

# Annual Report 2014

Charter Hall Retail REIT







Full year distribution per unit

# 27.3cpu



Pakington Strand, Geelong West Vic.

## Contents

02 About Us

03 Key Results

04 Our Strategy

06 Letter from the Chairman  
and the Fund Manager

08 Our Performance

10 Sustainability

12 Australian Property Portfolio

18 Our Board and Fund Management

22 Corporate Governance Statement

31 Financial Report

92 Investor Information

### Meeting of Unitholders

The 2014 Meeting of Unitholders will be held at Charter Hall's Sydney office:

Level 20, No.1 Martin Place,  
Sydney on Friday,  
17 October 2014 at 10am.

### Front cover image

Coomera City Centre,  
Coomera Qld

Portfolio and anchor WALE

# 7.4 & 11.3 years



Gordon Centre, Gordon NSW





**Focus on providing  
a secure and growing  
income stream.**



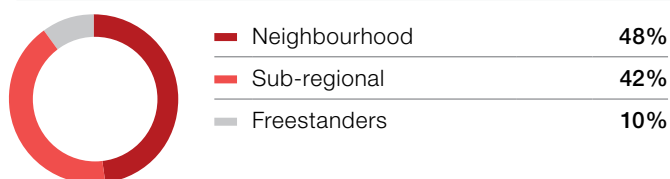
# About Us

**With a focus on supermarket anchored non-discretionary retail, we manage a \$2 billion Australian retail portfolio. We optimise returns for our investors and create enjoyable environments for the 100 million shopper visitations to our centres each year, by providing end-to-end property services to our entire portfolio.**

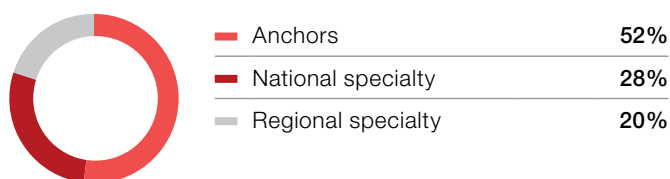
Charter Hall Retail REIT invests in high quality Australian supermarket anchored neighbourhood and sub-regional shopping centres. Our Australian portfolio is geographically diverse and benefits from exposure to key markets along the eastern seaboard and across a number of high growth regions in Western Australia and Queensland.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX: CHC), one of Australia's leading property groups which owns and manages office, retail and industrial properties. Charter Hall has over 23 years' experience managing high quality office, retail and industrial property on behalf of institutional, wholesale and retail clients, with funds under management totalling \$12.1 billion.

## Asset type (proportion by asset value)



## Tenant classification (proportion by annual base rent)

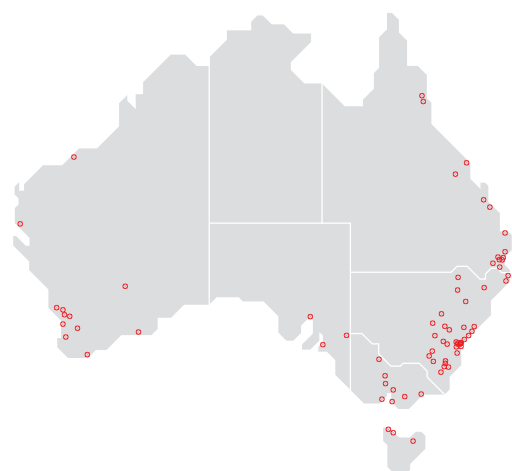


## Properties

# 77

## Gross Leasable Area (GLA)

# 528,370 sqm



Location	Number of Properties	Total GLA (sqm)
Australian Capital Territory	3	17,145
New South Wales	33	207,192
Queensland	14	99,938
Victoria	9	68,612
Tasmania	3	6,445
Western Australia	12	91,123
South Australia	3	37,915

## Key Results

Operating earnings per unit<sup>1</sup> – 3.0% growth on financial year 2013 (FY13)

# 29.60 cpu

Australian portfolio value – 20% increase in value of assets under management in FY14

# \$2 billion

Occupancy

## 98.5%

Operating earnings<sup>1</sup>

## \$105.3 million

Same property NOI growth

## 2.0%

Statutory profit

## \$85.2 million

Balance sheet gearing<sup>2</sup>

## 33.2%

Distributions per unit – Up 1.9% on FY13

## 27.30 cpu

Specialty rent rate growth

## 2.6%

Net tangible assets (NTA) – Up 2.4% on FY13

## \$3.40 per unit

<sup>1</sup> Operating earnings is a financial measure which represents the net profit/(loss) under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items. Operating earnings for the current and prior period excludes German operations.

<sup>2</sup> Post German and Glen Innes disposals and Coomera acquisition.

# Our Strategy

## Our goal

**To be the pre-eminent owner and manager of Australian neighbourhood and sub-regional supermarket anchored shopping centres.**

### Strategy to achieve our goal

#### Active management

#### Key drivers

- Maintaining strong tenant relationships
- Optimising tenancy mix through proactive leasing
- Enhancing the overall shopper experience

#### Achievements

- Occupancy improved to 98.5%
- Specialty rent growth of 2.6% achieved from 179 renewals and 115<sup>1</sup> new leases
- Same property NOI growth of 2.0%

### Strategy to achieve our goal

#### Enhance portfolio quality

#### Key drivers

- Value enhancing redevelopment
- Selective acquisitions
- Non-core disposals

#### Achievements

- Portfolio now valued at \$2.0 billion, a 20% increase over the year
- Acquired four properties for \$252 million at average initial yield of 7.6%
- Completed \$84 million of redevelopments and commenced \$61 million of new projects
- \$58 million<sup>2</sup> valuation uplift with weighted average capitalisation rate firming to 7.65%

### Strategy to achieve our goal

#### Prudent capital management

#### Key drivers

- Strong and flexible balance sheet
- Prudent gearing
- Sustainable payout ratio

#### Achievements

- European exit now complete following sale of German and Polish assets
- US exit now complete following sale of remaining wholly owned assets
- NZ exit now complete following sale of remaining half interest in two assets
- \$828 million of debt facilities repaid or refinanced in the period
- Raised and deployed \$118 million in equity into new acquisitions and redevelopment opportunities
- Balance sheet gearing 33.2%

## Key relationships



<sup>1</sup> Includes 62 non-comparable new lease deals that do not impact specialty rent growth.

<sup>2</sup> Before acquisition costs of \$13.9 million occurred during the period.



## Sydney Street Markets, Mackay, Queensland

Sydney Street Markets was purchased in 2006 with the intention to expand the centre and provide an enhanced offering to the local Mackay community.

The centre is located in the Mackay CBD and currently contains a 3,200sqm Coles supermarket and 17 specialty shops.

### Active management

## Tenant focused

Following the acquisition, we have worked with existing and new retailers, increasing occupancy and creating a more connected retailer and shopper community.

### Enhance portfolio quality

## Redevelop

To take advantage of the area's strong population growth, we will commence a redevelopment of the existing Coles supermarket in the first quarter of 2015 and are investigating a second stage works to add a second full-line supermarket, additional specialty retail and roof top car parking.

### Prudent capital management

## Support

The redevelopment will be funded from the Distribution Reinvestment Plan, which supports our focus on maintaining a strong and flexible balance sheet.



# Letter from the Chairman and the Fund Manager



**We have had another active year which has seen us deliver a 3% increase in operating earnings to 29.6 cents per unit or \$105.3 million and 20% growth in the value of our Australian portfolio, which now totals in excess of \$2 billion in funds under management.**

We are pleased to report that we also completed the sale of our European, United States and New Zealand properties, with our strategy now focusing purely on the active management and enhancement of our Australian portfolio and the prudent management of our capital.

## **Managing our Australian portfolio**

As part of an integrated property business within Charter Hall Group, our team's focus is on building lasting partnerships with our tenants and proactively looking at lease renewal options and new opportunities for existing and potential tenants. Our goal to create an enjoyable shopping environment for our shoppers has seen us deliver on this strategy during the year.

This approach has been key in achieving a tenant retention rate of 78% and total portfolio occupancy of 98.5%, despite the prevailing softer leasing market.

Specialty rent growth of 2.6% was achieved as a result of active leasing this period, with 179 lease renewals and 53 comparable new leases being completed. Specialty occupancy cost of 9.0% continues to differentiate our portfolio, placing our neighbourhood and sub-regional shopping centres well for future rental growth.

## **Portfolio acquisitions and enhancements**

We continued to focus on the enhancement of our Australian portfolio through redevelopments, selective acquisitions and non-core disposals during the year. We acquired \$252.4 million of new supermarket anchored centres and identified a small portfolio of non-core assets for sale in FY15.

With a sole focus on the non-discretionary end of the retail market, our investment mandate has always been clear – to invest in neighbourhood and sub-regional supermarket anchored shopping centres valued between \$20 and \$100 million, anchored by a strongly performing Woolworths or Coles supermarket and targeting a five year unlevered internal rate of return of 8.5%.

The four new centres acquired since 30 June 2013 all meet these criteria, with our asset and property management teams now focusing on opportunities to enhance the centres through tenant remixing and potential redevelopment opportunities.

We have also identified four redevelopment opportunities within our portfolio which we are investigating, have commenced three new projects during the year and expect to commence another two projects before the end of this financial year. Our branding strategy will be rolled out at these centres as they are redeveloped.

John Harkness,  
Chairman

**The second key driver to our strategy is the enhancement of our Australian portfolio through redevelopments, selective acquisitions and non-core disposals.**



Value enhancing redevelopments will always be a key element of our growth strategy, with these well planned enhancements, including anchor tenant expansions and communal space upgrades, delivering real value to our existing centres and communities.

#### Prudent capital management

We had a busy year managing our capital, successfully refinancing or repaying \$828 million of debt facilities to reduce the average Australian debt margin by 24 basis points on an annualised basis.

Following the finalisation of our offshore sales, the REIT's balance sheet gearing has reduced by 6.6% to 33.2%, with the REIT having cash and undrawn debt capacity of \$129 million.

The REIT raised \$118 million in new equity, including \$30 million through the Distribution Reinvestment Plan. These funds, combined with proceeds from the offshore sales, have enabled the REIT to capitalise on acquisition and redevelopment opportunities during the year.

Scott Dundas,  
Fund Manager

**In order to better connect with the local communities in which we operate, we are developing an engagement program as part of our 'community square for today' brand.**

#### Delivering on our commitment to sustainability

As owner and manager of retail centres across Australia, we understand that our success is dependent on building strong relationships with our retailers, fostering the trust of our investors and supporting the communities that support our business.

In order to better connect with the local communities in which we operate, we are developing an engagement program as part of our 'community square for today' brand. This program is being developed in line with Charter Hall Group's broader corporate responsibility and sustainability strategy review, and we look forward to sharing more on this in the coming months.

#### Final distribution

The Board was pleased to declare a distribution of 13.65 cents per unit for the half year ended 30 June 2014, representing a full year distribution of 27.3 cents per unit for FY14; a 1.9% increase on the prior financial year.

Looking ahead, while we expect the tougher trading conditions to continue in the short term, we believe that the consistent returns available from food retailing will continue to deliver an uplift in growth in the value of our portfolio. The management of our Australian portfolio is a key focus for our team and we will continue to work with tenants to create an enjoyable shopping centre experience while focusing on leasing and development to maximise property returns.

On behalf of the Board and Management, we would like to thank all our unitholders, tenants and the loyal shoppers who visit our centres every day for their continued support and investment in the REIT.



**John Harkness**  
Chairman



**Scott Dundas**  
Fund Manager

# Our Performance

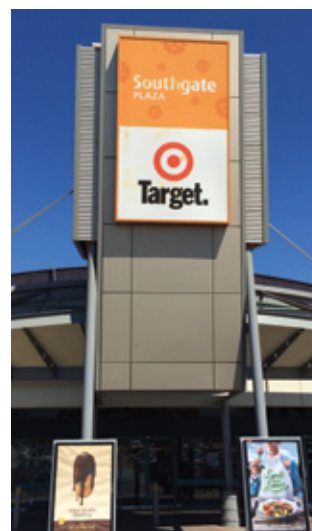
## Enhancing the Australian portfolio

During the year, we continued to enhance the quality of our Australian portfolio, acquiring three supermarket anchored shopping centres for \$193.2 million, reflecting an average initial yield of 7.7%. Each acquisition meets our strict investment criteria, with the Secret Harbour Shopping Centre in Western Australia, Southgate Plaza in South Australia and Rosebud Plaza in Victoria all within the \$20 million to \$100 million value range and anchored by a high turnover Coles and/or Woolworths supermarket.

In July 2014, we acquired Coomera City Centre for \$59.2 million; a neighbourhood centre located in one of South East Queensland's main growth corridors. This area benefits from a forecast population growth of 4.5% per annum over the next five years, which is expected to enhance rental growth opportunities. This high performing centre is 98% leased and has an 8.8 year weighted average lease expiry, with the Woolworths and Dan Murphy's leases contributing 48% of annual base rent. As with all our centres, Charter Hall will be responsible for the end-to-end property management, ensuring that the centre leverages this strong local growth and continues to provide a high quality and diverse range of services to its local community.

We continued to deliver on our redevelopment pipeline, completing \$84 million of redevelopments at South Hedland, Western Australia; and Orange Central and Singleton Square in New South Wales. These redevelopments are typically forecast to achieve stabilisation approximately 12 months following completion of construction, reflecting the current leasing environment. Pleasingly, our South Hedland development reached stabilisation on completion, opened fully leased and is trading above expectation post completion.

We have also commenced a further \$61 million of projects in Caboolture and Mackay in Queensland, and Lansell Square in Victoria. Each centre's anchor tenant is undergoing a refurbishment and/or extension as part of the works. The \$39 million expansion and refurbishment of Lansell Square in Bendigo involves the construction of a new 650sqm Reject Shop, the inclusion of a new format 4,300sqm Coles supermarket and refurbishment and expansion of the existing Woolworths to 4,000sqm. New 15 and 20 year leases have been agreed with the major tenants.



Acquired four shopping centres

# \$252.4 million

Average initial yield

# 7.6%

## Positive Australian portfolio performance

We are actively involved in the day-to-day management of our centres and our leasing team has worked closely with existing and new tenants to deliver increased total portfolio occupancy of 98.5% and a portfolio and anchor tenant weighted average lease expiry of 7.4 years and 11.3 years respectively. This is a positive result for our centres and investors and follows 179 renewals and 53 comparable new lease agreements completed during the year.

Same property NOI growth of 2.0% for the year is a strong result in the current leasing environment, with the active portfolio remixing and increased occupancy during FY14 positioning the REIT for an increased growth profile in future years.

Woolworths and Wesfarmers (Coles, Kmart and Target) anchor tenant leases continue to provide over 50% of our portfolio's annual base rent, which is split 41% from supermarkets and liquor and 12% from discount department stores. Our anchor tenants are also continuing to see positive sales growth of 3.7%<sup>1</sup>, with 53% of anchor tenants paying turnover rent. Our non-discretionary specialty tenancies, which complement each centre's offering, achieved sales growth of 1.5% and sales productivity of \$8,642 per sqm.

All stable properties were independently valued during the year, with Australian property valuations increasing by \$58.3 million<sup>2</sup> or 3% and total weighted average cap rates firming by 43 basis points across the portfolio.

### Total portfolio occupancy

**98.5%**

### Specialty rent growth

**2.6%**

## Proactive capital management

We refinanced or repaid \$828 million of debt facilities during the year, reducing the average Australian debt margin by 24 basis points on an annualised basis. This contributed to an Australian weighted average interest cost of 4.5% for the year to 30 June 2014.

Pleasingly, we completed the exit of our European and United States (US) portfolios during the year, following the sale of our German and Polish assets and the remaining wholly owned assets in the US. Post balance date, we completed the sale of a 50% interest in two assets located in New Zealand.

Post year end, we sold a small non-core shopping centre in Glen Innes, New South Wales, which is anchored by a Bi Lo and a Target, for \$3.6 million.

Following these sales, the REIT's balance sheet gearing reduced to 32.9%, which is in line with our focus on maintaining a strong and flexible balance sheet.

The REIT also raised \$118 million in new equity, including \$30 million through the Distribution Reinvestment Plan. These funds, combined with proceeds from the offshore sales, enabled the REIT to capitalise on acquisition opportunities and fund current redevelopment projects which will drive earnings in future years.

### Refinanced and repaid debt facilities

**\$828 million**

### Weighted Australian average debt cost

**4.5%**

<sup>1</sup> Calculated on a 12 month rolling basis for stores in turnover, excluding redevelopments.

<sup>2</sup> Before taking into account acquisition costs of \$13.9 million incurred during the year.



# Sustainability

**Sustainability continues to be a core part of how we enhance value and manage risk across the portfolio and we are currently taking part in Charter Hall Group's review of its approach to corporate responsibility and sustainability (CR&S).**

We look forward to the benefits this review will bring to the management of our retail property assets, as well as the further integration of sustainability opportunities into our overall strategy.

As the organisational approach to CR&S evolves over the coming year, we will continue to focus on enhancing the vital role our retail centres play in the life of local communities across Australia - as social and employment hubs and thriving places for local and national tenants.

We are excited about the new kinds of financial, environmental and social value that will be delivered to our stakeholders and believe our new strategy will satisfy the needs of investors looking for a genuine sustainability commitment.





## Business

### FY14 priority

### Response

**Formalise sustainability governance at the Board level.**

Charter Hall Retail REIT has committed to responding to the ASX's third edition of the corporate governance principles and recommendations during FY15 to achieve a robust governance framework.

**Continue to improve the quality and transparency of our sustainability reporting.**

Charter Hall (manager of CQR) was rated at the level of 'comprehensive', the highest category, in the Australian Council of Superannuation Investors' 2014 report, which benchmarks the public disclosures of ASX200 companies with reference to material environmental, social and corporate governance risks.

This rating 'demonstrates to investors that the company takes these issues seriously and gives investors valuable information to better inform their investment decision-making'.

**Evolve our corporate governance practices through Charter Hall implementing an internal audit function.**

We have implemented internal audit recommendations, with key enhancements including the restructure of the property services finance roles and responsibilities.

**Continue our focus on enhancing capital value by upgrading and repositioning key retail assets.**

We've completed \$84 million of centre redevelopments and commenced a further \$61 million of new centre enhancement projects.

## Environment

### FY14 priority

### Response

**Reduce energy usage in our managed properties by 5% in FY14.**

Energy usage across the portfolio reduced by 3% during FY14.

**Reduce water usage in our managed properties by 5% in FY14.**

We reduced water usage by over 10% across our retail assets during FY14 through a mixture of targeted reduction, efficient fittings installations and education.

**Continue to obtain NABERS Energy and Water ratings on all eligible retail properties.**

Five retail properties were certified against the NABERS rating during the year. The average rating across these five assets for energy was a NABERS rating of 2.8, while for water it was 3.4.

**Continue to improve the coverage and accuracy of our waste recycling data.**

We continued to improve the quality and accuracy of the waste and recycling data we are receiving during the reporting year. This included increasing the level of information received from waste contractors on a monthly basis. We still have opportunities to further improve the coverage and accuracy of this data across the REIT.

## Community

### FY14 priority

### Response

**Evolve our approach to charity partnerships to better align with our non-discretionary retail focus.**

We initiated a partnership with OzHarvest in December 2013 to help raise \$40,000 at our centres to supply 80,000 meals to those in need. Shoppers were engaged by being provided with an entry form whenever they spent a certain amount in store that saw us donate \$1 each time this threshold amount was met. We succeeded in raising \$40,000 for OzHarvest.

**Develop and implement a community engagement strategy aligned with our shopping centre vision 'to be the community square for today'.**

The brand rollout and community engagement program is currently being developed and will be launched later in 2014, with nine assets to be rebranded initially. The broader community investment program will be aligned with Charter Hall's CR&S strategy review.

**Conduct monthly safety inspections at all retail properties.**

Our retail property management teams conducted monthly safety and property risk inspections. A total of 743 inspections were completed and 3,147 improvement opportunity actions were completed.

**Roll out the remote contractor management and tracking system at all larger retail centres.**

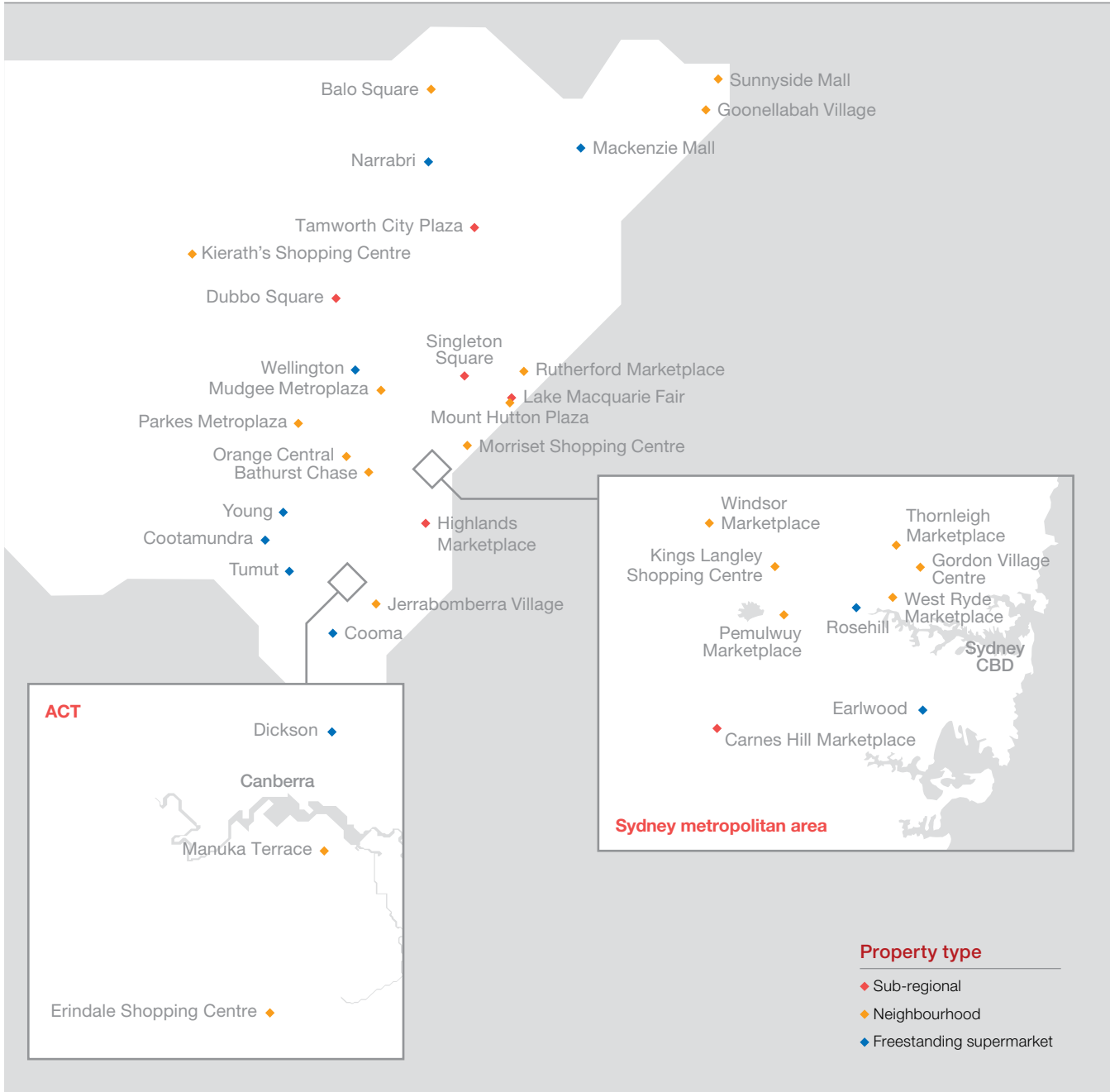
We implemented dedicated contractor check-in/out kiosks at 65 retail centres. This alerts us to contractors entering and leaving sites, as well as allowing us to track job types, hours worked and alert local management to risks or incidents identified by contractors.

**Continue to evolve our reporting on safety management metrics.**

We have continued to develop our systems and broaden our use of mobile technology, which in turn has generated the type of information that is available when reporting on work health and safety performance as leading and lagging indicators.

# Australian Property Portfolio

## New South Wales/Australian Capital Territory





Property	Location	Asset type	Interest (%)	Anchor tenant	Anchor tenant lease expiry	Total GLA (CQR share, sqm)	Book value (CQR share, A\$m)	Cap rate (%)
<b>ACT</b>								
Dickson Woolworths	Dickson	Freestander	100	Woolworths	Aug-23	3,712	15.7	6.75
Erindale Shopping Centre	Wanniassa	Neighbourhood	100	Woolworths	Aug-21	6,872	33.5	7.77
Manuka Terrace	Manuka	Neighbourhood	100	Coles	May-30	6,561	38.5	7.75
<b>ACT total</b>						<b>17,145</b>	<b>87.7</b>	<b>7.58</b>
<b>NSW</b>								
Balo Square	Moree	Neighbourhood	100	Coles	Nov-27	5,206	14.4	8.25
Bathurst Chase	Bathurst	Neighbourhood	100	Coles	Mar-25	7,109	14.8	9.50
Carnes Hill Marketplace	Horningsea Park	Sub-regional	50	Woolworths Big W	Mar-41 Mar-41	8,604	47.8	6.75
Cooma Woolworths	Cooma	Freestander	100	Woolworths	Aug-19	3,101	12.0	7.50
Cootamundra Woolworths	Cootamundra	Freestander	100	Woolworths	Jun-21	4,114	10.9	8.50
Dubbo Square	Dubbo	Sub-regional	100	Coles Target	Aug-27 Jul-19	12,741	34.0	8.25
Earlwood Coles	Earlwood	Freestander	100	Coles	Dec-22	2,675	18.1	6.25
Goonellabah Village	Goonellabah	Neighbourhood	100	Coles Target Country	Oct-20 May-17	6,146	14.4	8.75
Gordon Centre and Village	Gordon	Neighbourhood	100	Woolworths Harvey Norman	Jun-25 Jun-17	13,556	80.6	7.63
Highlands Marketplace	Mittagong	Sub-regional	50	Woolworths Big W	Mar-41 Mar-41	8,244	28.9	7.00
Jerrabomberra Village	Jerrabomberra	Neighbourhood	100	Woolworths	Nov-32	5,356	18.3	7.50
Kierath's Shopping Centre	Narromine	Neighbourhood	100	Coles	Feb-22	2,272	3.2	9.00
Kings Langley Shopping Centre	Kings Langley	Neighbourhood	100	Coles	Nov-24	5,228	27.0	8.00
Lake Macquarie Fair	Mount Hutton	Sub-regional	100	Woolworths Big W	Nov-28 Jul-22	16,931	63.7	7.75
Mackenzie Mall <sup>1</sup>	Glen Innes	Freestander	100	Bi-Lo Supermarket	Jun-20	3,451	3.6	8.25
Morisset Shopping Centre	Morisset	Neighbourhood	100	Coles Target	Apr-23 Oct-18	8,792	33.0	7.75
Mount Hutton Plaza	Mount Hutton	Neighbourhood	100	Coles	Dec-14	4,308	10.3	8.75
Mudgee Metroplaza	Mudgee	Neighbourhood	100	Woolworths	Jul-21	3,987	21.6	7.75
Narrabri Coles	Narrabri	Freestander	100	Coles Target	Jul-23 Apr-16	3,185	9.3	8.00
Orange Central	Orange	Neighbourhood	100	Coles	Aug-16	6,680	41.0	n/a <sup>2</sup>
Parkes Metroplaza	Parkes	Neighbourhood	100	Woolworths	Nov-31	4,395	17.6	8.00
Pemulwuy Marketplace	Greystanes	Neighbourhood	50	Woolworths	Mar-36	2,608	11.7	7.50
Rosehill Woolworths	Rosehill	Freestander	100	Woolworths	Nov-19	2,440	10.4	6.50
Rutherford Marketplace	Rutherford	Neighbourhood	50	Woolworths	Mar-37	3,460	14.7	7.25
Singleton Square and Plaza	Singleton	Sub-regional	100	Woolworths Coles Big W	Feb-33 Aug-28 Nov-32	27,507	117.3	7.00
Sunnyside Mall	Murwillumbah	Neighbourhood	100	Coles Target	Nov-27 Dec-15	7,571	35.3	8.00
Tamworth City Plaza	Tamworth	Sub-regional	100	Coles Kmart	May-17 May-17	13,745	36.0	8.25
Thornleigh Marketplace	Thornleigh	Neighbourhood	50	Woolworths	Mar-38	3,426	15.6	7.50
Tumut Coles	Tumut	Freestander	100	Coles	Jul-22	2,583	5.5	7.75
Wellington Coles	Wellington	Freestander	100	Coles	Jun-20	2,218	2.6	9.00
West Ryde Marketplace	West Ryde	Neighbourhood	50	Woolworths	Mar-41	3,190	18.8	7.50
Windsor Marketplace	Windsor	Neighbourhood	50	Woolworths	Mar-33	2,674	9.2	7.75
Young Woolworths	Young	Freestander	100	Woolworths	Nov-22	3,139	14.3	7.25
<b>NSW total</b>						<b>210,643</b>	<b>815.9</b>	<b>7.62</b>

<sup>1</sup> Sold post balance date.

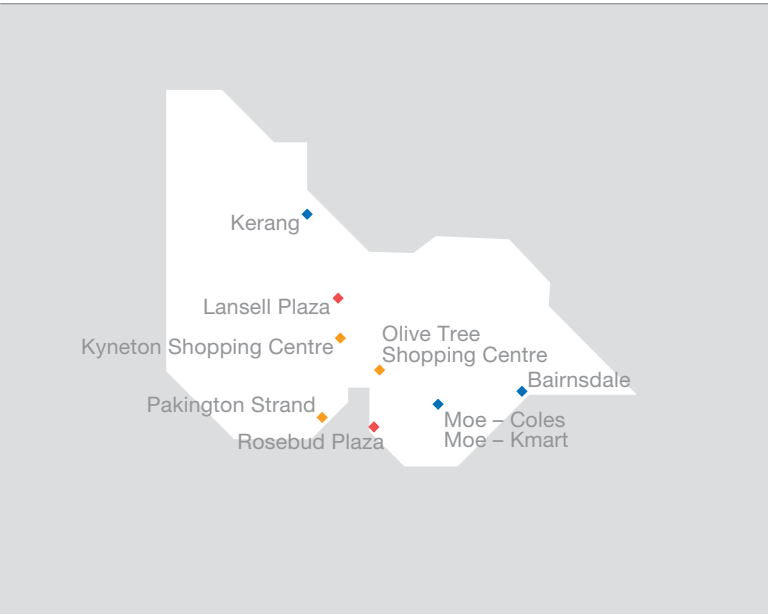
<sup>2</sup> Property classified as redevelopment.

# Australian Property Portfolio

## Queensland



## Victoria



- Property type**
- ◆ Sub-regional
  - ◆ Neighbourhood
  - ◆ Freestanding supermarket

Property	Location	Asset type	Interest (%)	Anchor tenant	Anchor tenant lease expiry	Total GLA (CQR share, sqm)	Book value (CQR share, A\$m)	Cap rate (%)
<b>QLD</b>								
Albany Creek	Brisbane	Neighbourhood	100	Coles	Jun-26	10,077	49.0	8.00
Allenstown Plaza	Rockhampton	Neighbourhood	100	Woolworths	Mar-33	8,008	45.4	8.00
Bay Plaza	Hervey Bay	Neighbourhood	100	Woolworths	Oct-27	5,533	19.2	8.00
Bribie Island Shopping Centre	Bribie Island	Sub-regional	100	Woolworths Target	Dec-27 Sep-20	10,698	46.3	7.25
Caboolture Park Shopping Centre	Caboolture	Sub-regional	100	Coles Kmart	Jun-28 Jun-21	17,039	36.5	n/a <sup>1</sup>
Currimundi Markets	Currimundi	Neighbourhood	100	Woolworths	Jun-21	5,679	29.5	7.25
Gatton Plaza	Gatton	Neighbourhood	100	Coles	Jan-20	4,787	16.0	8.25
Gladstone Shopping Centre	Gladstone	Neighbourhood	50	Woolworths	Sep-14	3,420	13.0	8.25
Kallangur Fair	Kallangur	Neighbourhood	100	Woolworths	Dec-18	4,706	15.0	8.00
Mareeba Plaza	Mareeba	Neighbourhood	100	Coles	Mar-23	4,269	12.6	8.25
Moranbah Fair	Moranbah	Neighbourhood	100	Coles Target	Mar-28 Feb-17	7,036	28.9	8.25
Springfield Fair	Springfield	Neighbourhood	100	Coles	May-21	4,764	18.7	7.75
Sydney Street Markets	Mackay	Neighbourhood	100	Coles	Jul-21	5,545	41.5	7.75
Tablelands Village	Atherton	Neighbourhood	100	Woolworths Target	Feb-34 May-17	4,927	27.2	n/a <sup>1</sup>
<b>QLD total</b>						<b>96,487</b>	<b>398.8</b>	<b>7.84</b>

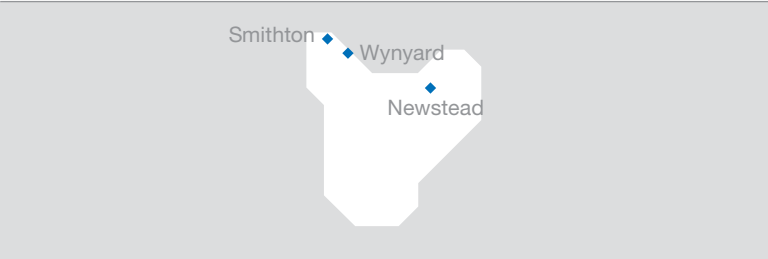
Property	Location	Asset type	Interest (%)	Anchor tenant	Anchor tenant lease expiry	Total GLA (CQR share, sqm)	Book value (CQR share, A\$m)	Cap rate (%)
<b>VIC</b>								
Bairnsdale Coles	Bairnsdale	Freestander	100	Coles	Dec-19	3,323	10.8	7.00
Kerang Safeway	Kerang	Freestander	100	Safeway	Mar-18	4,247	12.3	7.75
Kyneton Shopping Centre	Kyneton	Neighbourhood	100	Safeway	Sep-21	3,830	13.9	7.50
Lansell Plaza	Kangaroo Flat	Sub-regional	100	Coles Woolworths Kmart	Jul-30 Jul-30 Mar-19	16,829	51.2	n/a <sup>1</sup>
Olive Tree Shopping Centre	Lilydale	Neighbourhood	100	IGA	Jun-16	3,792	3.3	9.75
Moe Coles	Moe	Freestander	100	Coles	Apr-25	3,038	11.9	7.00
Moe Kmart	Moe	Freestander	100	Kmart	Aug-28	6,298	9.2	8.00
Pakington Strand	Geelong West	Neighbourhood	50	Woolworths	Mar-39	2,676	10.5	7.50
Rosebud Plaza	Rosebud	Sub-regional	100	Coles Safeway Kmart	Oct-26 Dec-26 Oct-26	24,581	100.0	7.50
<b>VIC total</b>						<b>68,612</b>	<b>223.1</b>	<b>7.51</b>

<sup>1</sup> Property classified as redevelopment.

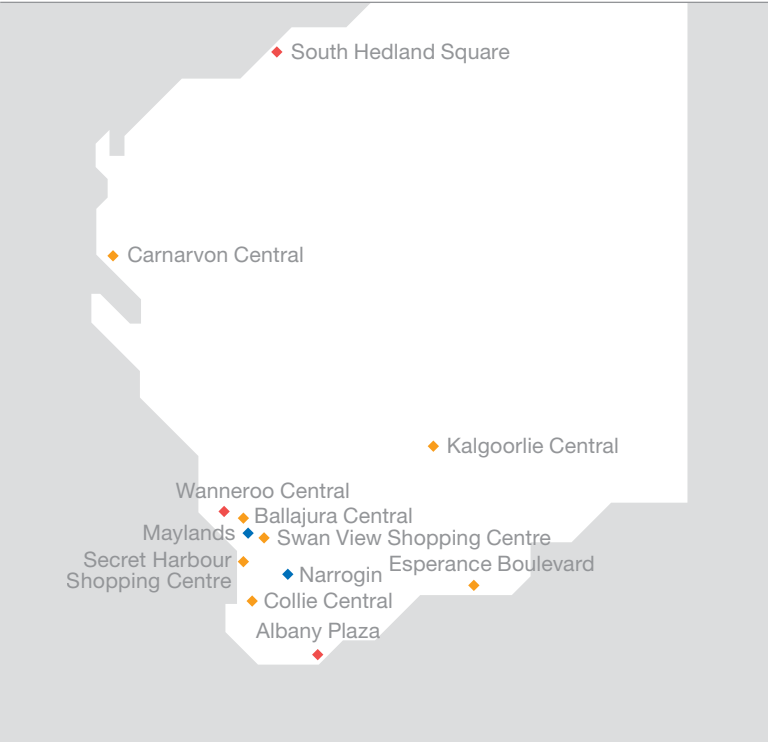


# Australian Property Portfolio

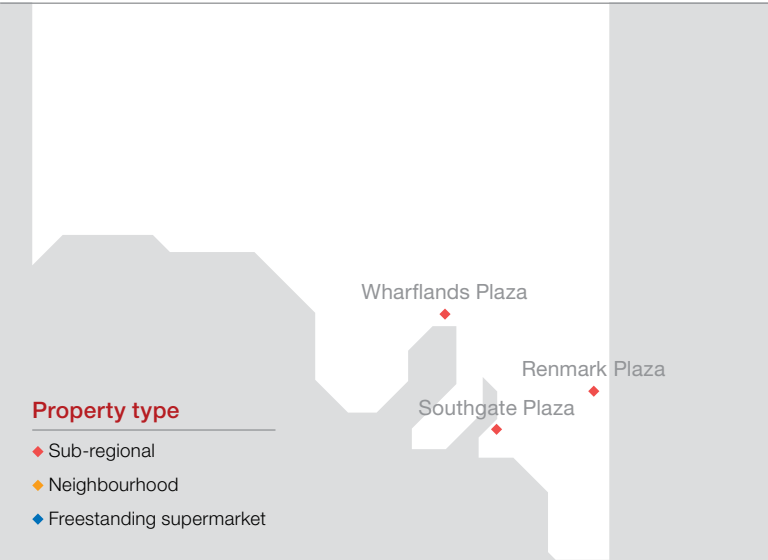
## Tasmania



## Western Australia



## South Australia



Property	Location	Asset type	Interest (%)	Anchor tenant	Anchor tenant lease expiry	Total GLA (CQR share, sqm)	Book value (CQR share, A\$m)	Cap rate (%)
<b>TAS</b>								
Newstead Coles	Newstead	Freestander	100	Coles	Aug-20	1,622	7.4	8.00
Smithton Woolworths	Smithton	Freestander	100	Woolworths	Sep-24	2,336	6.4	7.50
Wynyard Woolworths	Wynyard	Freestander	100	Woolworths	Jun-21	2,487	9.0	7.50
<b>TAS total</b>						<b>6,445</b>	<b>22.8</b>	<b>7.66</b>

Property	Location	Asset type	Interest (%)	Anchor tenant	Anchor tenant lease expiry	Total GLA (CQR share, sqm)	Book value (CQR share, A\$m)	Cap rate (%)
<b>WA</b>								
Albany Plaza	Albany	Sub-regional	100	Coles Kmart	Sep-17 Sep-17	17,823	51.6	7.50
Ballajura Central	Ballajura	Neighbourhood	100	Woolworths	Aug-21	4,680	11.0	7.25
Carnarvon Central	Carnarvon	Neighbourhood	100	Woolworths	Jan-32	6,258	14.4	9.00
Collie Central	Collie	Neighbourhood	100	Woolworths	Jun-20	4,508	8.0	8.00
Esperance Boulevard	Esperance	Neighbourhood	100	Woolworths Target Country	Sep-32 Jul-23	7,607	27.1	8.00
Kalgoorlie Central	Kalgoorlie	Neighbourhood	100	Woolworths	Mar-26	8,805	32.0	7.75
Maylands Coles	Maylands	Freestander	100	Coles	Dec-21	3,133	12.7	7.00
Narrogin Coles	Narrogin	Freestander	100	Coles	Jul-20	3,133	9.6	7.00
South Hedland Shopping Centre	South Hedland	Sub-regional	100	Coles Kmart	Aug-17 Oct-28	16,619	71.1	7.75
Secret Harbour Shopping Centre	Secret Harbour	Neighbourhood	100	Woolworths	Dec-26	5,798	36.5	7.25
Swan View Shopping Centre	Swan View	Neighbourhood	100	Coles	Nov-22	3,852	15.3	7.25
Wanneroo Central	Wanneroo	Sub-regional	50	Coles Kmart IGA	Aug-28 Sep-29 Sep-24	8,906	42.6	7.25
<b>WA total</b>						<b>91,123</b>	<b>331.9</b>	<b>7.58</b>

Property	Location	Asset type	Interest (%)	Anchor tenant	Anchor tenant lease expiry	Total GLA (CQR share, sqm)	Book value (CQR share, A\$m)	Cap rate (%)
<b>SA</b>								
Renmark Plaza	Renmark	Sub-regional	100	Woolworths Big W	Nov-22 Nov-22	11,864	26.7	8.50
Southgate Plaza	Morphett Vale	Sub-regional	100	Coles Target	Oct-26 Jun-27	15,835	60.7	7.25
Wharflands Plaza	Port Augusta	Sub-regional	100	Woolworths Big W	Jun-22 Jun-20	10,215	21.6	8.50
<b>SA total</b>						<b>37,915</b>	<b>109.0</b>	<b>7.80</b>

<b>Total CQR Portfolio</b>						<b>528,370</b>	<b>1,989.2</b>	<b>7.65</b>
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# Our Board and Fund Management



**John Harkness**  
Independent Chairman

John joined the Board in 2003, and was appointed Chairman in 2011.

A partner at KPMG for 25 years and National Executive Chairman for five years, John has held a number of non-executive director roles since leaving KPMG in 2000. He is currently an independent director of the Goodman Group as well as Chairman of Reliance Rail, Chairman of the National Foundation for Medical Research and Innovation and Vice-President of Northern Suburbs Rugby Football Club Limited.

John is a Fellow of both The Institute of Chartered Accountants (Australia) and the Australian Institute of Company Directors.



**Alan Rattray-Wood**  
Independent Director

Alan joined the Board in 1996, and is a member of the Audit, Risk and Compliance Committee. He is an experienced industry participant with more than 30 years' experience involving supermarket management, neighbourhood and regional sized shopping centre management, development and leasing, having held management roles with Woolworths, Westfield Holdings and other private developers. Since 1990, he has operated his own retail development consultancy practice, focusing on all facets of shopping centre development and retail chain insolvency workouts.



**Maurice Koop**  
Independent Director  
B.Com, DipEd, MBA

Maurice joined the Board in 2002, and is Chairman of the Audit, Risk and Compliance Committee. A senior adviser to The Boston Consulting Group, Maurice has 26 years' experience in consulting, with particular focus on consumer goods, retailing and the financial services industry. He has served as a non-executive director on a number of company boards including 13 years as a director of the Just Jeans Retail Group.





**David Harrison**  
Joint Managing Director  
B.Bus (Land Economy), GDipAppFin

David joined Charter Hall in 2004 and has 27 years of property market experience across office, retail and industrial sectors. As Charter Hall Group's Joint Managing Director, he is responsible for all aspects of the Charter Hall business, with specific focus on investment management, strategy, corporate transactions and property investment activities. David is directly responsible for overseeing the operation of the investment management divisions, including the listed REITs, wholesale unlisted and retail unlisted divisions, together with investor relations and transactions. He shares responsibility with David Southon for the Chief Financial Officer in relation to group finance, treasury and capital management.

In the last eight years, David has overseen the growth of the Charter Hall Group from \$500 million to \$11 billion of funds under management. He has been principally responsible for transactions exceeding \$15 billion of commercial, retail and industrial property assets across all the Group's property sectors over the past 23 years.

David also sits as an Executive Member on all Fund Boards and Investment Committees and is a Fellow Member of the Australian Property Institute (FAPPI).

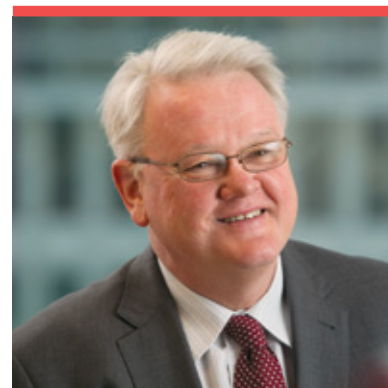


**David Southon**  
Joint Managing Director  
B.Bus (Land Economy)

David is a co-founder of the Charter Hall Group and has over 27 years of property industry experience across the office, industrial and retail sectors. As Charter Hall Group's Joint Managing Director, he is responsible for all aspects of the Charter Hall business, with direct responsibility for overseeing the operation of the property and support services divisions including office, industrial and retail property services; people, brand and community; legal/cosec; and technology, as well as strategic involvement in project origination and direction. He shares responsibility with David Harrison for the Chief Financial Officer in relation to group finance, treasury and capital management.

David is an Executive Director on the Charter Hall Group Board, the Board of the Responsible Entity for Charter Hall Retail REIT, as well as the Responsible Entity Board of the Charter Hall Direct Funds. He is also a Non-Executive Director on the Board of Commercial Industrial Property (CIP), a member of the Charter Hall Diversity Committee, and a member of the investment committee of Charter Hall Opportunity Fund No.5, as well as the Valuation Sub Committee.

David is a member of the Board of Advisers NSW for the Property Industry Foundation (PIF) and is a Fellow of the Australian Property Institute (FAPPI).



**Scott Dundas**  
Fund Manager Charter Hall Retail REIT  
LLB, Dip.Val, AAPI, FRICS

Scott joined Charter Hall in 2010 and has 35 years' experience in the property sector. After initially managing the REIT's property assets between 1998 and 2000, Scott has been responsible for sourcing and implementing the majority of the REIT's capital transactions in the United States, Europe, New Zealand and Australia, as well as the recycling of capital back into the Australian market. This year, he was named Best CEO 2014 in the Next 100 Property Sector at the East Coles Corporate Performance awards.

Before joining Charter Hall, Scott worked in a range of senior roles at Macquarie. Prior to that, he was the State Real Estate Manager for Coles Supermarkets and Coles Myer Limited in New South Wales and has also held senior positions in organisations ranging from commercial real estate agencies to various New South Wales statutory authorities.

He is a Barrister of the Supreme Court of New South Wales, a Registered Valuer, a Licensed Real Estate Agent, an Associate of the Australian Property Institute (AAPI) and a Fellow of the Royal Institute of Chartered Surveyors (RICS).





**Our goal is to be the pre-eminent owner and manager of Australian neighbourhood and sub-regional supermarket anchored shopping centres.**



# Corporate Governance Statement

Charter Hall Retail REIT (REIT) is a registered managed investment scheme listed on the ASX. The Responsible Entity is Charter Hall Retail Management Limited (CHRML), a member of the Charter Hall Group (Charter Hall). CHRML's role is defined by the REIT's Constitution, the Corporations Act and Regulations and the general law.

The Board of CHRML recognises the importance of corporate governance in achieving the investment objectives of the REIT, and discharging its responsibilities to all stakeholders of the REIT. The governance framework, as summarised in this Statement, has been designed to ensure that the REIT is effectively managed, the statutory obligations are met, and Charter Hall's culture of corporate integrity is reinforced. Due consideration has been given to the Corporate Governance Principles and Recommendations (2nd Edition) published in June 2010 by the ASX Corporate Governance Council (ASX Corporate Governance Principles), and any departure from these Principles is noted below. The Board intends to fully adopt the Corporate Governance Principles and Recommendations (3rd Edition) in 2015.

This Statement provides a summary of the key governance practices for the REIT that were in place and (unless stated otherwise) were followed throughout the financial year ended 30 June 2014.

Reference to the REIT's website is [www.charterhall.com.au/cqr](http://www.charterhall.com.au/cqr).

Reference to Charter Hall's website is [www.charterhall.com.au](http://www.charterhall.com.au).

## Corporate governance foundations

### Roles of the Board and Management

#### ASX Corporate Governance Principle 1 –

#### *Lay solid foundations for management and oversight.*

#### *ASX Recommendation 1.1 – Companies should establish functions reserved to the board and those delegated to senior executives and disclose those functions.*

Responsibility for corporate governance and the internal working of the REIT rests with the Board of CHRML. The Board has adopted a Charter that details the functions and responsibilities of the Board.

The responsibilities of the Board include:

- providing strategic direction and deciding upon the REIT's business strategies and objectives;
- monitoring the operational and financial position and performance of the REIT;
- overseeing risk management for the REIT, including determining the level of risk exposure that is considered acceptable in pursuit of the REIT's objectives, and reviewing and approving risk management policy and systems;
- ensuring that the REIT's financial and other reporting mechanisms result in adequate, accurate and timely information being provided to the Board;
- ensuring that unitholders and the market are fully informed of all material developments; and
- overseeing and evaluating the performance of Management in the context of the REIT's strategies and objectives.

In accordance with the REIT's Constitution and its responsible entity duties, the Board has authority to make decisions in respect of investments and divestments, equity or debt funding, related

party transactions (in accordance with the related party protocol described on page 29), approval of financial accounts, auditor appointment, adopting property valuations, distributions, annual reports and any significant changes to policies or debt facilities of the REIT.

Those Charter Hall executives and senior managers who have responsibility for the business activities of the REIT (Management) have delegated authority to make decisions in respect of the day-to-day management of the REIT and its assets, including appointment of advisers, approvals of asset business plans, budgets, capital expenditure and hedging (within approved hedging policy).

Each non-executive director of CHRML has received a letter of appointment which details the key terms of their appointment.

Management has formalised job descriptions and letters of appointment.

The Board Charter is available to view under the Corporate Governance section of the REIT's website.

### Performance evaluation – executives and senior managers

#### *ASX Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives.*

Executives and senior managers who have responsibility for the business activities of the REIT are employees of Charter Hall and, as part of Charter Hall's framework, undergo a formal assessment on at least an annual basis against performance criteria (Key Performance Indicator based financial and non-financial measures). The Board of CHRML provides informal feedback on the performance of the executives and senior managers, but does not participate in their formal appraisal.

This performance evaluation process was undertaken in the reporting period.

## Board structure

### *ASX Corporate Governance Principle 2 – Structure the Board to add value.*

The Board currently comprises three non-executive directors and two executive directors, as listed below. The Board believes that the directors collectively have the skills and experience required to add value to the REIT's activities. Directors' profiles, including details of their skills, experience and expertise can be found in the Directors' Report on page 36 to 38.

Name	Position	Independent (Yes/No)	First appointed
John Harkness	Chairman and Non-Executive Director	Yes	18 August 2003
Alan Rattray-Wood	Non-Executive Director	Yes	6 March 1996
David Harrison	Executive Director	No	1 March 2010
David Southon	Executive Director	No	1 March 2010
Maurice Koop	Non-Executive Director	Yes	12 August 2002

**ASX Recommendation 2.1 – A majority of the board should be independent directors.**

The Board of CHRML has determined that a majority of its membership is independent (according to the criteria summarised below). Due to their employment by Charter Hall in an executive capacity, neither David Harrison nor David Southon is considered to be independent.

The profiles of the Directors of CHRML, including details of their skills, experience and expertise can be found on pages 36 to 38 of this Annual Report.

### Independence

The Board considers that a director is independent when he/she is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with the exercise of unfettered and independent judgement. The Board evaluates the materiality of any interests or relationships that could be perceived to compromise independent on a case by case basis, having regard to the circumstances of each director.

Directors are expected to be meticulous in their disclosure of any material personal or family contract or relationship. Directors must also strictly adhere to constraints on their participation and voting in relation to matters in which they may have an interest, in accordance with the Corporations Act and relevant REIT and Charter Hall policies.

The Board regularly assesses whether directors are independent.

**ASX Recommendation 2.2 – The chair should be an independent director.**

The Chairman of CHRML is John Harkness. The Board has determined that John Harkness is 'independent' according to the criteria above.

**ASX Recommendation 2.3 – The roles of the chair and chief executive officer should not be exercised by the same individual.**

The Chairman of CHRML is John Harkness. The role of chief executive officer of CHRML is jointly performed by David Harrison and David Southon, as the executive directors of CHRML and Joint Managing Directors of the Charter Hall Group.

In terms of day-to-day management of the REIT, Scott Dundas as Fund Manager is responsible for all activities of the REIT. Financial reporting for the REIT is the responsibility of the Deputy Fund Manager.

### Nomination committee

**ASX Recommendation 2.4 – The board should establish a nomination committee.**

Whilst the ASX Corporate Governance Principles recommend the establishment of a nomination committee, the Board does not consider it is necessary or appropriate to constitute a nomination committee for CHRML, given that CHRML is a subsidiary of Charter Hall Group.

The Board of Charter Hall Group (utilising its Nominations Committee) is responsible for overseeing the appointment of Directors to the Responsible Entity of the REIT. However, the Board of CHRML sets the composition and membership criteria, as well as the guidelines for director selection and nominates candidates to the Board of Charter Hall Group for approval.

The following Board composition and membership criteria have been adopted by the Board of CHRML:

- the Board is to comprise at least three directors;
- directors nominated for election require approval by the Board;
- a majority of the directors must be independent (as defined above);
- the Board is to comprise directors with an appropriate range of qualifications and expertise; and
- the Chairman of the Board will be appointed by the Board.

In addition, the following guidelines apply to director selection and nomination by the Board:

- integrity;
- particular expertise (sector and functional) and the degree to which they complement the skill set of the existing Board members;
- reputation and standing in the market; and
- in the case of prospective independent directors, actual (as prescribed by the Charter Hall definition of independence above) and perceived independence from Charter Hall.

### Board performance

**ASX Recommendation 2.5 – Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

The following procedures are in place to support the Directors in performing their duties:

- a formal performance self-assessment of the Board, the Audit, Risk and Compliance Committee (ARCC) and individual directors;
- a formal induction program for directors; and
- access by directors to continuing education to update and enhance their skills and knowledge.

The procedure for evaluation of the Board's performance is that each independent director completes a questionnaire at least once every two years—to evaluate the Board and Chairman—and a Director peer evaluation.

Based on feedback from the questionnaire and from the Chairman's separate meetings with executive and non-executive directors, the Board as a whole then discusses and analyses Board and Committee performance during the year, including suggestions for change or improvement.

Six or more full Board meetings are held each year. Other meetings are called as required.

To ensure that Directors are well placed to discharge their duties effectively, they are provided with Board reports in advance of Board meetings which contain sufficient information to enable informed discussion of all agenda items.

### Independent professional advice

Directors are entitled to obtain independent professional advice at the cost of CHRML, and in some instances at the cost of the REIT.

# Corporate Governance Statement

## continued

### Ethical and responsible decision-making

#### ASX Corporate Governance Principle 3 –

#### Promote ethical and responsible decision-making.

*ASX Recommendation 3.1 – Companies should establish a code of conduct and disclose the code or a summary of the code as to: the practices necessary to maintain confidence in the company's integrity; the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

Charter Hall Group has established a Code of Conduct which applies to the REIT and is periodically reviewed and endorsed by the Board of CHRML. The Code forms the basis for ethical behaviour by staff and is the framework that provides the foundation for maintaining and enhancing Charter Hall's reputation for all its employees. The objective of the Code is to ensure that directors, other stakeholders and the broader community can be confident that Charter Hall and the REIT conducts their affairs honestly and in accordance with ethical values and practices.

The Code sets the standards for dealing ethically with employees, investors, customers, regulatory bodies and the financial and wider community. In addition to this, in order to deal specifically with responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour, the REIT has adopted a Fraud Risk Management Policy.

Charter Hall staff are trained regularly on matters pertaining to ethical behaviour in the workplace. Topics covered during the year ended 30 June 2014 included bullying and harassment training, and work health and safety training tailored for our retail employees. The Fraud Risk Management Policy and a summary of the Charter Hall Code of Conduct are available to view under the Corporate Governance section of the REIT's website.

### Managing conflicts

The REIT is part of the Charter Hall Group managed suite of property funds. Accordingly, in setting the corporate governance framework, CHRML also complies with Charter Hall's Related Party Transactions Policy and Conflicts Protocol.

This Policy safeguards the interests of investors in the investment vehicles, which at times may conflict with those of Charter Hall as sponsor of the vehicles.

The key elements of the Charter Hall Policy relates to management of conflicts of interest arising between Charter Hall managed vehicles and its related parties. It requires that:

- related party transactions are identified clearly and conducted on arm's length terms;
- related party transactions are tested by reference to whether they meet market standards; and
- decisions about transactions between Charter Hall managed vehicles and Charter Hall Group or its affiliates are made by the independent members of the Board or Committee.

The REIT has also established protocols for the Board in identifying and managing conflicts, including that:

- Board members declare their interests as required under the Corporations Act, ASX Listing Rules and other general law requirements;
- Board members with a material personal interest in a matter are not present at a Board meeting during the consideration of the

matter and subsequent vote unless the Board (excluding the relevant Board member) resolves otherwise;

- Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board; and
- Board members who are also Charter Hall executives do not vote on transactions with Charter Hall entities or Charter Hall managed entities.

The REIT also has a policy for dealing with actual, apparent or potential conflicts of interest which arise out of the fact that CHRML (as part of Charter Hall) and the REIT may transact from time to time or share staff or information with other Charter Hall companies or managed vehicles.

Personal conflicts that might arise generally for directors and staff are covered by the Code of Conduct referred to above.

### Securities trading

The Board has adopted a Securities Trading Policy, which regulates the manner in which directors and staff involved in the management of the REIT can deal in REIT securities. It requires that they conduct their personal investment activities in a manner that is lawful and avoids conflicts between their own interests and those of the REIT.

The Policy specifies the periods in which trading is not permitted.

The Securities Trading Policy is available to view under the Corporate Governance section of the REIT's website.

### Diversity

*ASX Recommendation 3.2 – Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity set by the board to assess annually both the objectives and progress in achieving them.*

*ASX Recommendation 3.3 – Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.*

*ASX Recommendation 3.4 – Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.*

CHRML does not employ staff directly; all employees working within the REIT's business are provided by Charter Hall. For this reason, employees working within the REIT's business are governed by Charter Hall Group policies.

Presently, the Board does not comprise a female member; however, it is the policy of the Board that diversity be considered in the selection and nomination of any replacement director or should an additional appointment be required.

The Charter Hall Group Board is committed to fostering a diverse and inclusive workforce in pursuit of the achievement of Charter Hall's corporate goals. Charter Hall considers diversity in the workplace as respecting and valuing differences based on a wide range of personal characteristics including gender, age and ethnicity, as well as diversity of thought and background. Charter Hall believes that people with different experiences, backgrounds and perspectives can provide unique viewpoints and innovative solutions from which the business can benefit.



In particular, the promotion of greater gender diversity broadens the pool for recruitment of high quality directors and employees, is likely to support employee retention, encourage greater innovation, and allows the Group to connect with its diverse client base, provides it with a balanced perspective, and is a socially and economically responsible governance practice.

The Board has adopted a Diversity and Inclusion Policy, which is available to view under the 'Corporate Governance' section of Charter Hall's website. This Policy contains the overriding objectives to increase the percentage of women in leadership and business related roles and to promote a culture that values diversity, inclusion and flexibility. To achieve these objectives, Charter Hall has put in place a strategy based around four key pillars. Achievements against these pillars in respect of the financial year ended 30 June 2014 are summarised in the table below.

Management has established a Diversity and Inclusion Committee comprising senior executives within the Group and chaired by the Head of Direct Property. The aim of this committee is to implement the specific diversity strategy and objectives of the Board.

Pillar	Objectives	Achievements
<b>Flexible working</b> – to mainstream flexibility in a way that directly links business performance, productivity and sustainability with workforce well-being and sustainability.	<ul style="list-style-type: none"> <li>Design and implement New Way of Working (NWOW) promoting flexibility, collaboration and engagement</li> </ul>	<ul style="list-style-type: none"> <li>Implemented the NWOW as part of our move to Activity Based Working in our Sydney head office, promoting flexibility and collaboration.</li> <li>Provided our head office people with the appropriate technology to enable flexible working.</li> <li>Commenced rolling out the NWOW flexible working IT platform across all offices Australia-wide.</li> </ul>
	<ul style="list-style-type: none"> <li>Develop and implement flexible working guidelines</li> </ul>	<ul style="list-style-type: none"> <li>Launched flexible working guidelines across the Group.</li> </ul>
	<ul style="list-style-type: none"> <li>Develop and implement a suite of benefits focused on enhancing flexibility</li> </ul>	<ul style="list-style-type: none"> <li>Launched a 'Supporting Working Families' suite of benefits which includes 14 weeks primary and one week secondary carers' leave; Work/Life Links services available to all our people; and the Parental Transition Program which guides our people from 'pre-parental leave' to 'whilst on leave' through to 'returning to work'.</li> <li>92% of our people who went on carers' parental leave returned to work.</li> <li>Promoted purchased leave benefit (one to two weeks per year) with 22 people taking up the option in FY14.</li> <li>Provided a family room with breast feeding and infant change facilities for working parents in our new head office.</li> <li>Four people took up our career break initiative.</li> </ul>
	<ul style="list-style-type: none"> <li>Develop management capability to lead teams engaged in flexible work</li> </ul>	<ul style="list-style-type: none"> <li>NWOW change management program sessions included leading flexible teams.</li> </ul>
<b>Inclusive culture</b> – create an environment where people with diverse backgrounds, skills and perspectives feel trusted, valued and respected and that they are able to contribute to the organisation.	<ul style="list-style-type: none"> <li>Values are integrated into people lifecycle activities</li> </ul>	<ul style="list-style-type: none"> <li>NWOW change management program focussed on three of our values – passion, collaboration and accountability.</li> <li>Launched an employee rewards program which rewards our people for living our values.</li> </ul>
	<ul style="list-style-type: none"> <li>Conduct refresher training on appropriate workplace behaviour</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate workplace behaviour training conducted with all our managers.</li> </ul>
	<ul style="list-style-type: none"> <li>Unconscious bias training</li> </ul>	<ul style="list-style-type: none"> <li>Unconscious bias training delayed to FY15.</li> <li>Provided a room suitable for prayer and/or meditation as part of our new head office facilities.</li> </ul>
<b>Gender balance</b> – to achieve gender balance in all roles across our business.	<ul style="list-style-type: none"> <li>Continue gender specific development initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Through FY14 we had a total of 45 internal promotions with 30 being male and 21 female.</li> <li>Revised recruitment processes to counter possible gender bias.</li> <li>A number of females attended targeted development courses for Women in Leadership and participated in the Women in Property Mentoring Program.</li> </ul>
	<ul style="list-style-type: none"> <li>Track and monitor progress against our targets</li> </ul>	<ul style="list-style-type: none"> <li>Overall we have seen an increase in female representation across all levels of Charter Hall with females making up 49% of our workforce. The Senior Management team comprises 18% females.</li> <li>Aspirational gender targets have been set from FY12 through to FY15, with targets through to FY18 currently under revision. Performance against targets has been mixed with solid increases in business related roles and management with more moderate, but encouraging increases at the Senior Management level.</li> </ul>

# Corporate Governance Statement

## continued

Pillar	Objectives	Achievements
<b>External profile</b> – to develop our employment brand so that Charter Hall is perceived as a “great place to work” by current employees and key external stakeholders (including active and passive candidates, tenants and investors) with an initial focus on gender	<ul style="list-style-type: none"> <li>Sponsor community and industry events around diversity</li> <li>Represent CHC on the Property Council of Australia (PCA), Women in Property Committee</li> <li>Participate in creating initiatives that impact gender balance across the industry</li> </ul>	<ul style="list-style-type: none"> <li>Sponsored Commercial Office Forum and tables at various events aimed at promoting diversity in the workplace.</li> <li>Head of People, Brand and Community a member of the PCA's Women in Property Committee.</li> <li>Participated in the Property Council working group responsible for developing the Women in Property Mentoring Program.</li> <li>Foundation sponsor Property Council's Women in Property Mentoring Program.</li> </ul>

Charter Hall will continue to measure its success in achieving its targets through:

- employee data such as workforce profile data, learning and development, talent and succession, flexible work practices and recruitment data;
- annual external benchmarking of Charter Hall's diversity initiatives and targets against our competitors; and
- employee surveys to invite better understanding of the creation of a diverse and inclusive workplace.

Charter Hall's Diversity and Inclusion Policy, as well as its FY15 objectives, are available to view under the Corporate Governance section of the Charter Hall website.

### Sustainability policy

The Board of CHRML has adopted Charter Hall's sustainability policy for the REIT. Charter Hall's approach to sustainability is set out on pages 10 to 11 of this Annual Report.

Charter Hall's Sustainability Policy is available to view under the Corporate Governance section of the Charter Hall website.

### Financial integrity

*ASX Corporate Governance Principle 4 – Safeguard integrity in financial reporting.*

The Board has the responsibility for monitoring the integrity of the REIT's financial reporting. To assist the Board in fulfilling this responsibility, the processes discussed below have been adopted.

### Audit, Risk and Compliance Committee

*ASX Recommendation 4.1 – The board should establish an audit committee.*

*ASX Recommendation 4.2 – The audit committee should be structured so that it: consists only of non-executive directors; consists of a majority of independent directors; is chaired by an independent chair, who is not chair of the board; and has at least three members.*

*ASX Recommendation 4.3 – The audit committee should have a formal charter.*

The Board has established an ARCC to oversee the quality and integrity of accounting, audit, financial and risk management practices for the REIT. The ARCC is comprised of only independent directors, and is chaired by an independent director who is not the Chairman of the Board.

The Board has developed a charter which sets out the Committee's role, responsibilities, composition, structure and membership requirements.

As stated in its Charter, the responsibilities of the ARCC in relation to financial reporting are to:

- review the internal control and compliance systems of CHRML and the REIT;
- monitor the integrity of the financial statements of CHRML and the REIT;
- consider significant financial reporting issues and judgements made in connection with the REIT's financial statements;
- review and inform the Board on matters relating to the Auditor;
- monitor compliance by CHRML with legal and regulatory requirements;
- regularly monitor risk management reports provided by Management; and
- assess at regular intervals whether the REIT's compliance plan, internal financial control systems, risk management policies and risk management systems are adequate.

The Auditor is invited to ARCC meetings and also meets privately with the ARCC at least twice a year.

The ARCC is comprised of independent directors only, all of whom have an appropriate level of financial and property industry expertise. More information on ARCC members, including qualifications and attendance at ARCC meetings, can be found on pages 36 to 39 of the Directors' Report.

### Auditor independence

In order to ensure the independence of the Auditor, the Board has adopted a Policy requiring that:

- the Auditor remain independent from Charter Hall and the REIT at all times;
- the Auditor monitor its independence and report to the Board every six months on its continuing independence;
- non-audit assignments undertaken by the Auditor are in accordance with the Policy; and
- all non-audit assignments are reported to the ARCC.

The Auditor is available to answer unitholder questions on the conduct of an audit, and the preparation and content of the Auditor's Report. In line with Charter Hall policy, the REIT has appointed PricewaterhouseCoopers (PwC) as Auditor. PwC is expected to carry out its responsibilities in accordance with Australian law and audit firm policy in respect of partner rotation.

The ARCC Charter and Auditor Independence Policy are available under the Corporate Governance section of the REIT's website.

## Disclosure

*ASX Corporate Governance Principle 5 –  
Make timely and balanced disclosure.*

*ASX Recommendation 5.1 – Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies.*

The CHRML Board strives to provide timely, open and accurate information to all stakeholders, including unitholders, regulators and the wider investment community.

The Board has adopted Charter Hall Group's Continuous Disclosure and Communications Policy, which summarises the internal processes to ensure compliance with ASX Listing Rules and Australian law in respect of continuous disclosure.

This Policy includes procedures for dealing with potentially price-sensitive information, including referral to the executive directors and the Company Secretary, and the Board where necessary, for a determination as to the appropriate disclosure required. The Company Secretary is the ASX liaison person.

Charter Hall's Continuous Disclosure and Communications Policy is available to view under the Corporate Governance section of the REIT's website.

## Unitholder communication

*ASX Corporate Governance Principle 6 –  
Respect the right of shareholders.*

*ASX Recommendation 6.1 – Companies should design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.*

The Board of CHRML has adopted Charter Hall Group's Continuous Disclosure and Communications Policy. The Policy contains information on the methods of providing timely and relevant information to unitholders, including the following:

- the right for investors to receive an annual report and updates which keeps them informed of the REIT's performance and operations;
- placement under the News section of the REIT's website of market-sensitive information in the form of ASX announcements or webcasts, investors also have the ability under this section of the website to register to receive email alerts of the REIT's ASX announcements;
- placement under the Investor section of the REIT's website of distribution and tax information, unit price information, financial results information including results webcast, investor presentations, past and current reports to unitholders and past unitholder meeting information; and
- where investor roadshows contain new information, they are uploaded to the REIT's website following release to the ASX.

Trusts such as the REIT are not required by law to hold an annual meeting; however, the REIT does hold an annual unitholders' meeting between October and December. This annual meeting is conducted on an informal basis unless there is formal business to be considered. In the event of a formal meeting, a full copy of the notice of meeting, including an explanatory memorandum on the resolutions, is placed on the REIT's website. For unitholders who are unable to attend formal meetings to vote, proxies may be lodged online, by mail or by facsimile. All meetings are also webcast.

Charter Hall's Continuous Disclosure and Communications Policy is available to view under the Corporate Governance section of the REIT's website. Recent annual reports and financial results are available under the Investor section of the REIT's website. Recent ASX announcements and investor webcasts are available to view under the News section of our website.

## Risk management

*ASX Corporate Governance Principle 7 –  
Recognise and manage risk.*

*ASX Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

Management has developed a risk management framework for the REIT under the oversight of CHRML's ARCC. As detailed in its Charter, as part of its risk monitoring duties, the ARCC is required to:

- review the internal control and compliance systems of CHRML and the REIT;
- regularly monitor risk management reports provided by Management; and
- assess at regular intervals whether the REIT's compliance plan, internal financial control systems, risk management policies and risk management systems are adequate.

*ASX Recommendation 7.2 – The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.*

Charter Hall executives and senior managers who have responsibility for the business activities of the REIT are required to observe the REIT's Compliance Plan and ensure that there is an underlying compliance framework, including detailed policies and procedures, staff training and supervision and appropriate compliance reporting.

Charter Hall's Risk and Compliance Manager is responsible for reviewing and monitoring the efficiency of compliance systems on an ongoing basis so that appropriate compliance procedures, staff education and reporting arrangements are in place to support the compliance framework.

Each financial year, an Operational Risk Self-Assessment is conducted in which Management considers key risks and controls and assesses their effectiveness. Findings resulting from this assessment are reported to the ARCC and the Board. During the financial year ended 30 June 2014, Management has reported on the effectiveness of the REIT's management of its material risks.



# Corporate Governance Statement

## continued

Considerable importance is placed on maintaining a strong control environment through an organisation structure with clearly drawn lines of accountability and authority. To assist with this process, Charter Hall Group has engaged Ernst & Young to provide an internal audit function, which also applies to the REIT, and has been progressively implemented within the 2014 financial year. The Board of CHRML has adopted this strategy objective.

The REIT's Compliance Plan is available to review under the Corporate Governance section of the REIT's website.

### CEO and CFO assurance

*ASX Recommendation 7.3 – The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*

The Board has received assurance from the Fund Manager and the Deputy Fund Manager of the REIT that the REIT's financial statements are founded on a sound system of risk management and internal control and that the system is operating in all material respects in relation to financial reporting risks. This assurance is supported by a review and sign-off process from executives and senior managers on the key items that make up the risk management and control systems.

A summary of the Risk Management Framework is available to review under the Corporate Governance section of the REIT's website.

### Remuneration

*ASX Corporate Governance Principle 8 – Remunerate fairly and responsibly.*

*ASX Recommendation 8.1 – The board should establish a remuneration committee.*

*ASX Recommendation 8.2 – The remuneration committee should be structured so that it: consists of a majority of independent directors; is chaired by an independent chair; and has at least three members.*

Whilst ASX Corporate Governance Principles recommend the establishment of a remuneration committee, the Board does not consider it necessary or appropriate to constitute a remuneration committee, as the REIT does not employ staff directly.

The Board of Charter Hall Group (utilising its Remuneration and Human Resources Committee) is responsible for setting and overseeing the remuneration policies and equity based plans for Charter Hall executives and senior managers, including those that have responsibility for the business activities of the REIT.

A summary of these policies is available in the Charter Hall Annual Report on the Charter Hall website.

Further information is provided in the Remuneration Report on page 87 of this Annual Report.

*ASX Recommendation 8.3 – Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*

### Executive Directors

The Executive Directors of CHRML, and senior managers of Charter Hall who have responsibility for the business activities of the REIT, are not paid by CHRML or the REIT. They are remunerated by Charter Hall.

The REIT pays fees for CHRML carrying out its responsible entity duties for the REIT (which includes 'Manager' fees as defined under the REIT's Constitution). These fees are described further below under the section 'REIT's management arrangements'.

While the REIT's Management are Charter Hall employees, there is a strong alignment of interest between those employees and the REIT's investors. This is evidenced by Charter Hall's remuneration system which ensures that a significant amount of remuneration is at risk and solely dependent on performance.

Further information is provided in the Remuneration Report on page 87 of this Annual Report.

### Non-Executive Directors

Fees of the non-executive directors of CHRML were paid by the REIT from 1 January 2012.

Non-executive directors of CHRML are not entitled to Charter Hall options or securities or to retirement benefits as part of their appointment.

### REIT's management arrangements

The following is a high level summary of the REIT's current management arrangements addressing the disclosure recommended in ASX Guidance Note 26. We recommend that you read the REIT's Constitution on the REIT's website.

### Investment mandate

The principal investment policy of the REIT is investment in Australian retail properties focusing on food and non-discretionary retail spending, predominantly anchored by market leading supermarket retailers.

This policy may be varied from time to time upon giving reasonable notice to unitholders.

Source: ASX Announcements; REIT's Constitution clause 11.

### Services

CHRML has all the powers of a natural person including contracting, borrowing and investment and carries out all management functions for the REIT subject to outsourcing registry services to Link Market Services Limited ABN 54 083 214 537 and REIT custodial services to Perpetual Trustee Company Limited ABN 42 000 001 007.

Sources: REIT's Constitution clause 11; Corporations Act s601FB, s601FC.

### Term

CHRML has no fixed term of appointment and therefore the appointment continues until it is removed or retires or unitholders vote to wind up the REIT as provided for in the REIT's Constitution or by law.

Source: REIT's Constitution clauses 12 and 20.

### Extension or renewal

Not applicable.

## Termination

The REIT may terminate the appointment of the Responsible Entity without cause, by unitholder vote.

The resolution must be passed by at least 50% of votes cast at a meeting by unitholders entitled to vote. The Responsible Entity and associates may vote their securities on the resolution.

ASIC or a court may replace the Responsible Entity where there are solvency issues or members are likely to suffer a loss because the Responsible Entity has breached the Corporations Act.

Pursuant to the Corporations Act, the Responsible Entity can retire if it first convenes a unitholders' meeting to explain its reason for retirement and to enable unitholders to vote on a resolution to choose a new responsible entity.

Base fees and performance fees accrued to the date of termination are payable. There are no other termination fees payable.

Source: REIT's Constitution clause 12 and 19; Corporations Act s601FL, s601FM, s601FN, s253E.

## Fees

### Base fee

The base fee is currently calculated as:

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

The base fee is calculated six monthly and is paid quarterly in arrears.

### Performance fee

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

If the REIT's performance during a six month period is higher than the percentage increase in the Index for the relevant period, then CHRML is entitled to new units in the REIT or a payment with a total value equal to:

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

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

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

## Waiver of fees

The Responsible Entity may accept lower fees or defer fees.

Source: REIT's Constitution clause 19.

## Expenses

CHRML is entitled to be reimbursed for expenses incurred in relation to the proper performance of its responsible entity duties. Expense reimbursement will not include administration costs such as premises, staff and facilities.

Source: REIT's Constitution clause 19; Corporations Act, s601GA(2).

## Exclusivity

The Responsible Entity of the REIT may act for other parties and outsource its general management responsibilities to other Charter Hall or non-Charter Hall managers (but remains liable for their actions).

Charter Hall (including CHRML) has no obligation to provide investment opportunities to the REIT, and the REIT has no obligation to accept any investment opportunities and has no priority to investment opportunities.

Source: REIT's Constitution clauses 11 and 16; Corporations Act s601FB.

## Authorities

The Board of CHRML as Responsible Entity of the REIT makes all significant investment/divestment and operational decisions in relation to the REIT unless specifically delegated to Management.

Source: REIT's Constitution clause 11.

## Related party protocols

Charter Hall has adopted a detailed related party protocol covering potential conflicts of interest between different Charter Hall Group entities.

The REIT has also adopted a Related Party Policy which covers transactions with and services provided by Charter Hall companies and managed vehicles.

Examples of areas in which Charter Hall may provide resources or services are: property due diligence, property management, property agency services including facilities management, leasing, property sales and acquisitions, project management, debt arrangement, accounting and corporate and development management and property compliance.

All related party transactions or services must be on arm's length terms and are approved by the independent directors of CHRML only. The fees for related party services are disclosed in the financial statements for the REIT.

Mandates for the provision of related party services to the REIT require approval by the independent directors based on appropriate market information or practice and, when considered appropriate, are subject to third party independent review.

In the case of the provision of services, the reviewers have regard to market evidence gathered from their own enquiries, including information requested from Charter Hall.

For further information on related party fees, please refer to the financial statements.

Source: Charter Hall Group Related Party Transactions Policy; Corporations Act – Part 5C.7 which governs transactions by REITs.

# Corporate Governance Statement

## continued

### *Change of control*

The REIT co-invests from time to time with other companies or managed vehicles, potentially including Charter Hall companies or Charter Hall-managed funds. Co-investment arrangements may include pre-emption and tag along or drag along rights in favour of each other, including rights which are triggered on a change of control of, or removal of, the Charter Hall manager typical of those agreed with third party co-investors.

In addition, loan facilities for Charter Hall Retail REIT assets may provide for acceleration of loan payments if the REIT is no longer managed by a Charter Hall company.

CHRML's independent directors obtain separate legal advice on change of control issues as necessary, and the arrangements are approved by the independent directors and disclosed to unitholders.

Source: Charter Hall Group Related Party Transactions Policy.

### *Variation to management arrangements*

Any variations of the REIT's management arrangements will be effected by changing the REIT Constitution.

Any changes to the Group Constitution which are adverse to unitholders' rights, including changes to fee structures to increase fees, would require approval by unitholders at a general meeting. The resolution to authorise such a change of the Constitution must be supported by at least 75% (by value) of votes cast.

Source: REIT's Constitution clause 22; Corporations Act s601GC.

### *Director appointment rights*

In accordance with the Corporations Act and CHRML's Constitution, Charter Hall Group currently appoints all of the directors of CHRML, given that it is a Charter Hall subsidiary.

The REIT unitholders will be asked to ratify the appointment of independent directors on the Board of CHRML by a non-binding vote.

As the REIT is an externally managed trust, unitholders are not legally able to vote for directors of the Responsible Entity. Instead, the non-executive directors must be appointed by Charter Hall Group which will observe unitholders' votes on this matter.

### *What you can find on our website:*

Charter Hall Retail REIT Constitution; and  
Charter Hall Retail Management Limited Constitution.



# Financial Report

for the year ended 30 June 2014

Directors' Report	32
Auditor's Independence Declaration	40
Consolidated Statement of Comprehensive Income	41
Consolidated Balance Sheet	42
Consolidated Statement of Changes in Equity	43
Consolidated Cash Flow Statement	44
Notes to the Consolidated Financial Statements	45
1. Summary of significant accounting policies	45
2. Segment information	51
3. Profit for the year from continuing operations	53
4. Distributions paid and payable	54
5. Earnings per unit	55
6. Cash and cash equivalents	55
7. Receivables	55
8. Derivative financial instruments	56
9. Other assets	56
10. Assets and liabilities classified as held for sale and discontinued operations	57
11. Investment properties	60
12. Investment in joint venture entity	61
13. Payables	62
14. Distribution payable	63
15. Other liabilities	63
16. Borrowings	63
17. Contributed equity	64
18. Reserves	65
19. Accumulated losses	65
20. Net tangible assets	65
21. Cash flow information	66
22. Capital and financial risk management	67
23. Fair value measurement	74
24. Related party information	77
25. Remuneration of the auditor	81
26. Commitments and contingent liabilities	81
27. Significant contract terms and conditions	81
28. Parent entity financial information	82
29. Interest in other entities	83
30. Events occurring after balance date	83
Directors' Declaration to Unitholders	84
Independent Auditor's Report	85
Remuneration Report	87
Unitholder Analysis	89
Distribution History	91
Investor Information	92
Corporate Directory	93

# Directors' Report

for the year ended 30 June 2014

The Directors of Charter Hall Retail Management Limited (Responsible Entity or CHRML), the responsible entity of Charter Hall Retail REIT, present their report together with the consolidated financial statements of Charter Hall Retail REIT and its controlled entities (together, the REIT) for the year ended 30 June 2014.

## Principal activities

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

## Directors

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

- John Harkness – Chairman and Non-Executive Director
- David Harrison – Executive Director and Joint Managing Director of Charter Hall Group
- Maurice Koop – Non-Executive Director and Chairman of Audit, Risk and Compliance Committee
- Alan Rattray-Wood – Non-Executive Director
- David Southon – Executive Director and Joint Managing Director of Charter Hall Group
- Scott Dundas – Alternate for David Southon and David Harrison.

## Distributions

Distributions paid or declared by the REIT to unitholders:

	2014 \$'m	2013 \$'m
Final distribution for the six months ended 30 June 2014 of 13.65 cents per unit payable on 29 August 2014	50.4	–
Interim distribution for the six months ended 31 December 2013 of 13.65 cents per unit paid on 28 February 2014	49.5	–
Final distribution for the six months ended 30 June 2013 of 13.50 cents per unit paid on 21 August 2013	–	45.6
Interim distribution for the six months ended 31 December 2012 of 13.30 cents per unit paid on 15 February 2013	–	44.4
	<b>99.9</b>	<b>90.0</b>

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

## Distribution Reinvestment Plan

The REIT has established a Distribution Reinvestment Plan (DRP) under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new units rather than being paid in cash. The DRP was in operation for the 30 June 2014 distribution with funds raised to be used for the REIT's redevelopment pipeline.

The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the record date. The REIT raised \$14.2 million from the DRP for the 31 December 2013 distribution and expects to raise \$9.5 million from the DRP for the 30 June 2014 distribution.

## Review and results of operations

The REIT recorded a statutory profit for the year of \$85.2 million compared to a statutory profit of \$52.6 million in 2013. Operating earnings amounted to \$105.3 million compared to \$93.1 million in 2013 due to:

- increased net property income from Australian properties following acquisitions, developments and income growth during the year;
- reduced offshore net property income following disposals completed; and
- lower finance costs reflecting lower floating rates combined with lower margins on the REIT's Australian debt facilities.

Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items.

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

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

	2014 \$'m	2013 \$'m
Net property income from wholly owned properties	132.4	131.4
Net income from joint venture entities	10.3	11.6
Realised gains on derivative financial instruments	0.9	1.6
Other income	0.5	1.0
Management fees	(8.2)	(8.0)
Finance costs	(26.7)	(39.1)
Other expenses	(3.9)	(4.5)
Tax expense	–	(0.9)
Operating earnings*	105.3	93.1

\* Further detail on Operating Earnings is contained in Note 2.

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

	2014 \$'m	2013 \$'m
<b>Operating earnings</b>	<b>105.3</b>	<b>93.1</b>
Net valuation gains on Australian investment properties	59.7	1.6
Write-off of acquisition costs incurred on Australian investment properties	(13.9)	(6.8)
Net valuation losses on Australian investment properties held for sale	(1.4)	(3.6)
Net valuation losses on offshore investment properties	(22.9)	(34.1)
Revaluation adjustments	0.2	(0.7)
Unrealised (losses)/gains on derivative financial instruments	(6.4)	20.3
Capital transaction-related realised losses on derivative financial instruments	(2.4)	(17.6)
Loss on sale of investment properties	(4.0)	(2.7)
Debt break cost associated with US investment property held for sale	–	(2.4)
Deferred tax (expense)/benefit	(0.2)	8.0
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	(30.6)	(5.4)
Earnings from German operations**	2.5	3.3
Other	(0.7)	(0.4)
<b>Statutory profit from continuing and discontinued operations</b>	<b>85.2</b>	<b>52.6</b>
<b>Basic weighted average number of units (millions)</b>	<b>355.7</b>	<b>323.9</b>
<b>Basic earnings per unit (cents)</b>	<b>23.95</b>	<b>16.24</b>
<b>Operating earnings per unit (cents)</b>	<b>29.60</b>	<b>28.74</b>
<b>Distributions per unit (cents)</b>	<b>27.30</b>	<b>26.80</b>

\*\* Excluding unrealised and non-cash items relating to German operations.



# Directors' Report continued

for the year ended 30 June 2014

## Review and results of operations continued

The 30 June 2014 financial results are summarised as follows:

	2014	2013
Revenue (\$ millions)	<b>184.5</b>	162.6
Net profit after tax (\$ millions)	<b>85.2</b>	52.6
Basic earnings per unit (cents)	<b>23.95</b>	16.24
Operating earnings (\$ millions)	<b>105.3</b>	93.1
Operating earnings per unit (cents)	<b>29.60</b>	28.74
Distribution (\$ millions)	<b>99.9</b>	90.0
Distribution per unit (cents)	<b>27.30</b>	26.80
Total assets (\$ millions)	<b>2,065.0</b>	2,057.1
Total liabilities (\$ millions)	<b>809.9</b>	936.0
Net assets attributable to unitholders (\$ millions)	<b>1,255.1</b>	1,121.1
Units on issue (millions)	<b>369.0</b>	337.6
Net assets per unit (\$)	<b>3.40</b>	3.32
Balance sheet gearing – total debt (net of cash) to total assets (net of cash)	<b>34.9%</b>	39.8%

## Significant changes in the state of affairs

In July 2013, the REIT acquired Secret Harbour Shopping Centre in Western Australia for a gross purchase price of \$33.2 million and sold its 50% interest in Home HQ Nunawading in Victoria for a gross sale price of \$24.0 million.

In August 2013, the REIT refinanced its multi-currency debt facility with a new syndicated debt facility and extended the term to August 2018. This refinance also increased the facility limit to \$425.0 million, reduced the margin and introduced a new banking partner to facilitate future growth for the REIT.

In October 2013, the REIT completed the sale of its five Polish properties for a gross sale price of €174.5 million (A\$250.4 million). The net proceeds of A\$60 million were utilised to fund the acquisition of Southgate Plaza in South Australia for a gross purchase price of \$60 million.

The REIT also completed the sale of its United States portfolio, selling its final three wholly owned properties located at Powers Ferry in Atlanta, Georgia, Centennial Crossroads in Las Vegas, Nevada and Woodstock Crossing in Woodstock, Georgia, for a combined sale price of US\$25.7 million (\$26.9 million).

In November 2013, the REIT completed an \$80 million institutional placement of 21,052,632 ordinary units at a price of \$3.80 per unit.

The REIT used the proceeds of the placement to partially fund the acquisition of Rosebud Plaza, a high quality sub-regional shopping centre located in Melbourne's South. Rosebud Plaza was acquired for a gross purchase price of \$100 million.

In December 2013, the REIT increased its syndicated debt facility limit to \$475.0 million and extended its joint venture debt facility maturity to July 2017, at a reduced margin.

In June 2014, the REIT entered into Put and Call Option Deed. Under the terms of this Deed, the REIT purchased a right to acquire Coomera City Centre in Queensland for \$59.2 million. Subsequent to the balance date, the REIT exercised this right and acquired the property in July 2014.

During the year, the REIT completed two major developments at Singleton, NSW and South Hedland, WA and commenced two major developments at Caboolture, Qld and Lansell, Vic.

## Business strategies and prospects

The REIT's strategy is to invest in neighbourhood and sub-regional supermarket anchored centres in Australia. When acquiring these properties the REIT's investment criteria includes the following provisions:

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

These centres typically range in value from \$20 million – \$100 million and have capital and income growth potential. The REIT aims to maintain and enhance the existing portfolio through active asset and property management and to proactively manage its equity and debt.

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

### Leasing

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

## Funding

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

## Development pipeline

The REIT has an identified development pipeline with major projects currently under construction at 30 June 2014 having a development cost of approximately \$54 million. For these projects and for all future development activity undertaken by the REIT, achieving target returns will depend on achieving both practical completion on schedule and targets for leasing income. This risk is mitigated through fixed construction contracts and through significantly pre-leasing the redevelopment both prior to and during construction.

## Events occurring after balance date

In July 2014, the REIT exercised its call option to acquire Coomera City Centre. In addition, the REIT increased its syndicated debt facility limit to \$535 million and extended the duration of this facility by one year to August 2019.

In August 2014, the REIT sold a 94.9% interest in the net equity of its German operations for a gross sale price of €1 (\$1). The remaining 5.1% interest is subject to a put arrangement, has been valued at nil at 30 June 2014 and is expected to settle in 18 months. Following the termination of the German guarantee in January 2014 there is no recourse to the REIT from the German debt facility.

Since the end of the year, the Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT, the results of those operations or the state of affairs of the REIT in the financial years subsequent to 30 June 2014.

## Likely developments and expected results of operations

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

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

## Indemnification and insurance of directors, officers and auditor

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

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

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

Base fees of \$8,671,937 (2013: \$8,463,000) were paid or are payable to the Responsible Entity, its associates or third party service providers for the services provided during the year, in accordance with the REIT constitution as disclosed in Note 24(d) to the consolidated financial statements.

In addition, a related party of the Responsible Entity has earned management fees of \$nil (2013: \$138,415) relating to the US properties. These are included in the management fees disclosed in Note 24(d) to the consolidated financial statements.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2014 and fees paid to its associates during the year are disclosed in Note 24 to the consolidated financial statements.

## Interests in the REIT

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

	2014	2013
Units on issue at the beginning of the year	337,582,974	299,628,571
Units issued during the year		
– via Distribution Reinvestment Plan	8,218,871	3,484,403
– via Placement issue	23,238,905	28,985,600
– via Unit purchase plan	–	5,484,400
Units on issue at the end of the year	369,040,750	337,582,974

# Directors' Report continued

for the year ended 30 June 2014

## Value of assets

	2014 \$'m	2013 \$'m
Value of REIT assets	2,065.0	2,057.1

The value of the REIT's assets is derived using the basis set out in Note 1 to the consolidated financial statements.

## Environmental regulations

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

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

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

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

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

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

## Information on current Directors

### John Harkness

Appointed 18 August 2003

Age: 69

John was appointed to the Board of the management company for the Charter Hall Retail REIT on 18 August 2003, and was appointed Chairman on 27 April 2011. John brings extensive financial and business skills to the Board. A partner at KPMG for 25 years and National Executive Chairman for five years, John has held a number of Non-Executive Director roles since leaving KPMG in 2000.

He is currently an independent director of the Goodman Group as well as Chairman of Reliance Rail, Chairman of the National Foundation for Medical Research and Innovation and Vice-President of Northern Suburbs Rugby Football Club Limited.

John is a Fellow of both The Institute of Chartered Accountants (Australia) and the Australian Institute of Company Directors.

### Current listed directorships

Goodman Group (Director since 2005) (ASX: GMG)

### Former listed directorships in last three years

Nil

### Special responsibilities

Chairman of the Board of Directors, Member of the Audit, Risk and Compliance Committee

### Interest in units of the REIT

Nil

### David Harrison

Appointed 1 March 2010

Age: 48

David joined Charter Hall in 2004 and has 27 years of property market experience across office, retail and industrial sectors. As Charter Hall Group's Joint Managing Director, he is responsible for all aspects of the Charter Hall business, with specific focus on investment management, strategy, corporate transactions and property investment activities. David is directly responsible for overseeing the operation of the investment management divisions, including the listed REITs, wholesale unlisted and retail unlisted divisions, together with investor relations and transactions. He shares responsibility with David Southon for the Chief Financial Officer in relation to group finance, treasury and capital management.

In the last eight years, David has overseen the growth of the Charter Hall Group from \$500 million to \$11 billion of funds under management. He has been principally responsible for transactions exceeding \$15 billion of commercial, retail and industrial property assets across all the Group's property sectors over the past 23 years.

David also sits as an Executive Member on all Fund Boards and Investment Committees and is a Fellow Member of the Australian Property Institute (FAPPI).

David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney and a Graduate Diploma in Applied Finance from the Securities Institute of Australia.

#### Current listed directorships

Charter Hall Group (ASX: CHC)

#### Former listed directorships in last three years

Charter Hall Office Management Limited for the Charter Hall Office REIT (ASX: CQO) (CQO delisted on 1 May 2012)

#### Special responsibilities

Nil

#### Interest in units of the REIT

Nil

### Maurice Koop

Appointed 12 August 2002

Age: 70

Maurice was appointed to the Board of the management company for the Charter Hall Retail REIT on 12 August 2002, and is Chairman of the Audit, Risk and Compliance Committee. His experience includes 26 years in consulting with particular focus on consumer goods, retailing and the financial services industry.

Maurice is a senior adviser to The Boston Consulting Group. He has served as a Non-Executive Director on a number of company boards including 13 years as a director of the Just Jeans Retail Group.

He has a BCom and a DipEd from Melbourne University and an MBA from the University of Toronto.

#### Current listed directorships

Nil

#### Former listed directorships in last three years

Nil

#### Special responsibilities

Chairman of Audit, Risk and Compliance Committee

#### Interest in units of the REIT

48,404



# Directors' Report continued

for the year ended 30 June 2014

## Information on current Directors continued

### Alan Rattray-Wood

Appointed 6 March 1996

Age: 62

Alan was appointed to the Board of the management company for the Charter Hall Retail REIT on 6 March 1996, and is a member of the Audit, Risk and Compliance Committee. He is an experienced industry participant with more than 30 years' experience involving supermarket management, neighbourhood and regional sized shopping centre management, development and leasing. Alan has held management roles with Woolworths, Westfield Holdings and other private developers.

Since 1990, he has operated his own retail development consultancy practice, focusing on all facets of shopping centre development and retail chain insolvency workouts.

### Current listed directorships

Nil

### Former listed directorships in last three years

Nil

### Special responsibilities

Member of Audit, Risk and Compliance Committee

### Interest in units of the REIT

10,867

### David Southon

Appointed 1 March 2010

Age: 48

David is a co-founder of the Charter Hall Group and has over 27 years of property industry experience across the office, industrial and retail sectors. As Charter Hall Group's Joint Managing Director, he is responsible for all aspects of the Charter Hall business, with direct responsibility for overseeing the operation of the property and support services divisions including office, industrial and retail property services; people, brand and community; legal/company secretariat; and technology, as well as strategic involvement in project origination and direction. He shares responsibility with David Harrison for the Chief Financial Officer in relation to group finance, treasury and capital management.

David is an Executive Director on the Charter Hall Group Board, the Board of the Responsible Entity for Charter Hall Retail REIT, as well as the Responsible Entity Board of the Charter Hall Direct Funds. He is also a Non-Executive Director on the Board of Commercial Industrial Property (CIP), a member of the Charter Hall Diversity Committee, and a member of the investment committee of Charter Hall Opportunity Fund No.5, as well as the Valuation Sub Committee.

David is a member of the Board of Advisors NSW for the Property Industry Foundation (PIF) and is a Fellow of the Australian Property Institute (FAPI).

David holds a Bachelor of Business Degree (Land Economy).

### Current listed directorships

Charter Hall Group (ASX: CHC)

### Former listed directorships in last three years

Charter Hall Office Management Limited for the Charter Hall Office REIT (ASX: CQO) (CQO delisted on 1 May 2012)

### Special responsibilities

Nil

### Interest in units of the REIT

Nil

## Meetings of Directors

Name	FULL MEETINGS OF DIRECTORS		MEETINGS OF AUDIT, RISK AND COMPLIANCE COMMITTEE	
	Eligible to attend	Attended	Eligible to attend	Attended
John Harkness	13	13	5	5
David Harrison	13	12	N/A	N/A
Maurice Koop	13	11	5	5
Alan Rattray-Wood	13	13	5	5
David Southon	13	12	N/A	N/A
Scott Dundas (Alternate)	–	–	N/A	N/A

## Company Secretary

Rebecca Pierro was appointed as Company Secretary for the REIT on 14 January 2013. Ms Pierro has over eight years' experience as Company Secretary for listed and unlisted property REITs and holds a Bachelor of Commerce (Hons) and is undertaking a Graduate Diploma of Applied Corporate Governance and a Masters of Legal Studies.

## Non-audit services

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

Details of the amounts paid to the auditor for audit and non-audit services provided during the year are disclosed in Note 25 to the consolidated financial statements.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compliant with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in Note 25 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 40.

## Rounding of amounts to the nearest hundred thousand dollars

The REIT is a registered scheme of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the Directors' report and consolidated financial statements. Amounts in the Directors' report and consolidated financial statements have been rounded to the nearest hundred thousand dollars in accordance with that Class Order, unless otherwise indicated.

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



**John Harkness**

Chairman

Sydney

19 August 2014

# Auditor's Independence Declaration



## Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Retail REIT for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Charter Hall Retail REIT and the entities it controlled during the period.

A handwritten signature in cursive script, appearing to read 'J Reilly'.

Jane Reilly  
Partner  
PricewaterhouseCoopers

Sydney  
19 August 2014

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Continuity limited by a scheme approved under Section 114 Standards legislation

# Consolidated Statement of Comprehensive Income

for the year ended 30 June 2014

	Notes	2014 \$'m	2013 \$'m
<b>Revenue</b>			
Gross rental income		<b>184.3</b>	162.3
Interest income		<b>0.2</b>	0.3
<b>Total revenue</b>		<b>184.5</b>	162.6
<b>Other income</b>			
Share of net profit and valuation gains on investment in joint venture entity	12(b)	<b>24.1</b>	19.9
Net gain on movement in fair value of investment properties	3(a)	<b>31.3</b>	–
Net gain from derivative financial instruments	3(b)	<b>–</b>	2.0
<b>Total revenue and other income</b>		<b>239.9</b>	184.5
<b>Expenses</b>			
Property expenses		<b>(61.7)</b>	(54.3)
Net loss on movement in fair value of investment properties	3(a)	<b>–</b>	(17.6)
Net loss from derivative financial instruments	3(b)	<b>(8.5)</b>	–
Net loss on disposal of investment properties	10(e)	<b>(0.2)</b>	(0.9)
Management fees	24	<b>(8.1)</b>	(7.1)
Finance costs	3(c)	<b>(24.5)</b>	(30.4)
Other expenses	3(d)	<b>(3.5)</b>	(3.6)
<b>Total expenses</b>		<b>(106.5)</b>	(113.9)
<b>Profit for the year from continuing operations</b>		<b>133.4</b>	70.6
Loss from discontinued operations	10(c)	<b>(48.2)</b>	(18.0)
<b>Profit for the year</b>		<b>85.2</b>	52.6
<b>Other comprehensive income*</b>			
Exchange differences on translation of foreign operations	18	<b>1.6</b>	9.9
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	18	<b>30.6</b>	5.4
<b>Other comprehensive income</b>		<b>32.2</b>	15.3
<b>Total comprehensive income for the year</b>		<b>117.4</b>	67.9
<b>Basic and diluted earnings per ordinary unitholder of the REIT</b>			
Earnings per unit (cents) for profit from continuing operations	5	<b>37.50</b>	21.80
Earnings per unit (cents) for loss from discontinued operations	5	<b>(13.55)</b>	(5.56)
Earnings per unit (cents)	5	<b>23.95</b>	16.24

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

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



# Consolidated Balance Sheet

as at 30 June 2014

	Notes	2014 \$'m	2013 \$'m
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	12.0	17.3
Receivables	7	14.9	15.5
Derivative financial instruments	8	–	1.0
Other assets	9	1.5	4.0
		28.4	37.8
Assets classified as held for sale	10	132.0	310.0
<b>Total current assets</b>		<b>160.4</b>	<b>347.8</b>
<b>Non-current assets</b>			
Investment properties	11	1,772.9	1,588.5
Investments in joint venture entities	12	129.8	114.6
Derivative financial instruments	8	1.9	6.2
<b>Total non-current assets</b>		<b>1,904.6</b>	<b>1,709.3</b>
<b>Total assets</b>		<b>2,065.0</b>	<b>2,057.1</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	13	20.7	40.2
Distribution payable	14	50.4	45.6
Other liabilities	15	0.3	1.0
		71.4	86.8
Liabilities directly associated with assets classified as held for sale	10	120.7	218.8
<b>Total current liabilities</b>		<b>192.1</b>	<b>305.6</b>
<b>Non-current liabilities</b>			
Borrowings	16	613.4	630.1
Derivative financial instruments	8	4.4	0.3
<b>Total non-current liabilities</b>		<b>617.8</b>	<b>630.4</b>
<b>Total liabilities</b>		<b>809.9</b>	<b>936.0</b>
<b>Net assets</b>		<b>1,255.1</b>	<b>1,121.1</b>
<b>Equity</b>			
Contributed equity	17	2,127.0	2,010.5
Reserves	18	(8.8)	(41.0)
Accumulated losses	19	(863.1)	(848.4)
<b>Total equity</b>		<b>1,255.1</b>	<b>1,121.1</b>

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

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2014

	Notes	Contributed equity \$'m	Reserves \$'m	Accumulated losses \$'m	Consolidated \$'m
Total equity at 1 July 2012		1,909.2	(56.3)	(839.5)	1,013.4
Profit for the year		–	–	52.6	52.6
Other comprehensive income	18	–	15.3	–	15.3
Total comprehensive income for the year		–	15.3	52.6	67.9
Transactions with unitholders in their capacity as unitholders					
– Contributions of equity, net of issue costs	17	129.8	–	–	129.8
– Return of capital from US REITs	17,19	(28.5)	–	28.5	–
– Distributions paid and payable	14,19	–	–	(90.0)	(90.0)
Total equity at 30 June 2013		2,010.5	(41.0)	(848.4)	1,121.1
Total equity at 1 July 2013		<b>2,010.5</b>	<b>(41.0)</b>	<b>(848.4)</b>	<b>1,121.1</b>
Profit for the year		–	–	<b>85.2</b>	<b>85.2</b>
Other comprehensive income	18	–	<b>32.2</b>	–	<b>32.2</b>
Total comprehensive income for the year		–	<b>32.2</b>	<b>85.2</b>	<b>117.4</b>
Transactions with unitholders in their capacity as unitholders					
– Contributions of equity, net of issue costs	17	<b>116.5</b>	–	–	<b>116.5</b>
– Distributions paid and payable	14,19	–	–	<b>(99.9)</b>	<b>(99.9)</b>
<b>Total equity at 30 June 2014</b>		<b>2,127.0</b>	<b>(8.8)</b>	<b>(863.1)</b>	<b>1,255.1</b>

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

# Consolidated Cash Flow Statement

for the year ended 30 June 2014

	Notes	2014 \$'m	2013 \$'m
<b>Cash flows from operating activities</b>			
Property rental income received		205.2	174.7
Property expenses paid		(64.0)	(57.7)
Distributions received from investment in joint venture entities		7.6	18.3
Distributions received from discontinued operations		3.5	4.4
Other operating expenses paid		(17.9)	(16.3)
Finance costs paid		(28.4)	(36.1)
Interest and other income		0.2	0.8
Settlement of derivative financial instruments		(18.7)	(3.1)
<b>Net cash flows from operating activities</b>	21	<b>87.5</b>	85.0
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment properties		290.8	60.5
Deferred consideration received		–	27.3
Payments for investment in joint venture entities		–	(16.9)
Payments for investment properties and capital expenditure		(288.6)	(180.9)
<b>Net cash flows from investing activities</b>		<b>2.2</b>	(110.0)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		221.6	205.2
Repayment of borrowings		(330.9)	(229.4)
Proceeds from issue of units		86.5	116.6
Distributions paid to unitholders, net of DRP		(65.1)	(70.7)
<b>Net cash flows from financing activities</b>		<b>(87.9)</b>	21.7
Net increase/(decrease) in cash held		1.8	(3.3)
Cash and cash equivalents at the beginning of the year		17.3	23.8
Reclassification of cash and cash equivalents attributable to discontinued operations		(7.1)	(3.2)
<b>Cash and cash equivalents at the end of the year</b>	6	<b>12.0</b>	17.3

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

## 1. Summary of significant accounting policies

The significant policies which have been adopted in the preparation of these financial statements for the year ended 30 June 2014 are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

### (a) Basis of preparation

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

### Compliance with IFRS

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

### Historical cost convention

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

- investment properties – measured at fair value;
- financial assets and liabilities held at fair value through profit or loss (including derivative instruments); and
- assets held for sale – measured at the lower of carrying amount and fair value less cost of disposal.

### New and amended standards adopted

The REIT has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*; and
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*.

The REIT has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Under AASB 11 *Joint Arrangements*, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The REIT's accounting for its interests in joint ventures was not affected by the adoption of the new standard since the REIT had already applied the equity method in accounting for these interests.

AASB 12 requires entities to disclose significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interest in other entities. Entities are also required to provide more disclosures around certain 'structured entities'. Adoption of the standard has impacted the REIT's level of disclosure, but has not impacted the REIT's financial position or results of operations.

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously, the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant.

### Critical accounting estimates

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

The areas involving significant estimates or judgements are:

- Consolidation decisions and classification of joint arrangements – Note 1(b);
- Impairment of assets – Note 1(h);
- Derivative financial instruments – Note 1(k);
- Investment properties – Note 1(l);
- Non-current assets held for sale and discontinued operations – Note 1(n); and
- Fair value estimation – Note 1(u).

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

### Net current asset deficiency

The REIT maintains a policy of using excess available cash to reduce drawn revolving debt facilities. This policy, when combined with the REIT's distribution liability at the end of the reporting period, results in the excess of current liabilities over current assets. As at 30 June 2014, the REIT had \$107.5 million of undrawn debt capacity that can be used to fund current liabilities.



# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2014

## 1. Summary of significant accounting policies continued

### (b) Principles of consolidation

#### (i) 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 controlled entities are eliminated. Unrealised losses are also eliminated unless the transaction involves impairment of the asset transferred. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the REIT.

#### (ii) Joint arrangements

Under AASB 11 *Joint Arrangements*’ investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The REIT has both joint operations and joint ventures.

#### 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 are incorporated in the financial statements under the appropriate headings.

#### Joint ventures

Interests in joint ventures are accounted for using the equity method, with investments initially recognised at cost and adjusted thereafter to recognise the REIT’s share of the post-acquisition profits or losses of the investee in profit or loss, and the REIT’s share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and 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. There were no unrealised gains or losses on transactions between the REIT and its joint venture entities during the current and prior years.

#### (iii) Changes of ownership interests

When the REIT ceases to have control or joint control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the REIT had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture entity is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate. There were no reductions in the REIT’s ownership interest in its joint venture entities during the current and prior years.

### (c) Segment reporting

Segment information is reported in a manner that is consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Responsible Entity.

### (d) 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 the functional currency 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.

#### (iii) Foreign operations

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

**(iv) Foreign currency translation**

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. On disposal of interest in foreign controlled entities, the cumulative foreign exchange gains/losses relating to these investments are transferred to the consolidated statement of comprehensive income in accordance with the requirements of AASB 121 *The Effect of Changes in Foreign Exchange Rates*.

At the balance date, the spot and average rates used were:

	30 Jun 2014	30 Jun 2013
<b>Spot rate</b>		
US Dollar	<b>0.9395</b>	0.9138
NZ Dollar	<b>1.0749</b>	1.1811
Euro	<b>0.6883</b>	0.7025
<b>Average rate</b>		
US Dollar	<b>0.9140</b>	1.0214
NZ Dollar	<b>1.1026</b>	1.2456
Euro	<b>0.6722</b>	0.7889

**(e) Revenue recognition**

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

Interest income is recognised using the effective interest rate method.

Distributions received are recognised as revenue when the right to receive payment is established.

Gains or losses on the sale of investment properties and investment in joint venture entities are calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and are included in the consolidated statement of comprehensive income in the year of disposal. Where revenue is obtained from the sale of properties or assets, it is recognised when the significant risks and rewards of ownership have transferred to the buyer. This will normally take place on settlement of the acquisition.

**(f) Expenses**

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

**(g) Income tax**

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 constitution, is fully distributed to unitholders by way of cash or reinvestment. The liability for capital gains tax that may arise if the Australian properties were sold is not accounted for in these financial statements.

Under New Zealand, German and Polish tax legislation, controlled entities of the REIT are taxed as companies and a current tax liability is recognised for the expected tax payable on taxable income in those jurisdictions, using tax rates enacted or substantively enacted at balance date.

Macquarie CountryWide (US) Corporation and Macquarie CountryWide (US) No. 2 Corporation (US REITs), controlled entities of the REIT, have both previously elected to be taxed as Real Estate Investment Trusts under US federal taxation law and, on this basis, will generally not be subject to US income taxes on that portion of the US REITs' taxable income or capital gains which are distributable to the US REITs' shareholders, provided that the US REITs comply with the requirements of the US Internal Revenue Code of 1986 and maintain their Real Estate Investment Trust status. Following completion of the US property disposal program, both US REITs no longer meet the classification of a Real Estate Investment Trust under the US federal taxation law.

Where applicable, deferred income tax is determined using the balance sheet method, being the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and unused tax losses. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Measurement of deferred tax assets or liabilities reflects tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. Following the sale of the US and Polish investment properties, the carrying value of deferred tax assets and liabilities was reduced to nil.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**(h) Impairment of assets**

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

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

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2014

## 1. Summary of significant accounting policies continued

### (i) Cash and cash equivalents

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

### (j) Trade and other receivables

Receivables are initially recognised at the amounts due to the REIT. Rent and outgoing receivables are usually settled within 30 days of recognition and turnover rent receivables due to the REIT are usually settled within 90 days of the end of the tenants' anniversary lease years.

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

### (k) Derivative financial instruments

Derivative financial instruments held as financial assets or financial liabilities designated at fair value through profit or loss are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. From time to time, the REIT may designate certain derivatives as either hedges of net investments in foreign operations (net investment hedges) or hedges of exposures to variability in cash flows associated with future interest payments on variable rate debt (cash flow hedges).

To qualify as effective hedging, the REIT documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The REIT also documents its assessment, both at hedge inception and on an ongoing basis, of whether derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

None of the financial derivative contracts held by the REIT qualify for hedge accounting, and accordingly, changes in the fair value of these contracts are recorded in the statement of comprehensive income.

### (l) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income, including properties that are under construction for future use as investment properties.

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

At each balance date, the fair values of the investment properties are assessed by the Responsible Entity with reference to independent valuation reports or through appropriate valuation techniques adopted by the Responsible Entity. Fair value is determined using a long term investment period. Specific circumstances of the owner are not taken into account.

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

- assuming a willing buyer and a willing seller, without duress and an appropriate time to market the property to maximise price;
- information obtained from valuers, sales and leasing agents, market research reports, vendors and potential purchasers;
- capitalisation rates used to value the asset, market rental levels and lease expiries;
- changes in interest rates;
- asset replacement values;
- discounted cash flow models;
- available sales evidence;
- comparisons to valuation professionals performing valuation assignments across the market: and
- contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

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

Investment property under construction is measured at fair value if the fair value is considered reliably determinable. Investment property under construction for which the fair value cannot be determined reliably, but for which the REIT expects that the fair value of the investment property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed – whichever is earlier.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers, among others, the stage of completion, the level of reliability of cash inflows after completion, the development risk specific to property and the past experience with similar constructions.

The fair value of investment properties in offshore locations has been adjusted to reflect market conditions at the end of the year. Whilst this represents the best estimates as at the balance date, the current uncertainty in these markets means that if investment property is sold in the future, the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value reflected in the financial statements.

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

Refer to Note 23(d) for the REIT's valuation policy for Investment properties.

#### **(m) Lease incentives**

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

#### **(n) Non-current assets classified as held for sale and discontinued operations**

Non-current assets are classified as held for sale and carried as current assets if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets and investment property that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities directly associated with assets classified as held for sale are also presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

#### **(o) Trade and other payables**

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

#### **(p) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is capitalised as a prepayment for liquidity services and amortised from the date of the first drawdown until maturity of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the REIT has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### **(q) Borrowing costs**

Borrowing costs associated with the acquisition or construction of a qualifying asset, including interest expense, are capitalised as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use. Borrowing costs not associated with qualifying assets are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the REIT's outstanding Australian bank borrowings during the year, in this case 4.89% per annum (2013: 6.92% per annum). The weighted average interest rate takes into consideration payments made in relation to the REIT's interest rate swaps during the year.

#### **(r) Contributed equity**

Units on issue are classified as equity and recognised at the fair value of the consideration received by the REIT. Transaction costs arising on the issue of equity are recognised directly in equity as a reduction in the proceeds of units to which the costs relate.

#### **(s) Reserves**

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

#### **(t) Distributions paid and payable**

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. A liability has been recognised in the financial statements at 30 June 2014 as the final distribution had been declared at the balance date.



# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2014

## 1. Summary of significant accounting policies continued

### (u) Fair value estimation

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

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

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

The fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates at the balance date.

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

### (v) Earnings per unit

Basic earnings per unit from continuing operations is determined by dividing profit from continuing operations attributable to the unitholders by the weighted average number of ordinary units on issue during the year.

Basic earnings per unit from discontinued operations is determined by dividing profit/(loss) from discontinued operations attributable to the unitholders by the weighted average number of ordinary units on issue during the year.

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

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

Diluted earnings per unit from discontinued operations is determined by dividing profit/(loss) from discontinued operations attributable to the unitholders by the weighted average number of ordinary units and dilutive potential ordinary units on issue during the year.

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

### (w) Goods and Services Tax (GST) and Value Added Tax (VAT)

Income, expenses, assets and liabilities are recognised net of the amount of GST recoverable from the Australian and New Zealand taxation offices and VAT recoverable from the German and Polish tax offices. The non-recoverable GST/VAT is recognised as part of the income, expense, asset or liability. Receivables and payables are inclusive of GST/VAT. The net amount of GST/VAT recoverable from or payable to the Australian and overseas tax offices is included in receivables or payables in the consolidated balance sheet. Cash flows relating to GST/VAT are included in the cash flow statement on a gross basis.

### (x) Parent entity financial information

The financial information for the parent entity, Charter Hall Retail REIT, disclosed in Note 28, has been prepared on the same basis as the REIT's financial statements except as set out below:

#### (i) Investments in controlled entities

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

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

#### (ii) Receivables and payables

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

#### (iii) Recoverable amount of assets

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting period. The impact of these new standards (to the extent relevant to the REIT) and interpretations is set out below:

**(i) AASB 9 Financial Instruments**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, would therefore have to be recognised directly in the statement of comprehensive income. The REIT has not yet decided when to adopt AASB 9 and management is currently assessing the impact of the new standard.

**(ii) AASB 2013-3 Amendments to Australian Accounting Standard 136 – Recoverable Amount Disclosures for Non-Financial Assets**

The AASB has made amendments to the disclosures required by AASB 136 *Impairment of Assets* which remove the requirement to disclose the recoverable amount of all cash generating units (CGU) that contain goodwill or identifiable assets with indefinite lives if there has been no impairment; this disclosure was introduced with AASB 13 and became applicable from 1 January 2013. It also requires disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed and detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed. The amendments apply for annual reporting periods commencing 1 January 2014.

**(iii) AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting**

The AASB has made a limited scope amendment to AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 139 currently requires an entity to stop hedge accounting when a novation (replacement of one party of the derivative contract with a new party) occurs, because the original hedging instrument envisaged in the hedge documentation has changed. The amendment allows the continuation of hedge accounting provided specific conditions are met.

**(z) Comparative information**

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

**(aa) Rounding of amounts**

The REIT is a registered scheme of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest hundred thousand dollars in accordance with that Class Order, unless otherwise indicated.

**2. 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 Board considers the business from the perspective of each regional portfolio and the overall REIT operations, and has identified six operating segments. The segments are:

***Investment properties – Australia***

This segment comprises interests in wholly owned Australian investment properties and Australian investment properties held in joint ventures.

***Investment properties – New Zealand***

This segment comprises interests in New Zealand investment properties.

***Investment properties – Poland***

This segment comprises interests in Polish investment properties.

***Investment properties – United States***

This segment comprises interests in wholly owned United States investment properties and United States investment properties held in joint ventures.

***REIT operations***

This segment includes all non-property related activities including derivative financial instruments, debt and expenses that are not related to German operations.

***German operations***

This segment comprises interests in German investment properties and includes all income and expenses associated with these properties. The net income from German operations is no longer included in operating earnings and the results for the prior period have been restated to reflect this.

Income is presented on the basis of each segment's operating earnings. The value of investments, income and expenses are included based on the REIT's ownership percentage. Investment properties are presented on the basis set out in Note 11. All other assets and liabilities are presented on a consolidated basis, in line with the consolidated balance sheet. This is consistent with the manner in which the information is presented to the Board in its capacity as chief operating decision maker.

In the current year, the segment Investment properties – Europe was split into Investment properties – Poland and German operations.

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 2. Segment information continued

#### (b) Segment information provided to the Board

The operating earnings reported to the Board for the operating segments for the year ended 30 June 2014 is as follows:

	2014		2013
	Continuing operations \$'m	Discontinued operations \$'m	Total \$'m
Net property income from wholly owned properties			
Australia	123.4	–	123.4
New Zealand	–	0.6	0.6
Poland	–	7.5	7.5
United States	–	0.9	0.9
Total net property income from wholly owned properties	123.4	9.0	132.4
Net income from joint venture entities			
Australia	10.3	–	10.3
United States	–	–	–
Realised gains on derivative financial instruments	0.9	–	0.9
Other income	0.2	0.3	0.5
Total income net of property expenses	134.8	9.3	144.1
Management fees	(8.1)	(0.1)	(8.2)
Finance costs	(24.5)	(2.2)	(26.7)
Other expenses	(3.5)	(0.4)	(3.9)
Tax expense	–	–	–
Total expenses	(36.1)	(2.7)	(38.8)
<b>Operating earnings</b>	<b>98.7</b>	<b>6.6</b>	<b>105.3</b>
Operating earnings per unit (cents)	27.75	1.85	29.60

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

	2014		2013
	Continuing operations \$'m	Discontinued operations \$'m	Total \$'m
Operating earnings	98.7	6.6	105.3
Unrealised net valuation gains/(losses) on investment properties	44.6	(22.9)	21.7
Unrealised (losses)/gains on derivative financial instruments	(9.3)	2.9	(6.4)
Capital transaction related realised gains/(losses) on derivative financial instruments	0.3	(2.7)	(2.4)
Loss on sale of investment properties	(0.2)	(3.8)	(4.0)
Debt break cost associated with US investment property held for sale	–	–	–
Deferred tax (expense)/benefit	–	(0.2)	(0.2)
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	–	(30.6)	(30.6)
Earnings from German operations*	–	2.5	2.5
Other	(0.7)	–	(0.7)
<b>Profit from continuing and discontinued operations</b>	<b>133.4</b>	<b>(48.2)</b>	<b>85.2</b>

\* Excluding unrealised and non-cash items relating to German operations.

Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items.

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

A reconciliation between total net property income from wholly owned properties to total revenues is set out below:

	2014 \$'m	2013 \$'m
Total net property income from wholly owned properties	132.4	131.4
Add back: Property expenses	61.7	54.3
Deduct: Net property income from discontinued operations*	(9.0)	(22.7)
Interest income	0.2	0.3
Adjustments relating to straightlining and amortisation of lease incentives	(0.8)	(0.7)
<b>Total revenues</b>	<b>184.5</b>	<b>162.6</b>

\* Excluding German operations.

### 3. Profit for the year from continuing operations

The profit from operating activities before income tax includes the following items of revenue and expenses:

#### (a) Property valuation gains/(losses)

	Note	2014 \$'m	2013 \$'m
<b>Valuation gains/(losses) on wholly owned investment properties</b>			
<i>Australia</i>			
Revaluation increment/(decrement) on investment properties		46.0	(7.5)
Revaluation decrement on investment properties attributable to acquisition costs		(13.9)	(6.8)
Revaluation decrement on investment properties held for sale		(1.4)	(3.6)
Revaluation adjustments*		0.6	0.3
		<b>31.3</b>	<b>(17.6)</b>
<b>Valuation gains on investment properties in joint venture entity</b>			
<i>Australia</i>			
Revaluation increment on investment properties	12(b)	13.7	9.1
Revaluation adjustments*	12(b)	(0.4)	(0.4)
		<b>13.3</b>	<b>8.7</b>

\* Adjustments relating to straightlining of rental income, amortisation of lease incentives and capitalisation of leasing fees.

#### (b) Net (losses)/gains from derivative financial instruments

	2014 \$'m	2013 \$'m
Gain/(loss) on derivative financial instruments – realised*	1.2	(15.5)
(Loss)/gain on derivative financial instruments – unrealised	(9.7)	17.5
	<b>(8.5)</b>	<b>2.0</b>

\* Excluding coupon payments on interest rate swaps which are classified as finance costs.

#### (c) Finance costs

	2014 \$'m	2013 \$'m
Finance costs paid or payable*	27.6	34.6
Less: Capitalised finance costs	(3.1)	(4.2)
	<b>24.5</b>	<b>30.4</b>

\* Includes net coupon payment on interest rate swaps of \$nil (2013: \$5.6 million).



# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 3. Profit for the year from continuing operations continued

#### (d) Other expenses

	Notes	2014 \$'m	2013 \$'m
Accounting fees		1.0	1.0
Audit committee and compliance fees – independent directors	24	0.3	0.3
Audit fees	25	0.4	0.3
Custodian fees		0.2	0.2
Consulting expenses		0.2	0.1
Insurance expenses		0.4	0.5
Legal fees		0.1	0.1
Postage and printing costs		0.1	0.2
Registry fees		0.1	0.2
State and indirect taxes		–	0.1
Stock exchange costs		0.2	0.1
Taxation fees		0.1	0.1
Travel expenses		0.1	0.2
Unitholder communications costs		0.1	0.1
Other		0.2	0.1
		<b>3.5</b>	<b>3.6</b>

### 4. Distributions paid and payable

	Distribution cents per unit	Total amount \$'m	Tax deferred %	CGT concession amount %	Taxable %
<i>Ordinary unitholders</i>					
2014 distributions for the half year ended:					
31 December 2013	13.65	49.5			
30 June 2014*	13.65	50.4			
	<b>27.30</b>	<b>99.9</b>	<b>44.78</b>	<b>–</b>	<b>55.22</b>
<i>Ordinary unitholders</i>					
2013 distributions for the half year ended:					
31 December 2012	13.30	44.4			
30 June 2013	13.50	45.6			
	26.80	90.0	61.07	–	38.93

\* The distribution of 13.65 cents per unit for the half year ended 30 June 2014 was declared prior to 30 June 2014 and will be paid on 29 August 2014.

Pursuant to the REIT constitution, the amount distributed to unitholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings (refer to Note 2) as a guide to assessing an appropriate distribution to declare.

## 5. Earnings per unit

	2014	2013
<b>Basic and diluted earnings per ordinary unitholder of the REIT</b>		
Earnings per unit (cents) for profit from continuing operations	<b>37.50</b>	21.80
Earnings per unit (cents) for loss from discontinued operations	<b>(13.55)</b>	(5.56)
Earnings per unit (cents)	<b>23.95</b>	16.24
<b>Earnings used in the calculation of basic and diluted earnings per unit</b>		
Net profit from continuing operations (\$'m)	<b>133.4</b>	70.6
Net loss from discontinued operations (\$'m)	<b>(48.2)</b>	(18.0)
Net profit for the year (\$'m)	<b>85.2</b>	52.6
Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)*	<b>355.7</b>	323.9

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

## 6. Cash and cash equivalents

	2014 \$'m	2013 \$'m
Australian operating accounts	<b>11.1</b>	10.4
Other operating accounts	<b>0.9</b>	–
German operating accounts	<b>–</b>	6.9
	<b>12.0</b>	17.3

### (a) Operating accounts

The majority of the cash and cash equivalents is held in operating accounts earning market rates of interest.

### (b) Restricted cash

Prior year balance in German operating bank accounts included €5.0 million (\$6.9 million). Cash in these accounts is not available for distribution until certain conditions are met relating to the stabilisation or sale of the Alt-Chemnitz property. Current year balance in German operating bank accounts has been classified to assets held for sale.

## 7. Receivables

	2014 \$'m	2013 \$'m
Rent receivable	<b>3.3</b>	1.7
Provision for doubtful debts	<b>(0.5)</b>	(0.5)
	<b>2.8</b>	1.2
Turnover rent receivable	<b>5.4</b>	9.2
Outgoings receivable	<b>3.7</b>	3.9
Distributions receivable	<b>1.3</b>	–
GST receivable	<b>0.8</b>	1.1
Sundry debtors	<b>0.9</b>	0.1
	<b>14.9</b>	15.5

The REIT's receivables are carried at amounts that approximate their fair value.

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 8. Derivative financial instruments

	2014 \$'m	2013 \$'m
<b>Assets</b>		
<b>Current</b>		
Forward foreign exchange contracts	–	1.0
	–	1.0
<b>Non-current</b>		
Interest rate swaps	1.9	6.0
Forward foreign exchange contracts	–	0.2
	1.9	6.2
<b>Liabilities</b>		
<b>Non-current</b>		
Interest rate swaps	4.4	0.3
	4.4	0.3

#### Interest rate swaps

The REIT has entered into interest rate swap agreements totalling \$925.0 million (2013: \$797.7 million) that entitle it to receive interest, at quarterly intervals, at a floating rate on a notional principal amount and oblige it to pay interest at a fixed rate on the same amount.

At 30 June 2014, the fixed rate varies from 2.64% to 3.75% per annum (2013: 0.78% to 3.56% per annum).

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

	2014 \$'m	2013 \$'m
Swaps – REIT pays fixed rate and receives floating rate		
1 year or less	200.0	–
1 – 2 years	375.0	147.7
2 – 3 years	–	375.0
3 – 4 years	275.0	–
4 – 5 years	75.0	275.0
<b>Net position – REIT pays fixed rate and receives floating rate</b>	<b>925.0</b>	<b>797.7</b>

#### Forward foreign exchange contracts

Following the disposal of three US properties during the year (refer Note 10), the REIT closed out its remaining forward foreign exchange contracts to sell US dollars and receive Australian dollars at an average exchange rate of A\$1.00 = US\$0.7590, realising a gain of \$0.3 million.

Following the disposal of five Poland properties (refer Note 10), the REIT closed out its remaining forward foreign exchange contracts to sell Euros and receive Australian dollars at an average exchange rate of A\$1.00 = €0.6794, realising a gain of \$0.9 million.

### 9. Other assets

	2014 \$'m	2013 \$'m
<b>Current</b>		
Prepayments	1.3	2.3
Property acquisition costs and deposits	0.2	1.7
	1.5	4.0

## 10. Assets and liabilities classified as held for sale and discontinued operations

### (a) Details of discontinued operations

#### New Zealand

In 2011, the REIT completed the sale of its 50% interest in 15 properties in its non-core New Zealand portfolio. The REIT's interest in these properties was acquired by its New Zealand co-owner, which elected to terminate its joint venture relationship with the REIT in early 2010. The sale of the remaining two properties located in Christchurch has been delayed pending the transfer of certain licences. The New Zealand portfolio continues to be classified as a discontinued operation at 30 June 2014.

#### United States

During the year, the REIT completed the sale of its remaining wholly owned properties in the United States for a gross price of US\$25.7 million (\$28.2 million), realising a loss of \$0.2 million.

#### Poland

During the year, the REIT completed the sale of its Polish investment properties for a gross sale price of €174.5 million (\$250.4 million), realising a loss of \$3.6 million.

#### Germany

During the year, the REIT commenced marketing its German investment properties and a majority interest in the German operations of 94.9% was sold post balance date. The German portfolio has been classified as a discontinued operation at 30 June 2014.

#### Restatement of comparative financial information

In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, the comparative financial information in the consolidated statement of comprehensive income, consolidated cash flow statement and corresponding notes have been restated to reflect the classification of the German property portfolio as a discontinued operation at 30 June 2014.

### (b) Details of assets and liabilities classified as held for sale and discontinued operations

The table below sets out assets and liabilities that continue to be owned by the REIT as at balance date. These assets and liabilities are presented as aggregate amounts in the balance sheet.

	2014			2013	
	Discontinued operations		Assets held for sale	Total	Total
	New Zealand \$'m	Germany \$'m	Australia \$'m	\$'m	\$'m
<b>Assets classified as held for sale</b>					
Cash and cash equivalents	0.1	2.3	–	<b>2.4</b>	5.5
Receivables	–	0.2	–	<b>0.2</b>	1.8
Other assets	–	–	–	<b>–</b>	1.3
Investment properties	7.6	118.2	3.6	<b>129.4</b>	301.4
Total assets classified as held for sale	7.7	120.7	3.6	<b>132.0</b>	310.0
<b>Liabilities classified as held for sale</b>					
Payables	–	2.0	–	<b>2.0</b>	7.4
Borrowings	–	117.1	–	<b>117.1</b>	203.3
Derivative financial instruments	–	0.2	–	<b>0.2</b>	4.5
Deferred tax liabilities	–	–	–	<b>–</b>	1.9
Other liabilities	–	1.4	–	<b>1.4</b>	1.7
Total liabilities directly associated with assets classified as held for sale	–	120.7	–	<b>120.7</b>	218.8

Investment properties classified as held for sale are carried at their expected sale value, which is considered their fair value.



# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 10. Assets and liabilities classified as held for sale and discontinued operations continued

#### (b) Details of assets and liabilities classified as held for sale and discontinued operations continued

##### Borrowings

Investment properties in Germany are partially funded by term debt amounting to €80.8 million (\$117.4 million) (2013: €80.8 million; \$115.1 million) which is secured by registered mortgages over two investment properties. The carrying value of the properties pledged as security amounts to €81.4 million (\$118.2 million) (2013: €81.9 million; \$127.6 million).

The bank loan funding the REIT's investment in Germany is repayable immediately if the REIT defaults on payments of interest or principal or its total property debt exceeds 90% of the carrying value of its total security pool assets based on a valuation provided by Hypothekbank Frankfurt AG.

On 11 February 2014, Charter Hall Retail Germany GmbH (CHRG), a wholly owned subsidiary of the REIT and the General Partner of the REIT's German property owning entities, and certain other German and Luxembourg obligors notified Hypothekbank Frankfurt AG (German Lender) of potential breaches of loan covenants in relation to the loan agreement for the Alt-Chemnitz and Jena Burgau properties. The potential breaches relate to the adoption by the REIT of the 31 December 2013 property valuations. On 12 February 2014, CHRG and the other obligors received a waiver relating to these potential covenant breaches from the German Lender and, post balance date, the REIT has sold a 94.9% interest in its German operations to a third party. The remaining 5.1% interest is subject to a put arrangement, has been valued at nil at 30 June 2014 and is expected to settle in 18 months. Following the termination of the German guarantee in January 2014 there is no recourse to the REIT from the German debt facility.

Borrowings in Poland and the United States were repaid during the year following the sale of the respective property portfolios.

#### (c) Details of financial performance and cash flow information relating to discontinued operations

The table below sets out the financial performance and cash flow information up to 30 June 2014 for the discontinued operations that continued to be owned by the REIT at balance date. For assets that have been divested during the year, the relevant financial performance and cash flow information up to the date of disposal has been included.

	Notes	2014 \$'m	2013 \$'m
Net property income		17.4	30.9
Other income		0.3	0.7
Valuation losses on investment properties		(22.9)	(34.0)
Net unrealised gains from derivative financial instruments		2.9	2.1
Net realised losses from derivative financial instruments		(2.7)	(3.6)
Share of profits and valuation gains of investment in joint venture entities		–	0.2
Management fees		(0.6)	(1.4)
Finance costs		(7.2)	(11.4)
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	18	(30.6)	(5.4)
Expenses		(0.7)	(1.2)
Loss before income tax		(44.1)	(23.1)
Current and withholding tax expense		(0.1)	(1.1)
Deferred tax (expense)/benefit		(0.2)	8.0
Loss after income tax		(44.4)	(16.2)
Loss on sale of investment properties	10(e)	(3.8)	(1.8)
Loss from discontinued operations		(48.2)	(18.0)
Net cash inflow from operating activities		4.3	4.7
Net cash outflow from investing activities		(17.4)	(5.3)
Net cash outflow from financing activities		–	(3.7)
Net decrease in cash generated by discontinued operations excluding sale proceeds		(13.1)	(4.3)

**(d) Details of disposals**

As part of the REIT's strategy to exit non-core assets, the REIT disposed of the following assets during the year:

	Date of disposal	Principal activity	Ownership interest disposed %	Total consideration \$'m
<b>US portfolio</b>				
Powers Ferry, GA	4 Oct 2013	Investment property	100	3.8
Centennial Crossroads, NV	22 Nov 2013	Investment property	100	18.0
Woodstock Crossing, GA	12 Feb 2014	Investment property	100	6.4
<b>Polish portfolio</b>				
Arena Shopping Centre, Gliwice	17 Oct 2013	Investment property	100	49.4
Borek Shopping Centre, Wroclaw	17 Oct 2013	Investment property	100	56.1
Dabrowka Shopping Centre, Katowice	17 Oct 2013	Investment property	100	16.1
Turzyn Shopping Centre, Szczecin	17 Oct 2013	Investment property	100	65.6
Krakow Investments Sp. z o.o.	17 Oct 2013	Company holding 100% interest in Krakow Shopping Centre, Zakopianka	100	63.3
<b>Australian portfolio</b>				
Home HQ Nunawading, Victoria	15 Jul 2013	Investment property	50	24.0
				302.7

**(e) Net loss on disposals in discontinued operations and the general course of business**

	Discontinued operations	Assets held for sale	2014 \$'m	2013 \$'m
Details of disposals during the year				
Sale price	278.7	24.0	302.7	94.3
Selling costs	(6.7)	(0.5)	(7.2)	(2.1)
Carrying amount of net assets sold	(275.8)	(23.7)	(299.5)	(94.9)
<b>Loss on sale before income tax</b>	<b>(3.8)</b>	<b>(0.2)</b>	<b>(4.0)</b>	<b>(2.7)</b>
Income tax expense	–	–	–	–
<b>Loss on sale after income tax</b>	<b>(3.8)</b>	<b>(0.2)</b>	<b>(4.0)</b>	<b>(2.7)</b>

**(f) Commitments and contingent liabilities**

The REIT's German subsidiary has entered into a contract for the development of the Alt-Chemnitz property. The commitments of the German subsidiary total €0.8 million (\$1.2 million) (2013: €3.0 million, \$4.3 million) within the next 12 months. These commitments have not been reflected in the consolidated financial statements of the REIT.

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 11. Investment properties

	2014 \$'m	2013 \$'m
<b>Non-current</b>		
Australian properties	1,772.9	1,460.9
German properties	–	127.6
	<b>1,772.9</b>	<b>1,588.5</b>

Investment properties include a straightlining rental asset of \$8.8 million (2013: \$7.6 million) and unamortised lease incentives of \$5.8 million (2013: \$5.3 million).

A reconciliation of the carrying amount of investment properties at the beginning and end of the current and previous years is set out below:

	Note	2014 \$'m	2013 \$'m
Carrying amount at the beginning of the year		1,588.5	1,594.7
Additions		278.7	212.0
Acquisition costs incurred		13.9	6.8
Revaluation decrement attributable to acquisition costs	3(a)	(13.9)	(6.8)
Revaluation increment/(decrement)	3(a)	44.6	(11.7)
Revaluation adjustments	3(a)	0.6	0.6
Straightlining of rental income		1.3	0.6
Amortisation of lease incentives		(2.1)	(1.7)
Capitalised leasing fees (net of amortisation)		0.2	0.5
Foreign exchange rate differences on translation		11.0	16.5
Reclassification of investment property previously classified as held for sale		–	14.4
Reclassification of investment properties as held for sale		(149.9)	(237.4)
Carrying amount at the end of the year		<b>1,772.9</b>	<b>1,588.5</b>

At each balance date, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The REIT determines a property's value within a range of reasonable fair value estimates.

Key valuation assumptions used in the determination of the investment properties' fair value and the REIT's valuation policy are disclosed in Note 23.

#### Leasing arrangements

The investment properties are leased to tenants under long term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	2014 \$'m	2013 \$'m
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within 1 year	148.4	125.4
Later than 1 year but not later than 5 years	456.3	355.1
Later than 5 years	463.5	303.5
	<b>1,068.2</b>	<b>784.0</b>

## 12. Investment in joint venture entity

During the year, the REIT had an investment in one Australian joint venture entity. The REIT exercises joint control over the joint venture entity, but neither the REIT nor its joint venture partner have control in their own right, irrespective of their ownership interest. During the year, this investment has been accounted for in the consolidated financial statements using the equity method of accounting (refer to Note 1(b)).

Information relating to the joint venture entity is detailed below:

Joint venture entity	Country of establishment	Principal activity	OWNERSHIP INTEREST	
			2014 %	2013 %
Charter Hall Retail Partnership No.1 Trust	Australia	Property investment	50	50

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

	Notes	2014 \$'m	2013 \$'m
Balance at the beginning of the year		114.6	131.6
Additions		–	16.9
Reclassification of net assets to the consolidated balance sheet*		–	(35.5)
Share of profits before property valuation gains	12(b)	10.8	11.2
Share of property valuation gains	12(b)	13.3	8.7
Cash distributions paid and payable		(8.9)	(18.3)
Balance at the end of the year		129.8	114.6

\* On 31 October 2012 the REIT acquired the remaining 50% interest in Charter Hall Retail JV Trust and consolidated the results of this entity in the consolidated financial statements from this date.

### (b) Share of results attributable to joint venture entity

	100% INTEREST		50% INTEREST	
	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m
<b>Income</b>				
Property rental income	45.2	47.2	22.6	23.6
Property expenses	(14.8)	(15.0)	(7.4)	(7.5)
Net property income	30.4	32.2	15.2	16.1
<b>Expenses</b>				
Finance costs	(9.4)	(10.4)	(4.7)	(5.2)
Capital transaction related realised loss on derivative financial instruments	–	(0.6)	–	(0.3)
Net unrealised gain on derivative financial instruments	0.8	1.4	0.4	0.7
Other expenses	(0.2)	(0.2)	(0.1)	(0.1)
Total expenses	(8.8)	(9.8)	(4.4)	(4.9)
Profits before property valuation gains	21.6	22.4	10.8	11.2
<b>Property valuation gains</b>				
Revaluation increment on investment properties	27.4	18.2	13.7	9.1
Revaluation adjustments*	(0.8)	(0.8)	(0.4)	(0.4)
Property valuation gains	26.6	17.4	13.3	8.7
<b>Profits and valuation gains of investment in joint venture entities</b>	<b>48.2</b>	<b>39.8</b>	<b>24.1</b>	<b>19.9</b>
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	<b>48.2</b>	<b>39.8</b>	<b>24.1</b>	<b>19.9</b>

\* Adjustments relating to straightlining of rental income, amortisation of lease incentives and capitalisation of lease fees.



# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 12. Investment in joint venture entity continued

#### (c) Share of joint venture entity's assets and liabilities

	100% INTEREST		50% INTEREST	
	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m
<b>Current assets</b>				
Cash and cash equivalents	3.4	2.8	1.7	1.4
Receivables	2.2	2.0	1.1	1.0
Other assets	0.6	0.8	0.3	0.4
	6.2	5.6	3.1	2.8
<b>Non-current assets</b>				
Investment properties	425.4	393.4	212.7	196.7
Total assets	431.6	399.0	215.8	199.5
<b>Current liabilities</b>				
Payables	6.8	4.0	3.4	2.0
	6.8	4.0	3.4	2.0
<b>Non-current liabilities</b>				
Borrowings	160.8	160.6	80.4	80.3
Derivative financial instruments	4.4	5.2	2.2	2.6
Total liabilities	172.0	169.8	86.0	84.9
<b>Net assets</b>	259.6	229.2	129.8	114.6

Borrowings reflect a bank loan secured by registered mortgages over 10 Australian properties owned in a joint venture entity. The carrying value of the REIT's share of the properties pledged as security is \$212.7 million (2013: \$196.7 million) against the REIT's share of the total facility of \$81.0 million (2013: \$80.8 million). The facility matures in July 2017.

The bank loan is repayable immediately if the joint venture entity defaults on payments of interest or principal, its total bank secured loan amount exceeds 55% of the carrying value of its total security pool assets or its security pool financial charges ratio falls below 2.00:1.

The joint venture entity has entered into contracts for the acquisition, construction and development of some of its properties. The REIT's share in the commitments of the joint venture entity total \$0.2 million (2013: \$nil). These commitments have not been reflected in the consolidated financial statements of the REIT.

### 13. Payables

	2014 \$'m	2013 \$'m
<b>Current</b>		
Income received in advance	7.4	5.7
Accrued property expenses	6.6	6.6
Accrued capital expenses	2.8	3.7
Management fees	2.4	2.0
Interest payable on interest bearing liabilities	0.6	1.4
Trade and sundry creditors	0.8	0.9
Custodian fees	0.1	0.1
Amounts payable under interest rate swap restructure	–	19.8
	20.7	40.2

## 14. Distribution payable

	Notes	2014 \$'m	2013 \$'m
Distributions to ordinary unitholders			
Opening balance		45.6	39.3
Distributions declared	19	99.9	90.0
Paid during the year		(65.1)	(70.7)
Distributions reinvested	17	(30.0)	(13.0)
Closing balance		50.4	45.6

## 15. Other liabilities

	2014 \$'m	2013 \$'m
Rental deposits	0.3	1.0

## 16. Borrowings

	2014 \$'m	2013 \$'m
<b>Non-current</b>		
Bank loan – term debt		
Australian bank debt facility	367.5	269.2
Germany property level debt*	–	115.1
Commercial mortgage backed securities (CMBS)	250.0	250.0
Less: Unamortised transaction costs	(4.1)	(4.2)
	613.4	630.1

### Credit facilities

At 30 June 2014 and 2013, the REIT had access to:

Bank loan facility		
Australian bank debt facility	475.0	385.0
German property level debt*	–	115.1
CMBS notes	250.0	250.0
Bank overdraft facility	–	1.0
	725.0	751.1

Amount of facilities used:

Drawdown at year end – bank loan	367.5	384.3
Drawdown at year end – CMBS debt	250.0	250.0
Drawdown at year end – bank overdraft facility	–	–
	617.5	634.3
Amount of facilities unused	107.5	116.8

\* Reclassified into Liabilities directly associated with assets classified as held for sale.

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2014

## 16. Borrowings continued

### Bank loans

The Australian bank debt facility is secured by registered mortgages over all wholly owned Australian properties of the REIT, except those specifically pooled as security for the REIT's CMBS debt. The carrying value of the properties pledged as security amounts to \$941.1 million (2013: \$680.6 million). During the year, the REIT refinanced its multi-currency debt facility with a new syndicated debt facility and extended the term from October 2016 to August 2018. In addition, the facility limit was increased to \$475.0 million (2013: 385.0 million).

The Australian bank debt facility is repayable immediately if the REIT defaults on payments of interest or principal, its total bank secured loan amount exceeds 60% of the carrying value of its total security pool assets or its security pool financial charges ratio falls below 1.85:1.

Interest rates on the bank loans are variable and are reset periodically, usually after a period of 90 days. As at 30 June 2014, the interest rates on the bank loan vary from 3.46% to 3.52% per annum (2013: 1.00% to 4.60% per annum).

### Commercial mortgage backed securities

The CMBS are secured by registered mortgages over 40 Australian properties. The carrying amount of properties pledged as security as at 30 June 2014 amounts to \$835.4 million (2013: \$780.3 million). The CMBS matures in September 2015. The interest rate under this facility is variable and reset periodically, usually after a period of 90 days.

## 17. Contributed equity

No. of units	Details	Date of income entitlement	Notes	2014 \$'m	2013 \$'m
299,628,571	Units on issue	30 June 2012			1,909.2
28,985,600	Placement issue	1 July 2012			97.9
5,484,400	Unit purchase plan	1 July 2012			18.9
3,484,403	DRP issue	1 January 2013	14		13.0
	Transfer for return of capital from US REITs*		19		(28.5)
337,582,974	Units on issue	30 June 2013		<b>2,010.5</b>	2,010.5
4,260,906	DRP issue	1 July 2013	14	<b>15.9</b>	
21,052,632	Placement issue	1 July 2013		<b>78.6</b>	
2,186,273	Placement issue	1 January 2014		<b>7.9</b>	
3,957,965	DRP issue	1 January 2014	14	<b>14.1</b>	
369,040,750	Units on issue	30 June 2014		<b>2,127.0</b>	2,010.5

\* During the prior year, the US REITs paid dividends to the parent entity. These dividends are classified as a return of capital to the extent that the dividend amount exceeds the US REIT profits. This return of capital reduces the amount of income in the parent entity and reduces the cost base of the parent entity's investment in the US REITs. A transfer is made to accumulated losses to offset this return of capital from the US REITs.

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

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

### Distribution reinvestment plan

The REIT has established a Distribution Reinvestment Plan (DRP) under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new units rather than being paid in cash. This plan was in operation for the year ended 30 June 2014. The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the record date.

### Placement issue

In October 2012, the REIT completed a \$100.0 million institutional placement of 28,985,600 ordinary units at a price of \$3.45 per unit. The proceeds from the issue of units were used to acquire three sub-regional shopping centres.

In November 2013, the REIT completed an \$80.0 million institutional placement of 21,052,632 ordinary units at a price of \$3.80 per unit. The proceeds from the issue of units were used to partially fund the acquisition of Rosebud Plaza.

In February 2014, the REIT completed an \$8.0 million institutional placement of 2,186,273 ordinary units at \$3.6635 per unit to Charter Hall Group, a related party of the REIT.

### Unit Purchase Plan (UPP) issue

In November 2012, the REIT raised \$18.9 million in equity through a Unit Purchase Plan (UPP). Under the UPP, the REIT issued 5,484,400 ordinary units at a price of \$3.45 per unit.

## 18. Reserves

	Note	2014 \$'m	2013 \$'m
<b>Foreign currency translation reserve</b>			
Opening balance		(41.0)	(56.3)
Translation of foreign operations and foreign denominated borrowings		1.6	9.9
Transfer to profit of cumulative FX losses on disposal of assets held for sale	10(c)	30.6	5.4
Closing balance		(8.8)	(41.0)

### Nature and purpose of foreign currency translation reserve

Foreign exchange differences arising on translation of the investments in foreign controlled entities and foreign joint venture entities are taken directly to the foreign currency translation reserve, as described in Note 1(d).

On repatriation of capital from the sale of interest in foreign controlled entities, the cumulative foreign exchange losses relating to these investments are transferred to the consolidated statement of comprehensive income in accordance with the requirements of AASB 121 *The Effect of Changes in Foreign Exchange Rates*.

## 19. Accumulated losses

	Notes	2014 \$'m	2013 \$'m
Opening balance		(848.4)	(839.5)
Profit after tax		85.2	52.6
Transfer from contributed equity:			
– Return of capital from US REITs	17	–	28.5
Distributions paid and payable	14	(99.9)	(90.0)
Closing balance		(863.1)	(848.4)

## 20. Net tangible assets

	2014 \$'m	2013 \$'m
Total assets	2,065.0	2,057.1
Less: Total liabilities	(809.9)	(936.0)
Net tangible assets attributable to the REIT	1,255.1	1,121.1
Total number of units on issue	369,040,750	337,582,974
Net tangible asset backing per unit	\$3.40	\$3.32



# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 21. Cash flow information

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

	Notes	2014 \$'m	2013 \$'m
Profit after tax		85.2	52.6
<i>Non-cash items</i>			
Straightlining of rental income		(1.5)	(1.3)
Amortisation of lease incentives		2.2	1.7
Property valuation (gains)/losses			
Discontinued operations	10(c)	22.9	34.7
Wholly owned entities	3(a)	(31.3)	17.6
Joint venture entities from continuing operations	3(a)	(13.3)	(8.7)
Loss on sale of investment properties	10(e)	4.0	2.7
Unrealised net (gain)/loss on derivative financial instruments*	3(b), 10(c), 12(b)	6.4	(20.3)
Deferred tax (benefit)/expense		0.2	(8.0)
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	18	30.6	5.4
<i>Change in assets and liabilities</i>			
(Increase)/decrease in assets			
Receivables		(2.0)	(9.7)
Other assets		1.7	–
Prepayments		(0.4)	(3.2)
Net income receivable from investment in joint venture entities		(2.8)	(2.9)
Increase/(decrease) in liabilities			
Payables		(14.4)	24.4
Net cash flows from operating activities		87.5	85.0

\* Includes unrealised losses on derivative financial instruments in joint venture entities.

#### (b) Non-cash financing and investing activities

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

	Notes	2014 \$'m	2013 \$'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	14	30.0	13.0

## 22. Capital and financial risk management

### (a) Capital risk management

The key objective of the REIT's capital risk management is to optimise returns 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 this 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 of 30% to 40% of debt to total assets in respect of its core Australian portfolio.

Protection of the REIT's equity in foreign denominated assets is achieved through borrowing in the local currency to provide a natural hedge, which may be supplemented by the use of forward foreign exchange contracts and cross currency swaps to provide additional hedge protection. The REIT has a target equity hedge of 60% to 100% of the gross asset value by foreign currency.

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

### (b) Financial risk management

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

The REIT's activities expose it to a variety of financial risks: market risk (foreign exchange and interest rate risk), liquidity risk and credit risk.

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.

The REIT uses various measures to monitor exposures to these types of risks. The main methods include foreign exchange and interest rate sensitivity analysis, ageing analysis and counterparty credit assessment, and the use of future rolling cash flow forecasts.

The REIT uses derivative financial instruments such as forward foreign exchange contracts and interest rate swaps to manage its financial risk as permitted under the FRM policy. Such instruments are used exclusively for hedging purposes and not for trading or speculative purposes.

#### (i) Market risk

##### Foreign exchange risk

Foreign exchange risk is the risk that changes in foreign exchange rates will change the Australian dollar value of the REIT's foreign denominated net assets or earnings. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the REIT's functional currency.

The REIT was exposed to foreign exchange risk through investing in overseas investment properties and deriving income from those properties.

##### Foreign income

Through investing in overseas assets, the REIT earned foreign denominated income. Net property income derived is naturally offset by local denominated expenses including interest and tax. During the current and prior years, the REIT was using forward foreign exchange contracts to convert this net foreign denominated currency exposure back to Australian dollars at pre-determined exchange rates.

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 22. Capital and financial risk management continued

#### (b) Financial risk management continued

##### (i) Market risk continued

##### Foreign exchange risk continued

##### Foreign investments

Following completion of the disposal program in the US and Poland, the REIT has minimal residual interest in its remaining offshore investments. Given that this exposure is now 0.6% of the REIT's net assets, the impact of foreign exchange risks on the REIT's net assets is immaterial and is no longer considered a significant risk at 30 June 2014.

The following table sets out the REIT's overseas investments, by currency exposure (in Australian dollar equivalents) and how, through the use of debt and forward foreign exchange contracts, this exposure was reduced as at 30 June 2013.

	Australian dollar exposure 2013 \$'m	US dollar exposure 2013 \$'m	Euro exposure 2013 \$'m	NZ dollar exposure 2013 \$'m	Total 2013 \$'m
<b>Assets</b>					
Cash and cash equivalents	10.4	–	6.9	–	17.3
Receivables	15.0	–	0.5	–	15.5
Derivative financial instruments	40.8	(1.4)	(32.2)	–	7.2
Assets classified as held for sale	23.7	27.4	252.0	6.9	310.0
Investment properties*	1,460.9	–	127.6	–	1,588.5
Investment in joint venture entities	114.6	–	–	–	114.6
Other assets	3.9	–	0.1	–	4.0
	1,669.3	26.0	354.9	6.9	2,057.1
<b>Liabilities</b>					
Payables	37.1	–	3.1	–	40.2
Distribution payable	45.6	–	–	–	45.6
Derivative financial instruments	0.3	–	–	–	0.3
Liabilities classified as held for sale	13.7	13.0	192.1	–	218.8
Borrowings	490.9	–	139.2	–	630.1
Other liabilities	0.3	–	0.7	–	1.0
	587.9	13.0	335.1	–	936.0
Net assets	1,081.4	13.0	19.8	6.9	1,121.1
Net exposure percentage	96.5%	1.2%	1.7%	0.6%	100.0%

\* AASB 7 *Financial Instruments: Disclosure* does not require inclusion of non-financial assets such as investment properties in this table. However, these have been included to provide more meaningful representation of the total foreign currency exposure of the REIT.

### Sensitivity analysis

An exchange rate movement in the Australian dollar against foreign currencies at 30 June 2014 would have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 30 June 2013.

	2014		2013	
	Profit and loss \$'m	Reserves \$'m	Profit and loss \$'m	Reserves \$'m
<i>US dollars</i>				
+10.0% (2013: +10.0%)	–	–	0.1	(1.3)
–10.0% (2013: –10.0%)	–	–	(0.2)	1.6
<i>Euros</i>				
+10.0% (2013: +10.0%)	–	–	2.9	(4.7)
–10.0% (2013: –10.0%)	–	–	(3.6)	5.8
<i>NZ dollars</i>				
+10.0% (2013: +10.0%)	–	<b>(0.8)</b>	–	(0.6)
–10.0% (2013: –10.0%)	–	<b>0.8</b>	–	0.8

A movement in foreign currency exchange rates applied to the net exposures in the table above would result in a change to the net assets of the REIT. In assessing the impact of changes in foreign currency exchange rates a 10% (2013: 10%) movement has been applied. This sensitivity has been used as it reflects management's estimate of the reasonably possible movements in foreign exchange rates, given recent trends, and has resulted in:

- the A\$/US\$ exchange rate increasing/decreasing by 9.4 cents (2013: 9.1 cents);
- the A\$/€ exchange rate increasing/decreasing by 6.9 cents (2013: 7.0 cents); and
- the A\$/NZ\$ exchange rate increasing/decreasing by 10.7 cents (2013: 11.8 cents).

Foreign currency exposure in the REIT arises from the translation of overseas assets and liabilities held by the REIT's foreign entities from the local currency to Australian dollars. Under the REIT's accounting policy (refer to Note 1(d)), exchange differences arising on such translations are recognised as part of equity (foreign currency translation reserve). As a result, the revaluation of these assets and liabilities which would result from a movement in foreign exchange rates would have no impact on the REIT's consolidated statement of comprehensive income.

However, the REIT's consolidated statement of comprehensive income would be affected by changes in the fair value of derivative financial instruments hedging this exposure and the impact of this is presented in the above table.

The impact on equity includes the combined effect of foreign exchange gains/losses on overseas assets and liabilities recognised in the foreign currency translation reserve and changes in the fair value of derivatives hedging this exposure.

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 22. Capital and financial risk management continued

#### (b) Financial risk management continued

##### (i) Market risk continued

The REIT has exposures to interest rate risk on its monetary assets and liabilities, which are mitigated by the use of interest rate swaps, as shown in the table below.

	AUSTRALIAN DOLLARS		US DOLLARS*		EUROS*		NZ DOLLARS*		TOTAL	
	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m
<b>Fixed rate</b>										
Borrowings**	-	-	-	(10.6)	-	-	-	-	-	(10.6)
<b>Net fixed rate exposure</b>	-	-	-	(10.6)	-	-	-	-	-	(10.6)
<b>Floating rate</b>										
Cash	11.2	10.4	0.1	-	0.7	6.9	-	-	12.0	17.3
Cash – discontinued operations	-	-	-	0.7	2.3	4.8	0.1	-	2.4	5.5
Cash – joint venture entities***	1.7	1.4	-	-	-	-	-	-	1.7	1.4
Borrowings**	(617.5)	(507.7)	-	-	(117.4)	(319.9)	-	-	(734.9)	(827.6)
Borrowings – joint venture entities***	(81.0)	(80.8)	-	-	-	-	-	-	(81.0)	(80.8)
	(685.6)	(576.7)	0.1	0.7	(114.4)	(308.2)	0.1	-	(799.8)	(884.2)
<b>Derivative financial instruments</b>										
Interest rate swaps – floating to fixed****	490.0	415.0	-	-	48.7	217.1	-	-	538.7	632.1
	490.0	415.0	-	-	48.7	217.1	-	-	538.7	632.1
<b>Net floating rate exposure</b>	(195.6)	(161.7)	0.1	0.7	(65.7)	(91.1)	0.1	-	(261.1)	(252.1)

\* Australian dollar equivalents of foreign denominated balances.

\*\* Unamortised borrowing costs are excluded as they are not impacted by interest rate risk.

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

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

At balance date, the REIT fixed 67.4% (2013: 71.8%) of its interest rate exposure.

#### Sensitivity analysis

The table below reflects the potential net increase/(decrease) in the profit and equity, resulting from changes in interest rates applicable at 30 June 2014, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2013.

	2014		2013	
	Profit and loss \$'m	Reserves \$'m	Profit and loss \$'m	Reserves \$'m
<i>Australian dollars</i>				
+1.00% (2013: +1.00%)	5.1	-	7.2	-
-1.00% (2013: -1.00%)	(5.1)	-	(7.2)	-
<i>Euros</i>				
+1.00% (2013: +1.00%)	-	-	(0.9)	-
-1.00% (2013: -1.00%)	-	-	0.9	-

A movement in interest rates applied to the net exposures in the table above would result in a change to the net assets of the REIT. This sensitivity has been used as it reflects management's estimate of the reasonably possible movements in interest rates within the next 12 months, given recent trends.

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



**(ii) Liquidity risk**

Liquidity risk arises if the REIT has insufficient liquid assets to meet its obligations as they become due and payable. It is managed by maintaining sufficient cash balances and adequate committed credit facilities. Prudent liquidity management implies 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. The cash, debt and derivative instruments entered into by the REIT were selected to ensure sufficient funds would be available to meet the ongoing cash requirements of the REIT.

The following table provides the contractual maturity of the REIT's fixed and floating rate financial liabilities and derivatives as at 30 June 2014. The amounts presented represent the future contractual undiscounted principal and interest cash inflows/(outflows) based on interest rates and foreign exchange rates prevailing at balance date and therefore do not equate to the value shown in the consolidated balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

LIQUIDITY RISK								
	Carrying value \$'m	Less than 1 year \$'m	1 to 2 years \$'m	2 to 3 years \$'m	3 to 4 years \$'m	4 to 5 years \$'m	Over 5 years \$'m	Total \$'m
2014								
Financial liabilities								
Payables	(20.7)	(20.7)	-	-	-	-	-	(20.7)
Distribution payable	(50.4)	(50.4)	-	-	-	-	-	(50.4)
Borrowings*	(734.9)	(150.8)	(273.1)	(20.3)	(97.6)	(369.8)	-	(911.6)
Derivative financial instruments								
Contractual amounts payable	(4.4)	(15.8)	(12.2)	(12.4)	(5.0)	(0.6)	-	(46.0)
Contractual amounts receivable	1.9	15.0	10.9	9.3	3.6	0.4	-	39.2
Other liabilities	(0.3)	(0.3)	-	-	-	-	-	(0.3)
Total financial liabilities	(808.8)	(223.0)	(274.4)	(23.4)	(99.0)	(370.0)	-	(989.8)
Joint venture entities								
Borrowings	(81.0)	(3.7)	(3.7)	(3.7)	(81.0)	-	-	(92.1)
Total financial liabilities including all joint venture entities	(889.8)	(226.7)	(278.1)	(27.1)	(180.0)	(370.0)	-	(1,081.9)
2013								
Financial liabilities								
Payables	(40.2)	(40.2)	-	-	-	-	-	(40.2)
Distribution payable	(45.6)	(45.6)	-	-	-	-	-	(45.6)
Borrowings*	(838.2)	(51.3)	(321.8)	(267.4)	(273.5)	(1.0)	(9.3)	(924.3)
Derivative financial instruments								
Contractual amounts payable	(0.3)	(47.8)	(11.6)	(9.4)	(9.6)	(2.2)	-	(80.6)
Contractual amounts receivable	7.2	46.0	12.5	9.3	7.7	1.7	-	77.2
Other liabilities	(1.0)	(1.0)	-	-	-	-	-	(1.0)
Total financial liabilities	(918.1)	(139.9)	(320.9)	(267.5)	(275.4)	(1.5)	(9.3)	(1,014.5)
Joint venture entities								
Borrowings	(80.8)	(3.9)	(3.9)	(84.4)	-	-	-	(92.2)
Total financial liabilities including all joint venture entities	(998.9)	(143.8)	(324.8)	(351.9)	(275.4)	(1.5)	(9.3)	(1,106.7)

\* Includes interest bearing liabilities classified as liabilities directly associated with assets held for sale.

The amount of credit facilities unused by the REIT at 30 June 2014 is \$107.5 million (2013: \$116.8 million). Refer to Note 16.

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2014

## 22. Capital and financial risk management continued

### (b) Financial risk management continued

#### (iii) Credit risk

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

The REIT manages its risk on tenant receivables by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on any tenant arrears.

In respect of risk on financial instruments and derivatives, there is only a credit risk where the contracting entity is liable to pay the REIT in the event of a close out. The REIT has policies that limit the amount of credit exposure to any financial institution where practical and commercially appropriate. Derivative counterparties and cash transactions are limited to investment grade counterparties in accordance with the REIT's FRM policy. The REIT monitors the public credit rating of its counterparties.

The REIT has policies to review the aggregate exposures of receivables and tenancies across its portfolio. The REIT has no significant concentrations of credit risk on its receivables other than exposure to the Woolworths and Wesfarmers businesses. At 30 June 2014, the largest Australian tenant concentration excluding Woolworths or Wesfarmers represents 1.8% (2013: 1.5%) of the total portfolio income including income generated by Australian joint venture entities. The REIT holds collateral in the form of security deposits or bank guarantees over some receivables where appropriate.

The table below details the concentration of credit exposure of the REIT's financial assets to significant geographical locations:

	2014 \$'m	2013 \$'m
<i>Australia</i>		
Cash and cash equivalents	11.3	10.4
Receivables	14.4	15.0
Derivative financial instruments	1.9	7.2
	27.6	32.6
<i>Offshore locations</i>		
Cash and cash equivalents	3.1	12.4
Receivables	0.7	2.3
	3.8	14.7
Total financial assets	31.4	47.3
<b>Joint venture entities</b>		
<i>Australia</i>		
Cash and cash equivalents	1.7	1.4
Receivables	1.1	1.0
	2.8	2.4
<b>Total financial assets including joint venture entities</b>	<b>34.2</b>	<b>49.7</b>

Maximum exposure to credit risk before any credit enhancements at the end of each reporting period is the carrying amount of the financial assets reflected in the table above.

All cash, derivative financial instruments and interest bearing assets are neither past due nor impaired. The table below shows the ageing analysis of those rent receivables of the REIT and its joint venture entities which are past due or impaired:

	PAST DUE BUT NOT IMPAIRED					Total \$'m
	Less than 30 days \$'m	31 to 60 days \$'m	61 to 90 days \$'m	More than 90 days \$'m	Impaired \$'m	
<b>2014</b>						
Rent receivables – Australia	1.5	0.8	0.5	–	0.5	3.3
Rent receivables – Germany	0.1	–	–	–	0.1	0.2
	1.6	0.8	0.5	–	0.6	3.5
Rent receivables – joint venture entities	0.5	–	–	–	–	0.5
	2.1	0.8	0.5	–	0.6	4.0
<b>2013</b>						
Rent receivables – Australia	0.5	0.3	0.1	0.3	0.4	1.6
Rent receivables – Germany	–	–	–	–	0.2	0.2
Rent receivables – Poland	1.2	0.1	–	0.3	0.8	2.4
Rent receivables – US	0.1	0.1	–	–	0.1	0.3
	1.8	0.5	0.1	0.6	1.5	4.5
Rent receivables – joint venture entities	0.1	–	–	–	0.1	0.2
	1.9	0.5	0.1	0.6	1.6	4.7

Based on a review of rent receivables by management, a provision of \$0.6 million (2013: \$1.6 million) has been provided against rent receivables with a gross balance of \$4.0 million (2013: \$4.7 million).

The REIT holds collateral against the impaired rent receivables in the form of bank guarantees and security deposits and can also recover GST/VAT from any uncollected rent. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

#### (iv) Price risk

The REIT has no significant exposure to price risks as it does not hold any securities or commodities.

The REIT is exposed to price risk other than in respect of financial instruments, such as property price risk including property rentals risks. Refer to Note 23 for the sensitivity analysis.

#### (c) Offsetting financial assets and financial liabilities

The REIT is a party to ISDA agreements which allow the REIT's counterparties, under certain conditions (i.e. event of default), to set off the position owing/receivable 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 in the balance sheet of the REIT.

The table below demonstrates the effect of offsetting positions if the REIT's counterparties are able to enforce their right of set-off:

	Gross amounts of financial instruments \$'m	Amounts subject to set-off \$'m	Net amount post set-off \$'m
<b>2014</b>			
Derivative assets	1.9	(1.9)	–
Derivative liabilities	(4.4)	–	(4.4)
Borrowings	(613.4)	1.9	(611.5)
	(615.9)	–	(615.9)
<b>2013</b>			
Derivative assets	7.2	(4.4)	2.8
Derivative liabilities	(0.3)	–	(0.3)
Borrowings	(630.1)	4.4	(625.7)
	(623.2)	–	(623.2)

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 23. Fair value measurement

#### (a) Recognised fair value measurements

The REIT measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments (refer to Note 8); and
- Investment properties (refer to Note 11).

The REIT also has investment properties measured at fair value on a non-recurring basis (refer to Note 10(b)).

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

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

- Cash and cash equivalents – level 1; and
- all other assets and liabilities – level 2.

The following table presents the REIT's assets and liabilities measured and recognised at fair value:

		LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	Notes	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m
<b>Financial assets – recurring fair value measurement</b>									
<i>Derivative assets</i>									
Interest rate swaps	8	–	–	1.9	6.0	–	–	1.9	6.0
Forward foreign exchange contracts	8	–	–	–	1.2	–	–	–	1.2
<b>Non-financial assets – recurring fair value measurement</b>									
Investment properties	11	–	–	–	–	1,772.9	1,588.5	1,772.9	1,588.5
<b>Non-financial assets – non-recurring fair value measurement</b>									
Investment properties	10(b)	–	–	–	–	129.4	301.4	129.4	301.4
Total assets		–	–	1.9	7.2	1,902.3	1,889.9	1,904.2	1,897.1
<b>Financial liabilities – recurring fair value measurement</b>									
<i>Derivative liabilities</i>									
Interest rate swaps	8	–	–	(4.4)	(0.3)	–	–	(4.4)	(0.3)
Total liabilities		–	–	(4.4)	(0.3)	–	–	(4.4)	(0.3)

**(b) Disclosed fair values**

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

The following table represents the carrying amounts and fair value of borrowings at 30 June 2014 and 30 June 2013. Their fair value is estimated by comparing the margin of the facility to the pricing of a similar facility in the current market.

	2014		2013	
	Carrying amount \$'m	Fair value \$'m	Carrying amount \$'m	Fair value \$'m
<b>Non-current</b>				
Bank loan – term debt				
Australian bank debt facility	367.5	368.0	269.2	269.7
Germany property level debt	–	–	115.1	115.5
Commercial mortgage backed securities (CMBS)	250.0	251.8	250.0	251.7
	617.5	619.8	634.3	636.9
<b>Borrowings directly associated with assets held for sale</b>				
Bank loan – term debt				
Australian bank debt facility	–	–	13.7	13.7
US property level debt	–	–	10.6	10.6
Poland property level debt	–	–	179.6	179.6
Germany property level debt	117.4	118.2	–	–
	117.4	118.2	203.9	203.9
	734.9	738.0	838.2	840.8

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

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

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.

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

In determining fair value of investment properties, management has considered the nature, characteristics and risks of its investment properties as well as the level of fair value hierarchy:

Class of property	Fair value hierarchy	Fair value as at 30 June 2014	Valuation technique	Significant unobservable inputs used to measure fair value	Range of unobservable inputs
<b>Recurring fair value adjustments</b>					
– Australia	Level 3	\$1,772.9m	DCF and income capitalisation method	Gross market rent (\$ p.a./sq.m.)	\$123 – \$616
				Adopted capitalisation rate*	6.3% – 9.5%
				Adopted terminal yield	6.5% – 10.0%
				Adopted discount rate	8.0% – 10.5%
<b>Non-recurring fair value adjustments</b>					
– Australia	Level 3	\$3.6m	Sale price	Agreed sale price	n/a
– New Zealand	Level 3	\$7.6m	Sale price	Agreed sale price	n/a
– Germany	Level 3	€1	Sale price for net equity in German structure	Agreed sale price	n/a

\* Weighted average capitalisation rate at 30 June 2014 is 7.65% (2013: 8.15%).



# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2014

## 23. Fair value measurement continued

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

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

In determining the valuation of all investment properties measured at recurring fair value, consideration has been given to the highest and best use of those properties.

#### Valuation process

The Board conducts an investment property valuation process on a semi-annual basis. All valuations are performed either by independent professionally qualified external valuers or by Charter Hall's internal valuers who hold recognised relevant professional qualifications.

#### Stable properties

If the external valuation is more than 12 months old then the property is externally valued. For those with an external valuation less than 12 months old an assessment is made as to which properties are likely to have had material movements in the book value reported at the last reporting period to determine whether they should be revalued externally or whether an internal valuation is applicable.

To make this assessment, the following steps are performed for each property:

1. perform initial desktop assessment of current value through a capitalisation of income and direct comparison approach, utilising comparable sales evidence;
2. undertake discussions with external valuers and market participants to gauge the current market situation in more detail, specifically seeking 'house' views on capitalisation/discount and terminal capitalisation rate movements along with rental growth forecasts, in order to reach an initial opinion of value;
3. compare the initial assessment of current value to the most recent book value and determine the percentage movement; and
4. if the property has been acquired in the last six months, the valuation on acquisition may still be valid but is reviewed against comparable sales/market data.

If the change between the initial assessment and current book value is:

Change between initial assessment and current book value	Outcome
Less than 5%	The valuation will consist of the initial assessment which will be further documented for review purposes. This will include: <ul style="list-style-type: none"> <li>• internal valuation model; or</li> <li>• external short form report.</li> </ul>
5 to 10%	The initial assessment will be supplemented by further internal or external analysis, which will be documented for review purposes, to determine the value. This will include: <ul style="list-style-type: none"> <li>• full formal report (where externally valued over 12 months prior); or</li> <li>• external short form report (if valued less than 12 months prior); or</li> <li>• internal capitalisation rate and direct comparison.</li> </ul>
More than 10%	Recommend that further analysis be undertaken externally to determine the value. This will include: <ul style="list-style-type: none"> <li>• External full formal report; or</li> <li>• External update report, if it is a revaluation exercise by the same valuation company as last full formal report.</li> </ul>

### Development properties

The total cost of a development property is generally capitalised to its carrying value until the 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.

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.

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

### Sensitivity analysis

Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Gross market rent (\$ p.a./sq.m.)	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase

## 24. Related party information

### (a) Responsible Entity

The Responsible Entity of the REIT is Charter Hall Retail Management 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 were Directors of the Responsible Entity during the year:

- John Harkness – Chairman and Non-Executive Director
- David Harrison – Executive Director and Joint Managing Director of Charter Hall Group
- Maurice Koop – Non-Executive Director and Chairman of Audit, Risk and Compliance Committee
- Alan Rattray-Wood – Non-Executive Director
- David Southon – Executive Director and Joint Managing Director of Charter Hall Group
- Scott Dundas – Alternate for David Southon and David Harrison.

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

Audit, Risk and Compliance Committee fees and Directors' fees totalling \$324,492 (2013: \$323,750) were paid or payable by the REIT to the Independent Directors, being John Harkness, Maurice Koop and Alan Rattray-Wood, for the year, refer to Note 24(h) for detailed breakdown of these payments. These amounts are reviewed from time to time in consultation with external experts to ensure that remuneration reflects the services expected to be performed.

### (c) Parent entity

The parent entity of the consolidated entity is Charter Hall Retail REIT. Refer to Note 28 for parent entity financial information.

### (d) Management fees

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

#### Base fee

The base fee is calculated as:

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

Total assets are adjusted in the fee calculation to add back total liabilities held by joint venture entities to the investment in joint venture entities.

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

The base fee payable to the Responsible Entity is reduced to the extent that management fees are paid or payable to service providers, including CHREI US Retail LLC, Macquarie-Regency Management LLC, related parties of the Responsible Entity, and Regency Centers during the year.

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2014

## 24. Related party information continued

### (d) Management fees continued

#### Performance fee

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

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

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

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

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

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

	2014 \$'000	2013 \$'000
<i>Continuing operations</i>		
Base fees	8,117	6,928
Performance fees	–	–
<i>Discontinued operations</i>		
Base fees	555	1,535
	<b>8,672</b>	8,463

In addition, a related party of the Responsible Entity has earned management fees of \$nil (2013: \$138,415) relating to the US properties.

No performance fee was earned by the Responsible Entity during the year. In the calculation of the performance fee, outperformance will be assessed on a cumulative basis and accordingly, underperformance for the period from 1 January 2004 to 30 June 2014 will need to be recovered before the Responsible Entity is entitled to any future performance fees. For the period from 1 January 2004 to 30 June 2014, the Index increased in value by 90.6% compared to the REIT's cumulative performance which increased by 30.8% (difference of 59.8%).

**(e) Transactions with the Responsible Entity and its related parties**

The Responsible Entity and its related parties held 37,708,510 units as at 30 June 2014 (2013: 31,034,253).

Following is a summary of related party transactions, excluding base management fees, for the year ended 30 June 2014:

Type of fee	Method of fee calculation	BASIS OF FEE CALCULATION		FEE AMOUNT	
		2014 \$'m	2013 \$'m	2014 \$	2013 \$
Property management	3% of total property income	203.9	183.6	6,118,200	5,508,680
Acquisition	0.75% of sale price less amounts paid to external agents	166.9	99.6	1,251,713	747,000
Disposal	0.75% of sale price less amounts paid to external agents*	309.6	–	386,804	–
Due diligence	0.25% of sale price	476.5	190.5	1,191,297	476,343
Development management	3% of development cost if > \$1m 5% of development cost if < \$1m	47.2	40.6	1,415,263	1,492,340
Development management cost recovery	Cost recovery			688,184	365,000
Project management	6% of project cost	7.2	6.0	429,960	358,740
Majors and specialty leasing – new leases**	17.5% – 15.0% of year one gross rent	26.2	20.4	3,477,573	2,738,570
Specialty leasing – renewals**	10.0% – 7.5% of year one gross rent	10.8	10.0	965,874	585,309
Tenancy co-ordination and lease administration** (number of tenancies)	Range from \$500 – \$4,500 per tenancy	567	849	1,146,574	1,096,700
Accounting services	Cost recovery			1,049,167	1,026,000
Other	Various			33,950	33,493
				18,154,559	14,428,175

\* In the current year, no disposal fees were paid on sale of the REIT's Australian (\$24.0 million) and US (\$27.7 million) disposals. Fees paid on sale of the Polish portfolio amounted to 0.15% (calculated as 0.75% less 0.60% paid to external agents) of the \$257.9 million gross sale price.

\*\* From 1 December 2011 to 17 October 2013, Charter Hall Asset Services Europe Sp. z o.o. received 17.5% of leasing fees charged in relation to the REIT's Polish assets, with the remainder of the fees paid to an unrelated entity.

Payments excluding management fees to the related parties for the year are further detailed below:

	2014 \$	2013 \$
Charter Hall Holdings Pty Limited	18,103,025	5,171,886
Charter Hall Asset Services Europe Sp. z o.o. (Poland)	51,534	135,197
Charter Hall Real Estate Management Services Pty Limited	–	9,121,092
	18,154,559	14,428,175

Charter Hall Holdings Pty Limited was also reimbursed \$9,746,572 (2013: \$7,329,796) for centre and property management expenses incurred. These expenses include salaries, finance and IT costs and other overhead charges, of which approximately 36% (2013: 40%) were recovered in outgoings from tenants.

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

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

	2014 \$	2013 \$
Charter Hall Retail Management Limited	2,411,531	1,974,852
Charter Hall Holdings Pty Limited	866,823	2,622,235
Charter Hall Real Estate Management Services Pty Limited	–	205,118
Charter Hall Asset Services Europe Sp. z o.o. (Poland)	–	44,256
	3,278,354	4,846,461

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 24. Related party information continued

#### (g) Key management personnel

Key management personnel (KMP) are defined in AASB 124 *Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the entity. The Responsible Entity meets the definition of KMP as it has this authority in relation to the activities of the REIT. These powers have not been delegated by the Responsible Entity to any other person. Accordingly, the Fund Manager of the REIT is not considered to be KMP of the REIT as he does not have sufficient individual authority and responsibility for planning, directing and controlling the activities of the REIT.

Details of management fees charged to the REIT by the Responsible Entity and its related parties are included in Note 24(d).

#### (h) Directors' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

	John Harkness \$	Maurice Koop \$	Alan Rattray-Wood \$	Total \$
<b>2014</b>				
Director fee	74,420	49,614	49,614	173,648
Compliance fee	52,621	35,080	35,080	122,781
Audit committee fee	8,018	12,027	8,018	28,063
Total director fees	135,059	96,721	92,712	324,492
<b>2013</b>				
Director fee	74,250	49,500	49,500	173,250
Compliance fee	52,500	35,000	35,000	122,500
Audit committee fee	8,000	12,000	8,000	28,000
Total director fees	134,750	96,500	92,500	323,750

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

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

Scott Dundas, Fund Manager of the REIT, received, on a cash basis, remuneration of \$606,222 from 1 July 2013 to 30 June 2014 (\$505,200 from 1 July 2012 to 30 June 2013).

#### (i) Directors' interests in REIT units

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

	Units held 2014	Units held 2013
John Harkness	–	–
David Harrison	–	–
Maurice Koop	48,404	48,404
Alan Rattray-Wood	10,867	10,867
David Southon	–	–
Scott Dundas (alternate)	23,775	22,102

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

	Units 2014	Units 2013
Maurice Koop	–	4,300
Scott Dundas	1,673	6,762

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

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



## 25. Remuneration of the auditor

	2014 \$'000	2013 \$'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	388	326
	<b>388</b>	<b>326</b>
Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for:		
Audit services	33	84
Taxation compliance services	312	292
	<b>345</b>	<b>376</b>
	<b>733</b>	<b>702</b>

In addition to the above fees, PricewaterhouseCoopers was remunerated with \$9,700 (2013: \$8,000) in connection with the audit of the REIT's joint venture entities. This amount represents the REIT's share of the fees and is recorded within share of profits from investment in joint venture entities.

## 26. Commitments and contingent liabilities

The REIT has entered into contracts for the construction and development of properties in Australia. The commitments of the REIT total \$29.2 million (2013: \$48.2 million). In addition, as at 30 June 2014, the REIT was a party to a Put and Call Option deed to acquire Coomera City Centre in Queensland for \$59.2 million. These commitments have not been reflected in the consolidated financial statements of the REIT.

The REIT has issued a guarantee to MCW Alt-Chemnitz Grundbesitz GmbH & Co. KG, a German subsidiary of the REIT, to ensure that there is sufficient cash to fund planned development expenditure at its Alt-Chemnitz property. This guarantee was initially capped at €4.0 million (\$6.2 million) and was reducing progressively as the German structure retained sufficient cash to fund the redevelopment. At 30 June 2014 the guarantee has reduced to €nil (\$nil million) (2013: €1.0 million, \$1.4 million) and was terminated by the lender.

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

## 27. Significant contract terms and conditions

### Pre-emptive rights

Under the joint ownership arrangements in place with Telstra Superannuation Scheme (TS), should CHRML cease to be the responsible entity of the REIT, the joint venture partner will have the right to acquire the REIT's proportion of the respective portfolio at market value.

### Financing documents

Under loan documents in place with independent third party lenders, should CHRML cease to be the responsible entity of the REIT, the lender may be entitled to call for early repayment of the facility or may place additional conditions upon the borrower.

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2014

### 28. Parent entity financial information

#### (a) Summary financial information

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

	Parent 2014 \$'m	Parent 2013 \$'m
<b>Balance sheet</b>		
Current assets	57.5	171.3
Assets held for sale	3.6	–
Non-current assets	1,921.5	1,582.3
Total assets	1,982.6	1,753.6
Current liabilities	318.5	343.2
Non-current liabilities	367.8	266.2
Total liabilities	686.3	609.4
Equity		
Contributed equity	2,127.0	2,010.5
Reserves	(164.5)	(200.6)
Accumulated losses	(666.2)	(665.7)
Total equity	1,296.3	1,144.2
<b>Statement of comprehensive income</b>		
Profit after tax	104.8	96.1
Total comprehensive income	104.8	96.1

#### (b) Guarantees and contingent liabilities

The parent entity has issued a guarantee to MCW Alt-Chemnitz Grundbesitz GmbH & Co. KG, a German subsidiary of the REIT, to ensure that there is sufficient cash to fund planned development expenditure at its Alt-Chemnitz property. This guarantee was initially capped at €4.0 million (\$6.2 million) and was reducing progressively as the German structure retained sufficient cash to fund the redevelopment. At 30 June 2014 the guarantee has reduced to €nil (\$nil million) (2013: €1.0 million, \$1.4 million) and was terminated by the lender.

The parent entity did not have any other contingent liabilities which are material, either individually or as a class, at 30 June 2014 (2013: nil).

#### (c) Commitments

The parent entity has entered into contracts for the construction and development of properties in Australia. The commitments of the parent entity total \$29.2 million (2013: \$48.2 million). In addition, as at 30 June 2014, the parent entity was a party to a Put and Call Option deed to acquire Coomera City Centre in Queensland for \$59.2 million. These commitments have not been reflected in the financial information of the parent entity.

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

## 29. Interest in other entities

### (a) Material subsidiaries

The REIT's principal subsidiaries at 30 June 2014 are set out below. Unless otherwise stated, they have contributed equity consisting solely of ordinary shares/units that are held directly by the REIT, and the proportion of ownership interests held equals the voting rights held by the REIT.

Name of entity	Country of incorporation	Place of business	OWNERSHIP INTEREST HELD BY THE REIT		Principal activities
			2014 %	2013 %	
Charter Hall Retail Finance Pty Limited	Australia	Australia	100.00	100.00	Issuer of the REIT's CMBS Notes
Charter Hall Retail JV Trust	Australia	Australia	100.00	100.00	Property investment
Charter Hall Retail (NZ) Trust	Australia	New Zealand	100.00	100.00	Property investment
Borek-Arena Investments Sp. z o.o.*	Poland	Poland	100.00	100.00	Property investment
Dabrowka Investments Sp. z o.o.*	Poland	Poland	100.00	100.00	Property investment
Krakow Investments Sp. z o.o.*	Poland	Poland	–	100.00	Property investment
Turzyn Investments Sp. z o.o.*	Poland	Poland	100.00	100.00	Property investment
MCW Alt-Chernitz Grundbesitz GmbH & Co. KG*	Germany	Germany	100.00	100.00	Property investment
MCW Jena Burgau Grundbesitz GmbH & Co. KG*	Germany	Germany	100.00	100.00	Property investment

\* The date of the end of the reporting period is 31 December, in line with local business practices.

### (b) Joint arrangements

The REIT owns a 50% interest in two New Zealand properties owned in a joint venture with a third party. The joint operation agreements in relation to the New Zealand properties require unanimous consent from all parties for all relevant activities. The two joint venture partners own the assets of the partnership as tenants in common and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the REIT recognises its direct right to the jointly held assets, liabilities, revenues and expenses.

Information relating to the REIT's joint venture entities accounted for using equity method is disclosed in Note 12.

## 30. Events occurring after balance date

In July 2014, the REIT exercised its call option to acquire Coomera City Centre. In addition, the REIT increased its syndicated debt facility limit to \$535 million and extended the duration of this facility by one year to August 2019.

In August 2014, the REIT sold a 94.9% interest in the net equity of its German operations for a gross sale price of €1 (\$1). The remaining 5.1% interest is subject to a put arrangement, has been valued at nil at 30 June 2014 and is expected to settle in 18 months. Following the termination of the German guarantee in January 2014 there is no recourse to the REIT from the German debt facility.

Since the end of the year, the Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT, the results of those operations or the state of affairs of the REIT in the financial years subsequent to 30 June 2014.

# Directors' Declaration to Unitholders

for the year ended 30 June 2014

In the opinion of the Directors of Charter Hall Retail Management Limited:

(a) the consolidated financial statements and notes set out on pages 41 to 83 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

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

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



**John Harkness**

Chairman

Sydney

19 August 2014

# Independent Auditor's Report



## Independent auditor's report to the unitholders of Charter Hall Retail REIT

### *Report on the financial report*

We have audited the accompanying financial report of Charter Hall Retail REIT (the "REIT"), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Charter Hall Retail REIT (the consolidated entity). The consolidated entity comprises the REIT and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of Charter Hall Retail Management Limited (the "responsible entity") are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757  
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liaability limited by a scheme approved under Professional Standards Legislation



## Independent Auditor's Report continued



### *Auditor's opinion*

In our opinion:

- (a) the financial report of Charter Hall Retail REIT is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

  
PricewaterhouseCoopers

  
Jane Reilly  
Partner

Sydney  
19 August 2014

# Remuneration Report

Charter Hall Retail REIT (REIT) is a Charter Hall Group (Charter Hall) managed Australian Real Estate Investment Trust. Charter Hall Retail Management Limited (CHRML) is the responsible entity (and manager) of the REIT.

The REIT is externally managed and accordingly has no employees. Instead, Charter Hall makes available employees, including senior executives, to discharge their obligations to the REIT. These employees are employed by entities in Charter Hall and are made available through formalised resourcing arrangements with CHRML. Their remuneration is not a REIT expense. It is paid by Charter Hall. Instead, the REIT pays management fees set out in the REIT's Constitution to CHRML in return for providing management services. Under the Corporations Act, it is only Australian listed companies that are required to prepare a remuneration report. However, in order to provide appropriate remuneration disclosure for the REIT, details of the management fees and non-executive directors' fees paid by CHRML, together with qualitative disclosure detailing how Charter Hall employees working on the REIT are incentivised and their interests aligned with the REIT, are set out here.

## Management fees

The manager of the REIT is CHRML, a subsidiary of Charter Hall. Under the terms of the REIT's Constitution, CHRML is entitled to receive the following remuneration from the REIT, comprising a base fee and a performance fee.

## Base fees

The base fee is currently calculated as:

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

The total asset value is calculated in accordance with the REIT's Constitution. The valuations are audited for the 30 June half year but not for the 31 December half year, although the latter have been subject to a review by the Auditor.

The base fee is calculated six monthly and paid quarterly in arrears. The March and September payments are interim payments based on valuations as at the end of the previous half year. The June and December payments are based on valuations at that time. They are in effect adjusting payments in that the entire half year period fee is calculated and the March or September amount that has been paid on account is deducted to arrive at the balance of the fee payable for the current June or December half year period. The base fee payable to CHRML is reduced to the extent that management fees are paid or payable to joint venture partners such as Regency Centers or other Charter Hall companies offshore for carrying out management activities.

CHRML has agreed to waive the 0.40% base fee on any derivative mark-to-market asset value included in total assets of the REIT. The base fees paid or payable by the REIT to CHRML for the financial year ended 30 June 2014 were \$8.7 million.

## Performance fees

In addition to the base management fee, CHRML is currently entitled to a performance fee dependent upon the relative performance of the REIT to the Retail Property REIT Accumulation Index (Index). This Index, calculated from a peer group of property securities that have a principal focus on the retail sector, measures the income and capital growth of the unit prices of the representative REITs.

If the REIT's performance during a six month period is higher than the percentage increase in the Index for the relevant period, then CHRML is entitled to new units in the REIT or a payment with a total value equal to:

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

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

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

Any unpaid fees will continue to be paid up to 80 basis points of the value of the assets in any future year. There were no performance fees paid or payable for the financial year ended 30 June 2014. In the calculation of the performance fee, outperformance will be assessed on a cumulative basis and, accordingly, any underperformance will need to be recovered before CHRML is entitled to any future performance fees.

## Oversight of fee payments

There is independent oversight in respect of the calculation and payment of management fees as follows:

- (i) the calculation and payment of management fees (both base and performance fees) are audited as part of the Annual Financial Statement audit and through audit of the REIT's compliance plan;
- (ii) the calculation of every performance fee to be paid is checked by an independent firm; and
- (iii) the REIT's independent directors review the external certifications and authorise payment of the performance fee.

## Changes to management fees

The fee arrangements were fully disclosed to investors on the REIT's inception (and have been amended from time to time with unitholder approval) and continue to be disclosed on the REIT's website and in Annual Reports. Investors originally invested and continue to invest with this knowledge. Any changes to the structure of the fee provisions that would have the effect of increasing the fees would need to be approved by unitholders.

CHRML may accept lower fees or defer fees.

# Remuneration Report continued

## Expense reimbursement

CHRML is also entitled to be reimbursed for expenses incurred by it in relation to the proper performance of its duties, out of the assets of the REIT. This includes routine ongoing expenses such as the third party costs of acquiring assets and the use of specialist technical advice from time to time, as well as capital raising costs, registry, audit, accounting, marketing, tax, insurance, compliance costs and other expenses as set out in the REIT's Constitution.

## Directors

Non-executive directors' fees for the financial year ended 30 June 2014 are as follows:

	John Harkness \$	Maurice Koop \$	Alan Rattray- Wood \$	Total \$
<b>2014</b>				
Director fee	74,420	49,614	49,614	173,648
Compliance fee	52,621	35,080	35,080	122,781
Audit committee fee	8,018	12,027	8,018	28,063
Total director fees	135,059	96,721	92,712	324,492

The level of fees is not related to the performance of the REIT. The Board of CHRML will consider remuneration payable to its non-executive directors from time to time. Remuneration for non-executive directors is approved by the Board and any increases are benchmarked to market rates. None of the non-executive directors are entitled to options or securities issued by the REIT or to retirement benefits as part of their remuneration package.

Executive directors of CHRML are employees of Charter Hall and are remunerated by Charter Hall.

## Executives

Executives and senior managers who have responsibility for the business activities of the REIT are employees of Charter Hall.

Their remuneration is paid by Charter Hall and is not recharged to the REIT. Scott Dundas, Fund Manager of the REIT, received, on a cash basis, \$606,222 remuneration for the year ended 30 June 2014.

While the REIT's management are Charter Hall employees, there is a strong alignment of interest between those employees and the REIT's unitholders. Charter Hall's remuneration framework ensures that a meaningful amount of remuneration is 'at risk' and solely dependent on performance. The total remuneration package of all Charter Hall senior executives consists of Fixed Remuneration, a Short Term Incentive (STI) (consisting of cash and deferred equity delivered equally over two years) and a Long Term Incentive (LTI). From FY14, Scott Dundas, CQR Fund Manager, has deferred STI allocated in Charter Hall Retail REIT (CQR) units rather than Charter Hall Group (CHC) units to align with fund investor expectations.

Fixed remuneration is reviewed annually taking into account individual performance, skills and experience and market remuneration for the role. STI is an 'at risk' incentive awarded annually designed to reward executives subject to performance against agreed financial and non-financial Key Performance Indicators (KPIs). Any STI awarded to executives provides substantial incentives for superior performance but low or no participation for less satisfactory outcomes.

The REIT's management may also receive Long-Term Incentives (LTI) through participation in the Charter Hall Performance Rights and Options Plan, as part of their remuneration package. The LTI is in the form of Performance Rights which vest fully at three years subject to Total Return hurdles. STI and LTI allocations are therefore highly variable and can comprise a high proportion of total remuneration in the case of superior performance. For executives involved in the management of the REIT, a substantial component of the STI and LTI allocation is directly dependent on the performance of the REIT.

## Alignment of interests

Alignment between Charter Hall and the REIT's unitholders is also demonstrated through the interest Charter Hall holds in the REIT. At 30 June 2014, Charter Hall held a relevant interest of approximately 10.2% of REIT units.

# Unitholder Analysis

## Top 20 registered unitholders as at 29 August 2014

	Units	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	86,530,779	23.21
J P MORGAN NOMINEES AUSTRALIA LIMITED	58,800,403	15.77
NATIONAL NOMINEES LIMITED	41,487,388	11.13
TRUST COMPANY LIMITED	39,034,462	10.47
CITICORP NOMINEES PTY LIMITED	27,408,421	7.35
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	17,738,188	4.76
BNP PARIBAS NOMS PTY LTD	8,630,399	2.31
GALAXY NOMINEES NO 3 PTY LTD	5,552,144	1.49
GALAXY NOMINEES NO 2 PTY LTD	5,552,143	1.49
GALAXY NOMINEES NO 1 PTY LTD	5,552,143	1.49
GALAXY NOMINEES NO 4 PTY LTD	5,552,143	1.49
CITICORP NOMINEES PTY LIMITED	3,339,750	0.90
AMP LIFE LIMITED	2,375,182	0.64
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	2,135,476	0.57
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,355,000	0.36
NAVIGATOR AUSTRALIA LTD	1,232,829	0.33
SCJ PTY LTD	1,000,000	0.27
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	870,104	0.23
THE AUSTRALIAN NATIONAL UNIVERSITY	822,554	0.22
BOND STREET CUSTODIANS LIMITED	781,385	0.21
Total units held by top 20	<b>315,750,890</b>	<b>84.67</b>
Total units on issue	<b>372,893,153</b>	<b>100.00</b>

## Range of units summary as at 29 August 2014

Range	No of Holders	Securities	%
100,001 and Over	60	325,924,917	87.40
50,001 to 100,000	37	2,530,896	0.68
10,001 to 50,000	985	18,250,038	4.89
5,001 to 10,000	1,729	12,255,005	3.29
1,001 to 5,000	4,909	13,085,932	3.51
1 to 1,000	1,711	846,365	0.23
Total	9,431	372,893,153	100.00

The total number of unitholders with less than a marketable parcel of 126 units is 333 and they hold 5,058 units

# Unitholder Analysis continued

## Voting rights

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

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

## Substantial unitholder notices as at 29 August 2014

Company	Date of change	Units	%
Charter Hall Group	14/02/2014	36,424,021	9.98
Mondrian Investment Partners	28/11/2013	35,008,939	9.65
Gandel Group	25/10/2012	21,454,177	6.55
Commonwealth Bank of Australia	10/06/2014	22,349,561	6.05
The Vanguard Group	10/07/2014	18,452,968	5.00

\* Information in this table has been collated from the most recent relevant substantial holder notices lodged with ASX, as at 29 August 2014



# Distribution History

PERIOD END	CASH DISTRIBUTIONS	TAXABLE AMOUNT <sup>(1)</sup>		TAX DEFERRED AMOUNT		CAPITAL GAIN CONCESSION <sup>(2)</sup>		TAX-FREE AMOUNT		FOREIGN TAX CREDIT	DRP ISSUE <sup>1</sup> PRICE	PERIOD END PRICE
	Cents/ unit	Cents/ unit	%	Cents/ unit	%	Cents/ unit	%	Cents/ unit				
30-Jun-96	5.610	2.273	40.510	3.167	56.450	—	—	0.171	3.040	—	0.763	0.760
30-Jun-97	10.300	6.776	65.783	3.233	31.389	—	—	0.291	2.828	—	1.218	1.280
30-Jun-98	12.006	8.864	73.830	2.592	21.590	—	—	0.550	4.580	—	1.420	1.410
30-Jun-99	12.655	8.273	65.374	3.728	29.459	—	—	0.654	5.167	—	1.463	1.460
30-Jun-00	13.050	10.853	83.163	1.463	11.207	—	—	0.735	5.630	—	1.405	1.470
30-Jun-01	13.100	9.684	73.920	2.972	22.690	—	—	0.444	3.390	—	1.365	1.380
30-Jun-02	13.400	8.995	67.130	4.047	30.200	0.358	2.670	—	—	0.0390	1.581	1.610
30-Jun-03	13.650	10.79	79.047	2.544	18.639	0.316	2.314	—	—	0.1220	1.677	1.710
30-Jun-04	14.300	8.757	61.239	5.233	36.591	0.310	2.170	—	—	0.0850	1.687	1.720
30-Jun-05	14.800	7.863	53.127	6.555	44.287	0.383	2.586	—	—	0.1200	1.871	1.915
30-Jun-06	15.400	7.159	46.490	8.241	53.510	—	—	—	—	0.5120	1.772	1.820
30-Jun-07	15.600	8.622	55.271	5.119	32.814	1.859	11.915	—	—	0.1250	1.986	2.020
30-Jun-08	15.000	8.458	56.384	6.378	42.520	0.164	1.096	—	—	0.6020	0.922	0.900
30-Jun-09	7.000	4.757	67.958	1.031	14.732	1.212	17.310	—	—	0.1900	0.507	0.545
30-Jun-10	5.300	2.739	51.685	2.561	48.315	—	—	—	—	—	0.544	0.550
30-Jun-11	24.800	12.000	48.385	7.221	29.120	5.579	22.500	—	—	—	—	3.210
30-Jun-12	26.100	13.376	51.248	12.724	48.752	—	—	—	—	0.221	—	3.310
30-Jun-13	26.800	10.433	38.928	16.367	61.072	—	—	—	—	0.024	3.721	3.810
30-Jun-14	27.300	15.074	55.216	12.226	44.784	—	—	—	—	—	3.735	3.880

1. The taxable amount includes capital gains but does not include the foreign tax credit that appears in this table

2. Capital gain is included in the cash distribution

3. One for five consolidation, effective 15 September 2010

From 1 July 2004, tax components are advised annually in the annual tax statement. For purposes of section 12-415 of Schedule 1 of the *Taxation Administration Act 1953* (Cth), estimated tax components and a 'fund payment' amount for each distribution are advised to investors and announced to the ASX when distribution payments are made. However, Australian resident unitholders should only use final tax components shown on the annual tax statement (usually issued in August each year) when completing their tax returns.

# Investor Information

## How do I invest in Charter Hall Retail REIT?

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

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

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

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

## Can I receive my Annual Report electronically?

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

## How do I receive my distribution?

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

The REIT no longer pays distributions by cheque.

## Can I reinvest my distribution?

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

## Do I need to supply my Tax File Number?

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

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

At the end of each financial year, we issue unitholders with an Annual Taxation Statement. This statement includes information required to complete your tax return. The distributions paid in February and August are required to be included in your tax return for the financial year the income was earned, that is, the distribution income paid in August 2014 should be included in your 2014 financial year tax return.

## How do I make a complaint?

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

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

### Financial Ombudsman Service

GPO Box 3  
Melbourne Vic. 3001  
Tel: 1300 780 808  
Fax: +61 3 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)  
Website: [www.fos.org.au](http://www.fos.org.au)

### Contact details

#### Registry

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

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Tel: 1300 303 063 (within Australia)  
+61 2 8280 7134 (outside Australia)  
Fax: +61 2 9287 0303  
Email: [charterhall@linkmarketservices.com.au](mailto:charterhall@linkmarketservices.com.au)  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### Investor relations

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

Charter Hall Retail Management Limited  
GPO Box 2704  
Sydney NSW 2001  
Tel: 1300 365 585 (local call cost)  
+ 61 2 8651 9000 (outside Australia)  
Fax: +61 2 9221 4655  
Email: [reits@charterhall.com.au](mailto:reits@charterhall.com.au)  
Website: [www.charterhall.com.au](http://www.charterhall.com.au)

# Corporate Directory

## Responsible Entity (and Manager)

Charter Hall Retail Management Limited  
ABN 46 069 709 468  
AFSL 246996

## Registered office

Level 20, No.1 Martin Place  
Sydney NSW 2000

## Directors of the Responsible Entity

John Harkness (Chairman)  
David Harrison  
Maurice Koop  
David Southon  
Alan Rattray-Wood

## Fund Manager

Scott Dundas

## Company Secretary

Rebecca Pierro

## Responsible Entity's office

Level 20, No.1 Martin Place  
Sydney NSW 2000  
GPO Box 2704  
Sydney NSW 2001  
Tel: 1300 652 790 (local call cost)  
+61 2 8651 9000 (outside Australia)  
Fax: +61 2 9221 4655  
Email: [reits@charterhall.com.au](mailto:reits@charterhall.com.au)  
Web: [www.charterhall.com.au/cqr](http://www.charterhall.com.au/cqr)  
ASX code: CQR

## Custodian

Perpetual Limited  
Level 12, Angel Place  
123 Pitt Street  
Sydney NSW 2000

## Auditor

PricewaterhouseCoopers  
Darling Park Tower 2  
201 Sussex Street  
Sydney NSW 1171

## Unit registry

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

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Tel: 1300 303 063 (local call cost)  
+61 2 8280 7134 (outside Australia)  
Fax: +61 2 9287 0303  
Email: [charterhall@linkmarketservices.com.au](mailto:charterhall@linkmarketservices.com.au)  
Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## Important notice

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

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 CHRML. 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.

CHRML does not receive fees in respect of the general financial product advice it may provide; however, it will receive fees for operating the REIT which, in accordance with the REIT's constitution, are calculated by reference to the value of the assets and the performance of the REIT. 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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