'000
Interest in Waypoint REIT	-	101,230
Income support account	4,764	5,877
Total property portfolio assets	4,764	107,107

	2021 \$'000	2020 \$'000
Balance at the beginning of the year	107,107	6,851
Additions	-	103,566
Withdrawals	(1,137)	(1,043)
Disposals	(101,008)	-
Net fair value movement on investment at fair value	(198)	(2,267)
Balance at the end of the year	4,764	107,107

Interest in Waypoint REIT (ASX: WPR)

On 28 July 2020, the REIT sold its entire 5% holding in Waypoint REIT (ASX:WPR) for \$2.61 per WPR security. CLW received a distribution of 7.41 cents per WPR security for the half year ended 30 June 2020, which together with the sale price, provided CLW with a positive total return of \$0.3 million on its February 2020 entry price. The proceeds from the sale were used to partially repay the syndicated debt facility.

Income support account

The REIT maintains a stake in the income support accounts which can be drawn from prior to the expiry of the lease to compensate the REIT for:

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

During the year, income support of \$1.1 million was drawn from the income support account (2020: \$1.0 million).

B4. Commitments and contingent liabilities

As at the balance date, the REIT's capital commitments amounted to \$14.7 million (2020: \$4.5 million). The REIT had also committed \$27.8 million to fund the development at Bunnings, Caboolture QLD with expected practical completion in the first half FY2023.

In addition, on 30 June 2021, the REIT exchanged contracts for the acquisition of 33.3% interest in Myer Bourke St, Melbourne VIC with the purchase price of \$135.2 million. This acquisition was settled on 30 July 2021.

Finance Trust had no commitments as at 30 June 2021 (2020: nil).

As at 30 June 2021, the REIT and Finance Trust have no contingent liabilities (2020: nil)

The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (2020: nil).

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

The REIT optimises capital through the mix of available capital sources whilst complying with statutory and constitutional capital and distribution requirements, maintaining gearing, interest cover ratios and other covenants within approved limits and continuing to operate as a going concern. The REIT assesses its capital management approach as a key part of its overall strategy and it is regularly reviewed by management and the Board.

The REIT is able to alter its capital mix by issuing new units, activating the DRP, electing to have the DRP underwritten, adjusting the amount of distributions paid, activating a unit buyback program or selling assets to reduce borrowings. The REIT has a target balance sheet gearing level of 25% to 35% of debt to total assets and its balance sheet gearing at 30 June 2021 was 27.4% (2020: 26.1%).

C2. Borrowings and liquidity

(a) Borrowings

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

	2021		2020	
	Total carrying amount	Fair value	Total carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
Bank loan	640,507	641,526	832,700	821,766
Australian dollar medium term notes (A\$MTNs)*	700,325	693,039	-	-
Unamortised borrowing cost	(5,670)	-	(2,794)	-
Total	1,335,162	1,334,565	829,906	821,766
Balance available for drawing	339,493		197,300	

* Includes fair value hedge adjustment of \$0.3 million (2020: \$nil).

Bank loans

	Maturity Date	Facility limit at 30 Jun 2021	Utilised amount at 30 Jun 2021
		\$'000	\$'000
Bilateral facility	April 2025	100,000	55,000
Bilateral facility	July 2026	100,000	75,000
Bilateral facility	March 2025	150,000	80,000
Bilateral facility	March 2026	170,000	120,000
Bilateral facility	March 2026	210,000	188,352
Bilateral facility	December 2025	250,000	122,155
		980,000	640,507

In December 2020, as part of the bp New Zealand portfolio acquisition, the REIT increased its bilateral facilities by \$150.0 million with an offshore lender. The new \$150 million bilateral facility has a maturity date in December 2025. \$166.5 million of the total drawn debt facility was drawn in New Zealand dollars to hedge against foreign exchange risk associated with this investment.

Covenants

Syndicated and bilateral facilities 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 tangible assets ratio exceeds 50%;
- priority indebtedness for non-recourse debt of the REIT over the total look through tangible assets exceeds 27.5%;
- the aggregate of priority debt and any secured finance debt exceeds \$20 million; and
- total unsecured debt over unencumbered assets of the REIT exceeds 60%.

C. Capital structure and financial risk management (continued)

Australian dollar medium term notes (A\$MTNs)

In March and in June 2021, Finance Trust on behalf of the REIT, issued \$700 million of fixed-rate A\$MTNs comprising \$300 million 7-year notes, \$200 million 8.5-year notes and \$200 million 10-year notes. The proceeds from the issue of A\$MTNs were partially used to restructure the bilateral debt facility by reducing its limit from \$480.0 million to 380.0 million together with extending the maturity date from February 2023 to March 2026. In addition, the REIT fully extinguished one of the bilateral facilities and partially repaid the remaining facilities.

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

Intra-Group Facility Agreement

	30 Jun 2021 \$'000	30 Jun 2020 \$'000
Loans receivable under IGFA		
Charter Hall Direct Industrial Fund	1,252,712	812,194
	1,252,712	812,194

On 10 November 2016, Finance Trust entered an Intra-Group Facility Agreement (IGFA) with DIF. This agreement expires in December 2023.

Interest rates under the IGFA are variable and reset periodically. As at 30 June 2021, the interest rate under the IGFA was 3.27% (30 June 2020: 4.50%) per annum.

As at 30 June 2021, the fair value of the loan receivable under IGFA amounted to \$1,252.7 million (2020: \$812.1 million).

Borrowing in Joint Ventures

	Maturity Date	Facility limit at 30 Jun 2021 at 100% \$'000	Facility limit at 30 Jun 2021 REIT's share \$'000
LWIP – syndicated debt facility	December 2023	195,000	97,305
LWIP – US Private Placement notes (USPP)	May 2027	200,000	99,800
CH BBD Trust – debt facility	May 2024	51,250	25,625
Exchange Trust	September 2022	85,000	42,500
Exchange Trust – A\$MTN	September 2030	300,000	150,000
242 Exhibition Street	August 2024	466,500	69,975
bp Aus	December 2024	450,000	225,000
		1,747,750	710,205
Utilised amount		1,673,150	682,691

In September 2020, Charter Hall Exchange Investment Trust, a wholly owned subsidiary of Exchange Trust, issued 10-year A\$MTNs totalling \$300 million (CLW share: \$150 million) with proceeds used to partially repay its \$300 million debt facility (CLW share: \$150 million). In addition, interest rate swaps were restructured by reducing the notional amount of the interest rate swaps at the associate level from \$190.0 million to \$80.0 million (CLW share: \$40.0 million).

In October 2020, LWIP Trust established a new debt facility with a total facility limit of \$25.0 million (CLW share: \$12.5 million) and a three-year term.

C. Capital structure and financial risk management (continued)

Net debt reconciliation

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

	2020 \$'000	Movement in derivatives and foreign exchange \$'000	Movements in borrowing costs \$'000	Movement in cash \$'000	2021 \$'000
Bank debt	832,700	(282)	-	(191,911)	640,507
A\$MTNs	-	325	-	700,000	700,325
Borrowing costs	(2,794)	-	(2,876)	-	(5,670)
Total borrowings	829,906	43	(2,876)	508,089	1,335,162
Cash	(38,425)	-	-	(38,546)	(76,971)
Net debt	791,481	43	(2,876)	469,543	1,258,191

	2019 \$'000	Movement in derivatives and foreign exchange \$'000	Movements in borrowing costs \$'000	Movement in cash \$'000	2020 \$'000
Bank debt	527,800	-	-	304,900	832,700
Borrowing costs	(2,783)	-	(11)	-	(2,794)
Total borrowings	525,017	-	(11)	304,900	829,906
Cash	(6,413)	-	-	(32,012)	(38,425)
Net debt	518,604	-	(11)	272,888	791,481

(b) Finance costs

	Charter Hall Long WALE REIT		Finance Trust	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Finance costs incurred on financial instruments:				
- At amortised cost	20,029	18,331	20,029	18,192
- Fair value through profit and loss	345	2,909	345	2,909
	20,374	21,240	20,374	21,101

C3. Derivative financial instruments

Amounts reflected in the financial statements are as follows:

Balance Sheet	2021		2020	
	Asset \$'000	Liability \$'000	Asset \$'000	Liability \$'000
Current				
Forward foreign exchange contracts	5	1	-	-
Interest rate swaps	-	232	-	-
Interest rate swaps – fair value hedges	3,813	-	-	-
Total current derivative financial instruments	3,818	233	-	-
Non-current				
Forward foreign exchange contracts	10	-	-	-
Interest rate swaps	2,647	-	-	20,068
Interest rate swaps – fair value hedges	480	1,694	-	-
Total non-current derivative financial instruments	3,137	1,694	-	20,068
Total derivative financial assets/liabilities	6,955	1,927	-	20,068

The REIT, through LWR Finance Trust, uses derivatives to economically hedge its exposure to floating interest rates and foreign exchange exposure on distribution income from the bp New Zealand portfolio. All derivative financial instruments are measured and recognised at fair value on a recurring basis.

C. Capital structure and financial risk management (continued)

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 fair value hedges. Hedge ineffectiveness may occur due to credit/debit value adjustments and differences in critical terms between the hedging instrument and the hedged item.

(a) Interest rate swaps

The Finance Trust, on behalf of the REIT, is a party to \$485 million of interest rate swaps, which entitle the REIT to receive interest, at quarterly intervals, at a floating rate on a notional principal amount and obliges the REIT to pay interest at a fixed rate on the same amount. The interest rate and swap agreements allow the REIT to raise long-term borrowings at a floating rate and effectively swap them into a fixed rate. At 30 June 2021, the fixed rate under interest rate swaps was 0.20% per annum (2020: 1.10% to 1.79% per annum).

At balance date, 84% (2020: 72%) of the REIT's direct and joint venture interest rate exposure was hedged.

In August 2020, the Finance Trust on behalf of the REIT, restructured \$485.0 million interest rate swaps, reducing the average fixed rate on these swaps from 1.30% p.a. to 0.20% p.a. at a cost of \$19.9 million.

As at 30 June 2021, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	1 year or less \$'000	1 - 2 years \$'000	2 - 3 years \$'000	3 - 4 years \$'000	More than 4 years \$'000	Total \$'000
Floating to fixed interest rate swaps						
2021	240,000	-	145,000	100,000	-	485,000
2020	-	240,000	-	145,000	100,000	485,000

(b) Interest rate swaps – fair value hedges

Following the issuance of A\$MTNs in March and June 2021, the REIT entered into contracts with two major Australian banks to swap the fixed rate exposure of the A\$MTNs to a floating rate exposure with the terms that match the issued notes. These interest rate swaps were designated as fair value hedges against a risk of changes in fair value of A\$MTNs due to the changes in interest rates.

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'.

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

	2021 \$'000
Carrying amount of the hedging instrument	2,599
Notional amount	700,000
Maturity date	Match A\$MTNs
Hedge ratio	1:1
Change in fair value of outstanding hedging instruments since inception	1,146
Change in value of hedged item used to determine hedge effectiveness	(1,567)

Summary of interest rate swap movements

	Inception \$'000	Fair value movement \$'000	2021 \$'000
A\$MTNs	(700,000)	-	(700,000)
Fair value hedge adjustment	1,242	(1,567)	(325)
Total A\$MTN exposure	(698,758)	(1,567)	(700,325)
Interest rate swaps	(2,360)	1,146	(1,214)
Accrued interest on swaps	-	3,813	3,813
Total interest rate swaps	(2,360)	4,959	2,599
Net A\$MTN exposure	(701,118)	3,392	(697,726)

C. Capital structure and financial risk management (continued)

(c) Forward foreign exchange contracts

The REIT entered into forward foreign exchange contracts to sell New Zealand dollars and receive Australian dollars with a total notional amount of NZ\$9.5 million to hedge foreign exchange exposure on distribution income from the bp New Zealand portfolio.

(d) 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 forward foreign exchange contracts 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.

C4. Contributed equity

		Charter Hall Long WALE REIT		Finance Trust	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<i>Details</i>	<i>No. of Securities</i>				
Securities on issue – 1 July 2019	322,986,420	-	1,280,894	-	1,952
Securities issued via equity raise, net of issue costs	161,935,980	-	846,192	-	-
Securities issued via DRP	4,189,217	-	21,590	-	-
Securities on issue – 30 June 2020	489,111,617	2,148,676	2,148,676	1,952	1,952
Securities issued via equity raise, net of issue costs	133,651,227	615,754		-	
Securities issued via DRP	5,452,888	25,665		-	
Securities on issue – 30 June 2021	628,215,732	2,790,095		1,952	
Balance at the end of the period attributable to the securityholders of:					
DIF	628,215,732	2,790,095	2,148,676	-	-
Finance Trust	628,215,732	1,952	1,952	1,952	1,952

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

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

Distribution reinvestment plan (DRP)

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

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. During the year, the REIT raised \$25.7 million from the DRP (2020: \$21.6 million). An additional \$11.4 million is expected to be raised from the DRP for the 30 June 2021 distribution to be allotted on 13 August 2021 (2020: \$5.1 million from DRP for the 30 June 2020 distribution allotted on 14 August 2020).

Equity raising

In September 2020, the REIT raised \$60.0 million of equity via an Institutional Placement, issuing 12.3 million stapled securities at \$4.87 per stapled security. In October 2020, the REIT raised \$66.1 million of equity via a Security Purchase Plan, issuing

C. Capital structure and financial risk management (continued)

13.8 million stapled securities at \$4.80 per stapled security. Together, the proceeds were used to partially fund the acquisition of an effective 24.5% interest in bp New Zealand portfolio, a portfolio of 70 convenience retail properties in New Zealand together with the associated transaction and capital raising costs.

In December 2020, the REIT raised \$250.0 million of equity via an Institutional Placement, issuing 53.8 million stapled securities at \$4.65 per stapled security. The proceeds were used to partially fund the acquisition of Telstra Exchange, Sydney NSW together with associated transaction and capital raising costs.

In May 2021, the REIT raised \$250.0 million of equity via an Accelerated Non-Renounceable Entitlement Offer, issuing 53.8 million stapled securities at \$4.65 per stapled security. The proceeds were used to partially fund the acquisition of an effective 50.0% interest in the AIP portfolio, a national office portfolio of four properties together with the associated transaction and capital raising costs.

C5. Financial risk management

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

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

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

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

C. Capital structure and financial risk management (continued)

(a) Market risk – Interest rate risk

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

	Charter Hall Long WALE REIT		Finance Trust	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Fixed rate				
Borrowings	700,325	-	700,325	-
Borrowings - joint venture entities ¹	249,800	99,800	-	-
Net fixed rate exposure	950,125	99,800	700,325	-
Floating rate				
Cash	(76,971)	(38,425)	(69,923)	(14,339)
Cash - joint venture entities ¹	(7,068)	(9,317)	-	-
Loans receivable	-	-	(1,252,712)	(812,194)
Borrowings	640,507	832,700	640,507	832,700
Borrowings - joint venture entities ¹	432,891	574,964	-	-
	989,359	1,359,922	(682,128)	6,167
Derivative financial instruments				
Interest rate swaps - fixed to floating ²	700,000	-	700,000	-
Interest rate swaps - floating to fixed ²	(485,000)	(485,000)	(485,000)	(485,000)
Interest rate swaps - floating to fixed - joint venture entities ^{1&2}	(345,445)	(495,445)	-	-
Net floating rate exposure	858,914	379,477	(467,128)	(478,833)

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

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

Sensitivity analysis

The table below reflects the potential net increase/(decrease) in profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2021, with all other variables remaining constant. The change in interest payable on the REIT's and Finance Trust's floating rate interest bearing liabilities, is partially offset by changes in the fair value of derivative financial instruments hedging this exposure.

	Charter Hall Long WALE REIT					
	2021			2020		
	Interest expense \$'000	Net gain/(loss) from derivative financial instruments \$'000	Profit and loss \$'000	Other comprehensive income \$'000	Profit and loss \$'000	Other comprehensive income \$'000
<i>Australian interest rates</i>						
+ 0.10%	(859)	1,932	1,073	-	3,467	-
- 0.10%	859	(2,016)	(1,157)	-	(3,707)	-

	Finance Trust					
	2021			2020		
	Interest expense \$'000	Net gain/(loss) from derivative financial instruments \$'000	Profit and loss \$'000	Other comprehensive income \$'000	Profit and loss \$'000	Other comprehensive income \$'000
<i>Australian interest rates</i>						
+ 0.10%	467	786	1,253	-	178	-
- 0.10%	(467)	(815)	(1,282)	-	(183)	-

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

C. Capital structure and financial risk management (continued)

(b) Market risk – foreign exchange risk

The table below sets out the REIT and Finance Trust's overseas investments, by currency (AUD equivalent):

	Charter Hall Long WALE REIT		Finance Trust	
	NZ Dollar exposure		NZ Dollar exposure	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Assets				
Cash and cash equivalents	582	-	-	-
Receivables	1,550	-	-	-
Investments accounted for using the equity method	166,139	-	-	-
Derivative financial instruments ¹	-	-	15	-
	168,271	-	15	-
Liabilities				
Borrowings	166,507	-	166,507	-
	166,507	-	166,507	-
Net assets(liabilities)	1,764	-	(166,492)	-

¹ The amounts represent the notional principal payable under the derivative contracts.

Sensitivity analysis

A strengthening/weakening of the New Zealand dollar against the Australian dollar would have decreased/increased profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. A negative amount in the table reflects a potential reduction in profit or equity while a positive amount reflects a net potential increase.

	Charter Hall Long WALE REIT	Finance Trust
	Profit \$'000	Profit \$'000
2021		
NZD +10%	176	(16,649)
NZD -10%	(176)	16,649

C. Capital structure and financial risk management (continued)

(c) Liquidity risk

The following table provides the contractual maturity of the REIT's and Finance Trust's fixed and floating rate financial liabilities and derivatives as at balance date. The amounts 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.

	Charter Hall Long WALE REIT				Total \$'000
	Carrying value \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	
2021					
Financial liabilities					
Payables	(17,708)	(17,708)	-	-	(17,708)
Distribution payable	(46,488)	(46,488)	-	-	(46,488)
Borrowings	(1,335,162)	(30,059)	(697,299)	(834,157)	(1,561,515)
Derivative financial instruments	(1,927)	(243)	1,662	(9,287)	(7,868)
Other liabilities	(6,994)	(6,994)	-	-	(6,994)
Total financial liabilities	(1,408,279)	(101,492)	(695,637)	(843,444)	(1,640,573)

2020

Financial liabilities					
Payables	(8,638)	(8,638)	-	-	(8,638)
Distribution payable	(35,216)	(35,216)	-	-	(35,216)
Borrowings	(829,906)	(8,422)	(859,798)	-	(868,220)
Derivative financial instruments	(20,068)	(7,968)	(12,722)	-	(20,690)
Other liabilities	(6,748)	(6,748)	-	-	(6,748)
Total financial liabilities	(900,576)	(66,992)	(872,520)	-	(939,512)

Finance Trust

	Carrying value \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
	2021				
Financial liabilities					
Payables	(6,313)	(6,313)	-	-	(6,313)
Borrowings	(1,335,162)	(30,059)	(697,299)	(834,157)	(1,561,515)
Derivative financial instruments	(1,927)	(243)	1,662	(9,287)	(7,868)
Total financial liabilities	(1,343,402)	(36,615)	(695,637)	(843,444)	(1,575,696)

2020

Financial liabilities					
Payables	(385)	(385)	-	-	(385)
Borrowings	(525,169)	(11,166)	(528,233)	(27,545)	(566,944)
Derivative financial instruments	(21,491)	(12,201)	(9,799)	264	(21,736)
Total financial liabilities	(547,045)	(23,752)	(538,032)	(27,281)	(589,065)

(d) 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 2021, the REIT has no significant concentrations of credit risk on its receivables.

C. Capital structure and financial risk management (continued)

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

	Past due but not impaired				Total \$'000
	Less than 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	More than 90 days \$'000	
2021					
Rent receivable	196	100	96	1,198	1,590
Provision for expected credit losses	-	-	-	-	(462)
2020					
Rent receivable	390	380	201	262	1,233
Provision for expected credit losses	-	-	-	-	(105)

The REIT applies the AASB 9 *Financial Instruments* simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance (ECL) for all trade and other financial assets.

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

In relation to COVID-19 the forward-looking judgements and assumptions include:

- the extent and duration of the pandemic and its impact on the ability of tenants to pay deferred rent;
- the impacts of actions by governments and other authorities, including trading restrictions on the REIT's tenants;
- tenant credit quality, assessed based on shared credit risk characteristics; and
- the effect of rental deferral options as at the reporting date.

Agreement to rental deferral options between the REIT and a tenant does not automatically indicate a deterioration of credit risk but is considered within the framework of the above indicators.

The deferral of lease payments offered to tenants has not had a material impact on the REIT's cash inflows from operations.

The forward-looking judgments and assumptions reflect the best estimate of management as at balance date, using information available to them at that date. Accordingly, the REIT's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

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 counterparties, under certain conditions (i.e. event of default), to set off the position owing/receivable under a derivative contract to a net position outstanding. As the REIT does not have a legally enforceable right to set off, none of the financial assets or financial liabilities are offset on the balance sheet of the REIT.

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

Consolidated entity	Gross amounts of financial instruments	Amounts subject to set-off	Net amount post set-off
	\$'000	\$'000	\$'000
2021			
Derivative assets	6,955	(1,927)	5,028
Derivative liabilities	(1,927)	1,927	-
Borrowings	(1,340,832)	-	(1,340,832)
	(1,335,804)	-	(1,335,804)
2020			
Derivative assets	-	-	-
Derivative liabilities	(20,068)	-	(20,068)
Borrowings	(832,700)	-	(832,700)
	(852,768)	-	(852,768)

D. Further Information

D1. Related Party Information

(a) Responsible Entity

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

(b) Directors

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

- Peeyush Gupta AM – Chair and Non-Executive Director
- Glenn Fraser – Non-Executive Director
- Ceinwen Kirk-Lennox – Non-Executive Director
- David Harrison – Executive Director and Chief Executive Officer / Managing Director of Charter Hall Group
- Carmel Hourigan – Executive Director (appointed 30 November 2020)
- Adrian Taylor – Executive Director (resigned 22 July 2020)

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

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

The Responsible Entity and its related parties held 70,704,197 stapled securities as at 30 June 2021 (2020: 59,688,298).

The following is a summary of related party transactions for the year ended 30 June 2021:

		Charter Hall Long WALE REIT			
		Basis of fee calculation		Fee amount	
Type of fee	Method of fee calculation	2021	2020	2021	2020
		\$'000	\$'000	\$'000	\$'000
Base management*	0.45% of average gross assets	4,146,875	3,086,191	18,661	13,899
Acquisition and disposals	1% of acquisition or disposal price	1,108,618	1,377,888	11,086	13,779
Property management	Up to 3% of gross property income	204,326	160,546	2,492	1,911
Accounting services	Cost recovery	N/A	N/A	769	745
Leasing fees	% gross average annual rent based on a sliding fee scale	3,189	5,096	538	302
Project management fees	3% of the project value	2,093	764	69	23
Facility management fee	Annual charge per property	-	-	152	112
Other cost recoveries	Cost recovery	N/A	N/A	178	64
				33,945	30,835

* Includes the REIT's share of \$576,831 paid by 242 Exhibition Trust (2020: \$324,000).

D. Further information (continued)

Type of fee	Method of fee calculation	Finance Trust			
		Basis of fee calculation		Fee amount	
		2021	2020	2021	2020
		\$'000	\$'000	\$'000	\$'000
Base management	0.45% of average gross assets	31,333	24,143	141	111

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

	Charter Hall Long WALE REIT		Finance Trust	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Charter Hall Holdings Pty Limited	1,807	1,511	-	-
	1,807	1,511	-	-

(e) Key management personnel

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

(f) Directors' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

	\$	\$
Peeyush Gupta AM	147,085	147,085
Glenn Fraser	105,055	105,055
Ceinwen Kirk-Lennox	99,805	99,805
	351,945	351,945

The level of fees is not related to the performance of the REIT and Finance Trust. The board of the Responsible Entity reviews remuneration payable to its independent directors from time to time. Remuneration of independent Directors is approved by the board and any increases are benchmarked to market rates.

The executive directors of the Responsible Entity and Fund Manager of the REIT and Finance Trust are employees of Charter Hall Holdings Pty Ltd and are remunerated by Charter Hall Holdings Pty Ltd.

(g) Directors' interests in REIT stapled securities

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

	Stapled securities held	Stapled securities held
	2021	2020
Peeyush Gupta AM	397,676	367,993
Glenn Fraser	76,721	63,900
Ceinwen Kirk-Lennox	56,803	41,764
David Harrison	471,555	402,587
Carmel Hourigan	-	-
Adrian Taylor	-	90,240
Total	1,002,755	966,484

D. Further information (continued)

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

	Stapled securities acquired 2021	Stapled securities acquired 2020
Peeyush Gupta AM	29,683	32,115
Glenn Fraser	12,821	8,210
Ceinwen Kirk-Lennox	15,039	9,172
David Harrison	68,968	35,860
Adrian Taylor	-	1,115
Total	126,511	86,472

In a prior year, Peeyush Gupta AM disposed of 125,000 stapled securities. No other stapled securities of the REIT were sold by the Directors of the Responsible Entity or their related parties during the year.

D2. Working capital

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

(a) Receivables and other assets

	Charter Hall Long WALE REIT		Finance Trust	
	\$'000	\$'000	\$'000	\$'000
Receivables				
Trade receivable	1,590	1,233	-	-
Provision for expected credit loss provision	(462)	(105)	-	-
Net rent receivable	1,128	1,128	-	-
Accrued income and other receivables	1,674	3,611	62	-
Distributions receivable from joint ventures*	14,248	15,583	-	-
	17,050	20,322	62	-
*Distributions received in the corresponding July				
Other Assets				
Deposits and costs related to the purchase of properties	13,868	-	-	-
Prepayments	1,493	850	-	-
	15,361	850	-	-

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

(b) Payables and other liabilities

	Charter Hall Long WALE REIT		Finance Trust	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Payables				
Accrued expenses	4,081	3,580	-	81
Accrued management fee	1,807	1,511	44	-
Accrued capital expenditure	5,134	2,795	-	-
Interest payable	5,807	185	5,807	185
GST payable	417	567	-	-
Other	462	-	462	-
	17,708	8,638	6,313	266
Other liabilities				
Unearned income	6,994	6,748	-	-
	6,994	6,748	-	-

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

D. Further information (continued)

current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

D3. Parent entity information

The financial information for the parent entities of the REIT and LWR Finance Trust, has been prepared on the same basis as the consolidated financial statements except as set out below:

Investments in controlled entities

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

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

Receivables and payables

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

Recoverable amount of assets

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

(a) Summary financial information

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

	Parent entity of Charter Hall Long WALE REIT		Parent entity of LWR Finance Trust	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Balance Sheet				
Current assets	499,777	335,397	410	721
Non-current assets	3,466,119	2,363,508	2,500	2,500
Total assets	3,965,896	2,698,905	2,910	3,221
Current liabilities	326,996	179,670	1,532	1,682
Non-current liabilities	1,261,092	859,395	-	-
Total liabilities	1,588,088	1,039,065	1,532	1,682
Equity				
Contributed equity	2,790,095	2,148,676	1,952	1,952
Accumulated losses	(412,287)	(488,836)	(574)	(413)
Total equity	2,377,808	1,659,840	1,378	1,539
Statement of comprehensive income				
Profit for the year	163,129	127,036	(161)	(139)
Total comprehensive income	163,129	127,036	(161)	(139)

(b) Guarantees and contingent liabilities

The parent entities did not have any material contingent liabilities, either individually or as a class, at 30 June 2021 (2020: \$nil).

(c) Commitments

The parent entities did not have any commitments as at 30 June 2021 (2020: \$nil).

(d) Net current asset deficiency

At 30 June 2021, the parent entity of LWR Finance Trust had net deficiencies of current assets over current liabilities \$1.1 million (2020: \$1.0 million). The parent entity will be able to meet their day-to-day working capital requirements from its available

D. Further information (continued)

loan facility and operating cash flows. Securityholders will only receive their distributions to the extent that the parent entity has sufficient working capital.

D4. Significant contract terms and conditions

Pre-emptive rights

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

A number of joint-ownership agreements also contain:

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

D5. Remuneration of the auditor

	Charter Hall Long WALE REIT		Finance Trust	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:				
Audit services	440	367	50	27
Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for:				
Taxation compliance services	1	53	-	-
	441	420	50	27

D6. Interest in other entities

Material subsidiaries

The REIT's and Finance Trust's principal subsidiaries at 30 June 2021 are set out below. Unless otherwise stated, they have contributed equity consisting solely of ordinary units that are held directly by the parent entity, and the proportion of ownership interests held equals the voting rights held by the parent entity.

Name of entity	Country of incorporation / Place of business	Ownership interest held by the REIT		Principal activities
		2021	2020	
Charter Hall Direct Industrial Fund				
CHDIF Altona North Trust	Australia	100%	100%	Property Investment
CHDIF Kingsgrove Trust	Australia	100%	100%	Property Investment
CHDIF Hoppers Crossing Trust	Australia	100%	100%	Property Investment
CHDIF Kingston Holding Trust	Australia	100%	100%	Holding Trust
CHDIF Kingston Trust	Australia	100%	100%	Property Investment
CHDIF Beverley Holding Trust	Australia	100%	100%	Holding Trust
CHDIF Beverley Trust	Australia	100%	100%	Property Investment

D. Further information (continued)

Name of entity	Country of incorporation / Place of business	Ownership interest held by the REIT		Principal activities
		2021	2020	
Continued				
CHDIF Perth Holding Trust	Australia	100%	100%	Holding Trust
CHDIF Perth Airport Trust	Australia	100%	100%	Property Investment
LWR LWIP Holding Trust	Australia	100%	100%	Holding Trust
LWR LWIP Investment Trust	Australia	100%	100%	Property Investment
Suez Portfolio Trust	Australia	100%	100%	Property Investment
CH Direct VA Trust	Australia	100%	100%	Property Investment
LWR Bunnings Trust	Australia	100%	100%	Property Investment
LWR Truganina Trust	Australia	100%	100%	Property Investment
LWR Canning Vale Trust	Australia	100%	100%	Property Investment
CPOF Kogarah Trust	Australia	100%	100%	Property Investment
LWR Tank Street Trust	Australia	100%	100%	Property Investment
LWR Club Hotel Waterford Trust	Australia	100%	100%	Property Investment
LWR Optima Centre Trust	Australia	100%	100%	Property Investment
LWR George Street Trust	Australia	100%	100%	Property Investment
Charter Hall Chester Hill Trust	Australia	100%	100%	Property Investment
LWR AL Holding Trust	Australia	100%	100%	Holding Trust
LWR AL Trust	Australia	100%	100%	Property Investment
LWR BBD Trust	Australia	100%	100%	Holding Trust
LWR Mort Street Trust	Australia	100%	100%	Property Investment
LWR Franklin Street Trust	Australia	100%	100%	Property Investment
LWR Murray Rose Trust	Australia	100%	100%	Property Investment
LWR Exchange Trust	Australia	100%	100%	Holding Trust
LWR UMG Trust	Australia	100%	100%	Property Investment
LWR Palmerston Trust	Australia	100%	100%	Property Investment
LWR 242 Exhibition Trust	Australia	100%	100%	Holding Trust
LWR Dartmoor Trust	Australia	100%	100%	Holding Trust
LWR 61 Huntingwood Drive Trust	Australia	100%	100%	Property Investment
LWR Macquarie Park Trust	Australia	100%	100%	Property Investment
LWR Caboolture Trust	Australia	100%	-	Property Investment
LWR Dartmouth NZ Trust	Australia	100%	-	Holding Trust
LWR Redbank Plain Trust	Australia	100%	-	Property Investment
LWR 76 Pitt Street Trust	Australia	100%	-	Property Investment
LWR DJ Trust	Australia	100%	-	Property Investment
CLW Albury Trust	Australia	100%	-	Property Investment
CLW Alexandria Trust	Australia	100%	-	Property Investment
CLW Boxhill Trust	Australia	100%	-	Property Investment
CLW Tuggeranong Trust	Australia	100%	-	Property Investment
<u>LWR Finance Trust</u>				
Charter Hall LWR Limited	Australia	100%	100%	Provision of finance

D7. Events occurring after balance date

In July 2021, the REIT acquired 100% interest in Bunnings, Baldvis WA and Simon Transport, Carole Park QLD for \$49.0 million and \$83.1 million respectively. In addition, the REIT has also settled on the acquisition of 33.3% interest in Myer, Bourke St Melbourne VIC for \$135.2 million.

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

D. Further information (continued)

D8. Other significant accounting policies

(a) Basis of preparation

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

Compliance with IFRS

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

Historical cost convention

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

Net asset deficiency

At 30 June 2021, the Finance Trust had a net deficiency of total assets over total liabilities of \$13.8 million (2020: \$23.7 million) largely attributable to mark-to-market valuation of interest rate swaps. The Finance Trust will be able to meet their day-to-day working capital requirements from readily accessible credit facilities of \$339.5 million and operating cashflows.

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

(b) Principles of consolidation

Stapling

The Charter Hall Long WALE REIT is a 'stapled' entity comprising Charter Hall Direct Industrial Fund ('DIF') and its controlled entities, and LWR Finance Trust ('Finance Trust') and its controlled entities. The units in DIF are stapled to the units in Finance Trust. The stapled securities are listed on the Australian Securities Exchange and cannot be traded or dealt with separately. The two entities comprising the stapled group remain separate legal entities in accordance with the *Corporations Act 2001* and are each required to comply with the reporting and disclosure requirements of Accounting Standards and the *Corporations Act 2001*. As permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838, this financial report is a combined financial report that presents the consolidated financial statements and accompanying notes of both DIF and Finance Trust.

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

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

The results and equity of Finance Trust have been treated and disclosed as non-controlling interests in the consolidated financial statements of the REIT. Whilst the results and equity of Finance Trust are disclosed as non-controlling interests, the stapled securityholders of DIF are the same as the stapled securityholders of Finance Trust.

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.

D. Further information (continued)

(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.

(e) Rounding of amounts

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

(f) Changes in accounting standards

The REIT has applied the following standards and amendments for the first time in this financial report. The REIT did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards:

- AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions* [AASB 16]
- AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* [AASB 4, AASB 7, AASB 9, AASB 16 and AASB 139]

Directors' declaration to stapled securityholders

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

- a the consolidated financial statements and notes set out on pages 18 to 50 are in accordance with the *Corporations Act 2001*, including:
 - i complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii giving a true and fair view of the REIT's and LWR Finance Trust's financial position as at 30 June 2021 and of their performance for the year ended on that date; and
- b there are reasonable grounds to believe that the REIT and LWR Finance Trust will be able to pay their debts as and when they become due and payable.

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

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

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



Peeyush Gupta AM

Director

Sydney

9 August 2021



Independent auditor's report

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

Report on the audit of the financial reports

Our opinion

In our opinion:

The accompanying financial reports of Charter Hall Direct Industrial Fund ("DIF") and its controlled entities and LWR Finance Trust and its controlled entity (together "Charter Hall Long WALE REIT", "REIT" or "CLW") and LWR Finance Trust and its controlled entity (together "Finance Trust") are in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the REIT's and Finance Trust's financial positions as at 30 June 2021 and of their financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The REIT and Finance Trust financial reports comprise:

- the consolidated balance sheets as at 30 June 2021
- the consolidated statements of comprehensive income for the year then ended
- the consolidated statements of changes in equity for the year then ended
- the consolidated cash flow statements for the year then ended
- the notes to the consolidated financial statements, as contained in the "About this report" section, which include significant accounting policies and other explanatory information
- the directors' declaration to stapled securityholders.

Charter Hall Long WALE REIT comprises Charter Hall Direct Industrial Fund and the entities it controlled at year end or from time to time during the financial year and LWR Finance Trust and the entity it controlled at year end or from time to time during the financial year. Finance Trust comprises LWR Finance Trust and the entity it controlled at year end and from time to time during the financial year. For the purposes of consolidation accounting Charter Hall Direct Industrial Fund is the deemed parent entity and acquirer of Finance Trust.

Basis for opinion

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

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.

Independence

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

Our audit approach

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

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



Materiality

- We calculated materiality for the REIT and Finance Trust and applied the lower of these two materiality amounts in the audit of both the REIT and Finance Trust. For the purpose of our audit of the REIT and Finance Trust we used overall quantitative materiality of \$7.95 million, which represents approximately 5% of the REIT's operating earnings.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial reports as a whole.
- We chose operating earnings (which is an adjusted profit metric) as the benchmark because, in our view, it is the benchmark against which the performance of the REIT is most commonly measured. We utilised a 5% threshold based on our professional judgement and noting it is within the range of acceptable quantitative materiality thresholds.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial reports as a whole.



Audit Scope

- Our audit focused on where the REIT and Finance Trust made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We identified separate components of the REIT being its equity accounted investments and the REIT. We established an audit strategy for each component.
- The audit work performed at the component level, together with the additional audit procedures performed at the REIT level provided us with sufficient evidence for our opinion on the financial reports as a whole.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties, including those investment properties held in joint ventures accounted for under the equity method - Charter Hall Long WALE REIT (Refer to Note B within the “About this report” section)</p> <p>The REIT’s investment property portfolio is predominantly comprised of industrial, retail, office and agrilogistic investment properties. At 30 June 2021 the carrying value of the REIT’s total investment property portfolio (excluding investment properties held in equity accounted investments) was \$3,093 million (2020:\$1,852 million), refer to Note B1. The carrying value of the REIT’s joint venture vehicles that also hold investment properties is \$1,473 million (2020: \$1,067 million) refer Note B2.</p> <p>In measuring the fair value of investment properties, the REIT applied the principles of accounting for investment properties at fair value under Australian Accounting Standards and</p>	<p>We assessed the REIT’s process for valuing investment properties. This included discussing, with management, the key drivers affecting the value of the investment property portfolio such as, significant new leases entered, capital expenditure and vacancy rates. We also enquired about the impact of COVID-19 on investment property valuations and how this has been considered by the REIT in determining fair value at 30 June 2021.</p> <p>We inspected a selection of independent property market reports and held discussions with PwC Real Estate experts to develop an understanding of prevailing market conditions and their expected impact on the REIT’s investment properties.</p> <p>We assessed the design and tested the operating effectiveness of certain controls supporting the REIT’s investment property valuation process, including controls relating to the review and approval of valuations adopted.</p> <p>We assessed the scope, competence, capability and objectivity of external valuation experts engaged by</p>



Key audit matter

applied the valuation methodology described in Note B of the financial reports. The valuation policy adopted requires all properties to be externally valued by valuation experts at least once every 12 months. If a property is not externally valued at balance date, the REIT performs an internal valuation.

We considered this a key audit matter because of the:

- Financial significance of the investment property balances in the REIT's consolidated balance sheet.
- Financial significance of revaluation gains that directly impact the REIT's consolidated statement of comprehensive income through the net fair value gain on investment properties.
- Inherently subjective nature of investment property valuations such as prevailing market conditions, the individual nature and location, comparable sales evidence and the expected future income for each property.
- Estimation uncertainty exists with respect to the key inputs and judgements used by the REIT in developing fair value estimates including capitalisation rates, terminal yield, net market rent and discount rates.
- The importance of the valuation uncertainty to users' understanding of the financial report.
- The extent of judgement required by the REIT in light of the continued impact and uncertainty surrounding the COVID-19 pandemic.

How our audit addressed the key audit matter

the REIT. Where external valuations were obtained by the REIT, we:

- Read the relevant valuation reports and agreed the fair values to the REIT's accounting records for a sample.
- Compared the tenancy schedules used in the external valuation to the tenancy schedule per the REIT's accounting records for a sample of external valuations.

For a sample of properties which we assessed at greater risk of material misstatement, we performed the following procedures to assess the appropriateness of significant assumptions used in the REIT's assessment of fair value, we:

- Assessed the appropriateness of the methodology adopted and the mathematical accuracy of valuations.
- Assessed the appropriateness of certain significant assumptions, including comparing the capitalisation rates and discount rates to market data, including comparable transactions, where possible.
- Held discussions with certain external valuation firms to develop an understanding of their processes, judgement and observations including how they dealt with uncertainties arising from COVID-19 in the valuations.

We assessed the reasonableness of the REIT's disclosures in the financial report in light of the requirements of Australian Accounting Standards. In particular, we considered the adequacy of the disclosures made in Note B within the "About this report" section of the financial statements which explains that there is estimation uncertainty in relation to the valuation of investment properties.



Key audit matter	How our audit addressed the key audit matter
<p>Hedge accounting - Finance Trust <i>(Refer to Note C within the “About this report” section)</i></p> <p>The Finance Trust issued two tranches of unsecured medium term fixed notes (MTN’s) with a principal amount of \$700m during the year. Concurrently the Finance Trust entered into interest rate swaps (IRS’s) with matching maturity dates in order to mitigate the fair value risk associated with the market interest rate. The Finance Trust has entered into a fair value hedge accounting relationship in accordance with Australian Accounting Standards for the MTN (hedging item) and IRS (hedging instrument).</p> <p>We considered the new hedging relationship to be a key audit matter because of the:</p> <ul style="list-style-type: none">• New application of fair value hedge accounting.• Audit effort involved to assess the appropriateness of the application of the hedge accounting relationship in accordance with Australian Accounting Standards on inception.	<p>We evaluated the designation and documentation of the fair value hedge relationship and the expected prospective hedging effectiveness at inception. This included assessing the hedge documentation for compliance with Australian Accounting Standards. In addition we:</p> <ul style="list-style-type: none">• Inspected journals on a sample basis and compared the terms of the hedging instrument to the hedged item to assess whether there was an economic relationship and the hedge ratio is consistent with Finance Trust’s risk management strategy.• Assessed if the fair value of the IRS’s was appropriate by developing a point estimate through revaluing the IRS’s using market rates, with the assistance of PwC valuation experts and comparing this to the hedging result. <p>We assessed the reasonableness of the Finance Trust’s disclosures in the financial report in light of the requirements of Australian Accounting Standards. In particular, we considered the disclosures made in Note C to the financial statements which explains the hedging relationship.</p>

Other information

The directors of CHWALE Limited, the Responsible Entity of Charter Hall Direct Industrial Fund and LWR Finance Trust (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 2021, but does not include the financial reports and our auditor’s report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

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



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

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial reports

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

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

Auditor's responsibilities for the audit of the financial reports

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

A further description of our responsibilities for the audit of the financial reports is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'R.W. McMahon', written in a cursive style.

RW McMahon
Partner

Sydney
9 August 2021