

APPENDIX 4D

Half Year Report
for the period ended 31 December 2014**Name of Entity:** Charter Hall Retail REIT

ARSN: 093 143 965

Results for announcement to the market

| | 6 months to 31 December 2014 \$m | 6 months to 31 December 2013 \$m | Variance (%) |
|--|--|--|-----------------|
| Revenue from ordinary activities | 102.0 | 87.7 | 16.3% |
| Profit from ordinary activities after tax attributable to members ¹ | 93.5 | 66.0 | 41.7% |
| Profit for the year attributable to members ² | 84.3 | 20.6 | 309.2% |
| Operating earnings ^{2,3} | 55.3 | 51.1 | 8.2% |

¹ Excludes results from discontinued operations² Includes results from discontinued operations

³ 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 Charter Hall Retail REIT's (the REIT) profitability provides investors with the same basis that is used internally for evaluating operating segment performance. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare. A reconciliation of the REIT's statutory profit to operating earnings is provided in Note 2 of the consolidated interim financial statements.

| | 6 months to 31 December 2014 cents per unit | 6 months to 31 December 2013 cents per unit | Variance (%) |
|-----------------------------|---|---|-----------------|
| Basic earnings per unit | 22.69 | 5.98 | 279.4% |
| Operating earnings per unit | 14.87 | 14.84 | 0.2% |

| Distributions | Amount per unit cents per unit |
|---|-----------------------------------|
| <i>Current period:</i> Interim distribution | 13.70 |
| <i>Previous corresponding period:</i> Interim distribution | 13.65 |
| Record date for determining entitlements to the distribution | 31 December 2014 |

Results for announcement to the market (continued)

The REIT recorded a statutory profit for the period of \$84.3 million compared to a statutory profit of \$20.6 million in the December 2013 half year period. Operating earnings amounted to \$55.3 million compared to \$51.1 million in the December 2013 half year period due to:

- Increased net property income from Australian properties following acquisitions, developments and income growth during the period;
- Completion of the sale of all offshore portfolios; and
- Equity raised during the 18 month period from 1 July 2013.

The REIT's statutory accounting profit of \$84.3 million includes a number of unrealised, non-cash and other non-core capital items including:

- \$58.0 million – Unrealised net valuation gains on Australian investment properties;
- (\$5.5) million – Write off of acquisition costs incurred on Australian investment properties;
- (\$13.3) million – Unrealised losses on derivative financial instruments;
- (\$9.2) million – Transfer from reserves of cumulative foreign exchange losses on disposal of assets held for sale.

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

Details of Distributions

Refer attached financial statements (Directors Report and Note 4: *Distributions Paid and Payable*).

Details of Distribution Reinvestment Plan

The REIT has established a Distribution Reinvestment Plan (DRP) under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new units rather than being paid in cash. Given the redevelopment pipeline of the REIT, the DRP was in operation for the 31 December 2014 distribution.

The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the distribution record date. The REIT raised \$15.0 million from the DRP for the 30 June 2014 distribution and expects to raise \$11.3 million from the DRP for the 31 December 2014 distribution.

Statement of Undistributed Income

Refer attached consolidated financial statements (Consolidated statement of changes in equity).

Net Tangible Assets

| | 31 December 2014 | 30 June 2014 |
|--|------------------|--------------|
| Net tangible asset backing per unit ¹ | 3.52 | 3.40 |

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

Control gained or lost over entities during the period

During the period, the REIT disposed of a 94.9% interest in Charter Hall Retail Europe No.2 Sarl (Luxembourg). Refer to Note 6: *Assets and liabilities classified as held for sale and discontinued operations* for further details.

Details of Associates and Joint Venture entities

Refer attached financial report (Note 8: *Investment in joint venture entities*).

Other significant information**Accounting standards used by foreign entities**

International Financial Reporting Standards

Audit

This report is based on accounts to which one of the following applies.

| | | | |
|--------------------------|--|-------------------------------------|---|
| <input type="checkbox"/> | The accounts have been audited (refer attached financial statements). | <input checked="" type="checkbox"/> | The accounts have been subject to review (refer attached financial statements). |
| <input type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have not yet been audited or reviewed. |

Charter Hall Retail REIT

ARSN 093 143 965

Interim financial report

For the half year ended 31 December 2014



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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Directors' report

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 interim financial statements of Charter Hall Retail REIT and its controlled entities (together, the REIT) for the half year ended 31 December 2014.

Principal Activities

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

Directors

The following persons have held office as Directors of the Responsible Entity during the period 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:

| | 31 Dec 2014 | 31 Dec 2013 |
|--|-------------|-------------|
| | \$'m | \$'m |
| Interim distribution for the six months ended 31 December 2014 of 13.70 cents per unit (31 December 2013: 13.65 cents per unit) payable on 27 February 2015 | 51.1 | 49.5 |
| | 51.1 | 49.5 |

A liability has been recognised in the consolidated interim financial statements as the interim 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. Given the redevelopment pipeline of the REIT, the DRP was in operation for the 31 December 2014 distribution.

The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the distribution record date. The REIT raised \$15.0 million from the DRP for the 30 June 2014 distribution and expects to raise \$11.3 million from the DRP for the 31 December 2014 distribution.

Review and Results of Operations

The REIT recorded a statutory profit for the period of \$84.3 million compared to a statutory profit of \$20.6 million for the corresponding period in 2013. Operating earnings amounted to \$55.3 million compared to \$51.1 million in 2013 due to:

- Increased net property income from Australian properties following acquisitions, developments and income growth during the period;
- Completion of the sale of all offshore portfolios; and
- Equity raised during the 18 month period from 1 July 2013.

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.

Directors' report (continued)

Review and Results of Operations (continued)

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

| | 6 months to 31 Dec 2014 | 6 months to 31 Dec 2013 |
|--|----------------------------|----------------------------|
| | \$'m | \$'m |
| Net property income from wholly owned properties | 69.7 | 57.4 |
| Net income from joint venture entities | 5.4 | 4.9 |
| Realised gains on derivative financial instruments | - | 0.8 |
| Other income | 0.2 | 0.1 |
| Management fees | (4.5) | (3.9) |
| Finance costs | (14.0) | (12.1) |
| Other expenses | (1.5) | (1.8) |
| Operating earnings from discontinued operations | - | 5.7 |
| Operating earnings * | 55.3 | 51.1 |

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

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

| | 6 months to 31 Dec 2014 | 6 months to 31 Dec 2013 |
|--|----------------------------|----------------------------|
| | \$'m | \$'m |
| Operating earnings | 55.3 | 51.1 |
| Net valuation gains on Australian investment properties | 58.0 | 37.1 |
| Write off of acquisition costs incurred on Australian investment properties | (5.5) | (13.9) |
| Net valuation losses on offshore investment properties | - | (20.1) |
| Unrealised (losses)/gains on derivative financial instruments | (13.3) | 0.3 |
| Capital transaction related realised losses on derivative financial instruments | - | (2.4) |
| Loss on sale of investment properties | (0.1) | (3.1) |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | (9.2) | (29.2) |
| Earnings from German operations** | - | 1.1 |
| Other | (0.9) | (0.3) |
| Statutory profit for the period | 84.3 | 20.6 |

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

The 31 December 2014 financial results are summarised as follows:

| | 6 months to 31 Dec 2014 | 6 months to 31 Dec 2013 |
|---|----------------------------|----------------------------|
| Revenue (\$ millions) | 102.0 | 87.7 |
| Net profit after tax (\$ millions) | 84.3 | 20.6 |
| Basic weighted average number of units (millions) | 371.6 | 344.4 |
| Basic earnings per unit (cents) | 22.69 | 5.98 |
| Operating earnings (\$ millions) | 55.3 | 51.1 |
| Operating earnings per unit (cents) | 14.87 | 14.84 |
| Distribution (\$ millions) | 51.1 | 49.5 |
| Distribution per unit (cents) | 13.70 | 13.65 |

| | 31 Dec 2014 | 30 Jun 2014 |
|--|-------------|-------------|
| Total assets (\$ millions) | 2,090.1 | 2,065.0 |
| Total liabilities (\$ millions) | 778.0 | 809.9 |
| Net assets attributable to unitholders (\$ millions) | 1,312.1 | 1,255.1 |
| Units on issue (millions) | 372.9 | 369.0 |
| Net assets per unit (\$) | 3.52 | 3.40 |
| Balance sheet gearing - total debt (net of cash) to total assets (net of cash) | 32.3% | 34.9% |
| Look through gearing - total debt (net of cash) to total assets (net of cash) | 34.9% | 37.2% |

Significant Changes in the State of Affairs

In July 2014, the REIT exercised its call option to acquire Coomera City Centre for a gross purchase price of \$59.2 million. In addition, the REIT increased its syndicated debt facility limit to \$535 million and extended the duration of the facility by one year to August 2019.

Directors' report (continued)

Significant Changes in the State of Affairs (continued)

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 and call arrangement and is expected to settle in 14 months.

In addition, in August 2014, the REIT sold its remaining 50% interest in two New Zealand assets for NZ\$8.2 million (\$7.3 million), completing the sell down of its offshore exposure.

In November 2014, the REIT exchanged a contract to sell Olive Tree Shopping Centre in Lilydale, Vic. for a gross sale price of \$2.6 million.

In December 2014, Charter Hall Retail Partnership No.1 Trust, the REIT's joint venture entity, entered into a put and call deed to sell Windsor Marketplace for \$19.6 million (100% interest). Settlement is expected in the fourth quarter of FY15 and proceeds from the sale will be used to partially fund the acquisition of Brickworks' Marketplace, a shopping centre that will be constructed by Woolworths with an estimated on-completion value of \$75 million (100% interest), subject to final leasing outcomes.

The REIT's \$250.0 million commercial mortgage backed securities (CMBS) mature in September 2015 and are reflected as a current liability in this interim financial report. Management are pursuing refinancing alternatives for these notes and have received credit approval for an additional \$250.0 million tranche of the REIT's existing bank debt facility to facilitate this refinance. This amendment remains subject to final documentation with the bank lenders.

Events Occurring after Balance Date

In February 2015, the REIT received credit approval for an additional \$250.0 million tranche of the REIT's existing bank debt facility to facilitate the refinance of its commercial mortgage backed securities (CMBS) maturing in September 2015. This amendment remains subject to final documentation with the bank lenders.

Since the end of the period, the Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the interim 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 periods subsequent to 31 December 2014.

Interests in the REIT

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

| | 6 months to 31 Dec 2014 | Year to 30 Jun 2014 |
|---|----------------------------|------------------------|
| Units on issue at the beginning of the period | 369,040,750 | 337,582,974 |
| Units issued during the period | | |
| - via Distribution Reinvestment Plan | 3,852,403 | 8,218,871 |
| - via Placement issue | - | 23,238,905 |
| Units on issue at the end of the period | 372,893,153 | 369,040,750 |

Value of Assets

| | 31 Dec 2014 \$'m | 30 Jun 2014 \$'m |
|----------------------|---------------------|---------------------|
| Value of REIT assets | 2,090.1 | 2,065.0 |

The value of the REIT's assets is derived using the basis set out in Note 1 to the consolidated financial statements for the year ended 30 June 2014.

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 7.

Rounding of Amounts to the Nearest Hundred Thousand Dollars

The REIT is a registered scheme of a kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the Directors' report and consolidated interim financial statements. Amounts in the Directors' report and consolidated interim 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 of Charter Hall Retail Management Limited.



John Harkness
Chairman
Sydney
18 February 2015



Auditor's Independence Declaration

As lead auditor for the review of Charter Hall Retail REIT for the half-year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'J Reilly'.

Jane Reilly
Partner
PricewaterhouseCoopers

Sydney
18 February 2015

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Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated statement of comprehensive income

| | | 6 months to 31 Dec 2014 | 6 months to 31 Dec 2013 |
|--|-------|----------------------------|----------------------------|
| | Notes | \$'m | \$'m |
| Revenue | | | |
| Gross rental income | | 101.8 | 87.6 |
| Interest income | | 0.2 | 0.1 |
| Total revenue | | 102.0 | 87.7 |
| Other income | | | |
| Share of net profit and valuation gains on investment in joint venture entity | 8(b) | 11.7 | 11.6 |
| Net gain on movement in fair value of investment properties | 3(a) | 45.6 | 17.0 |
| Total revenue and other income | | 159.3 | 116.3 |
| Expenses | | | |
| Property expenses | | (33.0) | (30.6) |
| Net loss from derivative financial instruments | 3(b) | (12.7) | (1.8) |
| Net loss on disposal of investment properties | 6(e) | (0.1) | (0.1) |
| Management fees | | (4.5) | (3.9) |
| Finance costs | | (14.0) | (12.1) |
| Other expenses | | (1.5) | (1.8) |
| Total expenses | | (65.8) | (50.3) |
| Profit for the period from continuing operations | | 93.5 | 66.0 |
| Loss from discontinued operations | 6(c) | (9.2) | (45.4) |
| Profit for the period | | 84.3 | 20.6 |
| Other comprehensive income* | | | |
| Exchange differences on translation of foreign operations | 12 | (0.4) | 2.1 |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | 12 | 9.2 | 29.2 |
| Other comprehensive income | | 8.8 | 31.3 |
| Total comprehensive income for the period | | 93.1 | 51.9 |
| Basic and diluted earnings per ordinary unitholder of the REIT | | | |
| Earnings per unit (cents) for profit from continuing operations | 5 | 25.16 | 19.16 |
| Earnings per unit (cents) for loss from discontinued operations | 5 | (2.47) | (13.18) |
| Earnings per unit (cents) | 5 | 22.69 | 5.98 |

* 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

| | | 31 Dec 2014 | 30 Jun 2014 |
|---|-------|----------------|----------------|
| | Notes | \$'m | \$'m |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 20.3 | 12.0 |
| Receivables | | 13.3 | 14.9 |
| Other assets | | 3.3 | 1.5 |
| | | 36.9 | 28.4 |
| Assets classified as held for sale | 6(b) | 23.9 | 132.0 |
| Total current assets | | 60.8 | 160.4 |
| Non-current assets | | | |
| Investment properties | 7 | 1,889.2 | 1,772.9 |
| Investments in joint venture entities | 8 | 138.7 | 129.8 |
| Derivative financial instruments | 9 | 1.4 | 1.9 |
| Total non-current assets | | 2,029.3 | 1,904.6 |
| Total assets | | 2,090.1 | 2,065.0 |
| Liabilities | | | |
| Current liabilities | | | |
| Payables | | 20.3 | 20.7 |
| Distribution payable | | 51.1 | 50.4 |
| Borrowings | 10 | 249.8 | - |
| Derivative financial instruments | 9 | 0.3 | - |
| Other liabilities | | 0.4 | 0.3 |
| | | 321.9 | 71.4 |
| Liabilities directly associated with assets classified as held for sale | 6(b) | - | 120.7 |
| Total current liabilities | | 321.9 | 192.1 |
| Non-current liabilities | | | |
| Borrowings | 10 | 439.8 | 613.4 |
| Derivative financial instruments | 9 | 16.3 | 4.4 |
| Total non-current liabilities | | 456.1 | 617.8 |
| Total liabilities | | 778.0 | 809.9 |
| Net assets | | 1,312.1 | 1,255.1 |
| Equity | | | |
| Contributed equity | 11 | 2,142.0 | 2,127.0 |
| Reserves | 12 | - | (8.8) |
| Accumulated losses | | (829.9) | (863.1) |
| Total equity | | 1,312.1 | 1,255.1 |

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

Consolidated statement of changes in equity

| | Notes | Contributed equity \$'m | Reserves \$'m | Accumulated losses \$'m | Consolidated \$'m |
|--|-------|-------------------------------|------------------|-------------------------------|----------------------|
| Total equity at 1 July 2013 | | 2,010.5 | (41.0) | (848.4) | 1,121.1 |
| Profit for the period | | - | - | 20.6 | 20.6 |
| Other comprehensive income | | - | 31.3 | - | 31.3 |
| Total comprehensive income for the period | | - | 31.3 | 20.6 | 51.9 |
| Transactions with unitholders in their capacity as unitholders | | | | | |
| - Contributions of equity, net of issue costs | 11 | 94.5 | - | - | 94.5 |
| - Distributions paid and payable | 4 | - | - | (49.5) | (49.5) |
| Total equity at 31 December 2013 | | 2,105.0 | (9.7) | (877.3) | 1,218.0 |
| Total equity at 1 July 2014 | | 2,127.0 | (8.8) | (863.1) | 1,255.1 |
| Profit for the period | | - | - | 84.3 | 84.3 |
| Other comprehensive income | | - | 8.8 | - | 8.8 |
| Total comprehensive income for the period | | - | 8.8 | 84.3 | 93.1 |
| Transactions with unitholders in their capacity as unitholders | | | | | |
| - Contributions of equity, net of issue costs | 11 | 15.0 | - | - | 15.0 |
| - Distributions paid and payable | 4 | - | - | (51.1) | (51.1) |
| Total equity at 31 December 2014 | | 2,142.0 | - | (829.9) | 1,312.1 |

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

Consolidated cash flow statement

| | 6 months to 31 Dec 2014 \$'m | 6 months to 31 Dec 2013 \$'m |
|---|------------------------------------|------------------------------------|
| Cash flows from operating activities | | |
| Property rental income received | 111.8 | 100.9 |
| Property expenses paid | (34.6) | (32.6) |
| Distributions received from investment in joint venture entities | 3.6 | 4.3 |
| Distributions received from discontinued operations | - | 0.6 |
| Other operating expenses paid | (12.3) | (7.6) |
| Finance costs paid | (14.3) | (14.6) |
| Interest and other income | - | 0.9 |
| Settlement of derivative financial instruments | - | (19.5) |
| Net cash flows from operating activities | 54.2 | 32.4 |
| Cash flows from investing activities | | |
| Proceeds from sale of investment properties | 10.8 | 285.9 |
| Payments for investment properties and capital expenditure | (97.9) | (246.0) |
| Net cash flows from investing activities | (87.1) | 39.9 |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 121.0 | 176.6 |
| Repayment of borrowings | (44.4) | (294.1) |
| Proceeds from issue of units | - | 78.7 |
| Distributions paid to unitholders, net of DRP | (35.4) | (29.7) |
| Net cash flows from financing activities | 41.2 | (68.5) |
| Net increase in cash held | 8.3 | 3.8 |
| Cash and cash equivalents at the beginning of the period | 12.0 | 17.3 |
| Reclassification of cash and cash equivalents attributable to discontinued operations | - | (6.9) |
| Effect of exchange rate changes on cash and cash equivalents | - | 0.1 |
| Cash and cash equivalents at the end of the period | 20.3 | 14.3 |

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

Notes to the consolidated financial statements

1 Summary of significant accounting policies

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

This general purpose interim financial report for the half year ended 31 December 2014 has been prepared in accordance with the REIT's constitution, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial report does not include all notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by the Charter Hall Retail REIT during the half year ended 31 December 2014 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year.

Excess of current liabilities over current assets

The REIT's \$250.0 million commercial mortgage backed securities (CMBS) mature in September 2015 and are reflected as a current liability in this interim financial report. Management are pursuing refinancing alternatives for these notes and have received credit approval for an additional \$250.0 million tranche of the REIT's existing bank debt facility to facilitate this refinance. This amendment remains subject to final documentation with the bank lenders.

The remaining excess of \$11.3 million results from the REIT's policy of using available cash generated from earnings prior to distribution to reduce drawn revolving debt facilities combined with the REIT's distribution liability at the end of the reporting period. As at 31 December 2014, the REIT had \$90.9 million of undrawn debt capacity that can be used to fund its distribution liability.

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. Previously, the REIT's results were split by geographic segments, which included Australia, New Zealand, Poland, Germany, United States and REIT operations. Since the REIT no longer holds interest in offshore properties, the Board has redefined the REIT's operating segments as follows:

- *Freestanding supermarkets* - Standalone supermarket with no specialty shops;
- *Neighbourhood shopping centres* which comprises local shopping centres with one supermarket and a gross lettable area (GLA) less than 10,000 sqm;
- *Sub-regional shopping centres* which comprises medium sized shopping centres typically incorporating at least one full line discount department store and a major supermarket with total GLA of up to 40,000sqm; and
- *REIT operations*, which includes all other income and expenses which are not directly attributable to these shopping centres.

(b) Segment information provided to the Board

The operating earnings reported to the Board for the operating segments for the half year ended 31 December 2014 is as follows:

| | Freestanding supermarkets \$'m | Neighbourhood shopping centres \$'m | Sub-regional shopping centres \$'m | REIT operations \$'m | Total \$'m |
|--|--------------------------------------|---|--|----------------------------|---------------|
| Half year ended 31 December 2014 | | | | | |
| Net property income from wholly owned properties | 7.4 | 34.6 | 27.7 | - | 69.7 |
| Net income from joint venture entities | - | 3.5 | 4.2 | (2.3) | 5.4 |
| Other income | - | - | - | 0.2 | 0.2 |
| Management fees | - | - | - | (4.5) | (4.5) |
| Finance costs | - | - | - | (14.0) | (14.0) |
| Other expenses | - | - | - | (1.5) | (1.5) |
| Operating earnings | 7.4 | 38.1 | 31.9 | (22.1) | 55.3 |

Notes to the consolidated financial statements (continued)

2 Segment information (continued)

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

| | Freestanding supermarkets \$'m | Neighbourhood shopping centres \$'m | Sub-regional shopping centres \$'m | REIT operations \$'m | Total \$'m |
|---|--------------------------------------|---|--|----------------------------|---------------|
| Half year ended 31 December 2013 | | | | | |
| Net property income from wholly owned Australian properties | 6.9 | 30.7 | 19.8 | - | 57.4 |
| Net income from joint venture entities | - | 3.4 | 4.0 | (2.5) | 4.9 |
| Realised gains on derivative financial instruments | - | - | - | 0.8 | 0.8 |
| Other income | - | - | - | 0.1 | 0.1 |
| Management fees | - | - | - | (3.9) | (3.9) |
| Finance costs | - | - | - | (12.1) | (12.1) |
| Other expenses | - | - | - | (1.8) | (1.8) |
| Operating earnings from discontinued operations | - | - | - | 5.7 | 5.7 |
| Operating earnings | 6.9 | 34.1 | 23.8 | (13.7) | 51.1 |

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

| | 6 months to 31 Dec 2014 | 6 months to 31 Dec 2013 |
|--|------------------------------------|------------------------------------|
| | \$'m | \$'m |
| Operating earnings | 55.3 | 51.1 |
| Unrealised net valuation gains on investment properties | 52.5 | 3.1 |
| Net unrealised and capital transaction related realised losses on derivative financial instruments | (13.3) | (2.1) |
| Loss on sale of investment properties | (0.1) | (3.1) |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | (9.2) | (29.2) |
| Earnings from German operations * | - | 1.1 |
| Other | (0.9) | (0.3) |
| Profit for the period | 84.3 | 20.6 |

* 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:

| | 6 months to 31 Dec 2014 | 6 months to 31 Dec 2013 |
|---|------------------------------------|------------------------------------|
| | \$'m | \$'m |
| Total net property income from wholly owned properties | 69.7 | 57.4 |
| Add back: Property expenses | 33.0 | 30.6 |
| Interest income | 0.2 | 0.1 |
| Adjustments relating to straightlining and amortisation of lease incentives | (0.9) | (0.4) |
| Total revenues | 102.0 | 87.7 |

Notes to the consolidated financial statements (continued)

3 Profit for the period from continuing operations

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

(a) Property valuation gains

| | | 6 months to 31 Dec 2014 \$'m | 6 months to 31 Dec 2013 \$'m |
|--|-------|------------------------------------|------------------------------------|
| | Notes | | |
| Valuation gains on wholly owned investment properties | | | |
| <i>Australia</i> | | | |
| Revaluation increment on investment properties | 7 | 50.0 | 30.9 |
| Revaluation decrement on investment properties attributable to acquisition costs | 7 | (4.4) | (13.9) |
| | | 45.6 | 17.0 |
| Valuation gains on investment properties in joint venture entity | | | |
| <i>Australia</i> | | | |
| Revaluation increment on investment properties | 8(b) | 8.0 | 6.2 |
| Revaluation decrement on investment properties attributable to acquisition costs | 8(b) | (1.1) | - |
| | | 6.9 | 6.2 |

(b) Net losses from derivative financial instruments

| | 6 months to 31 Dec 2014 \$'m | 6 months to 31 Dec 2013 \$'m |
|---|------------------------------------|------------------------------------|
| Gain on derivative financial instruments - realised | - | 1.1 |
| Loss on derivative financial instruments - unrealised | (12.7) | (2.9) |
| | (12.7) | (1.8) |

4 Distributions paid and payable

| | Distribution cents per unit | Total amount \$'m |
|--|--------------------------------|----------------------|
| <i>Ordinary unitholders</i> | | |
| Distributions for the half year ended: | | |
| 31 December 2014 | 13.70 | 51.1 |
| 31 December 2013 | 13.65 | 49.5 |

* The distribution of 13.70 cents per unit for the half year ended 31 December 2014 was declared prior to 31 December 2014 and will be paid on 27 February 2015.

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.

Notes to the consolidated financial statements (continued)

5 Earnings per unit

| | 6 months to 31 Dec 2014 | 6 months to 31 Dec 2013 |
|---|----------------------------|----------------------------|
| Basic and diluted earnings per ordinary unitholder of the REIT | | |
| Earnings per unit (cents) for profit from continuing operations | 25.16 | 19.16 |
| Earnings per unit (cents) for loss from discontinued operations | (2.47) | (13.18) |
| Earnings per unit (cents) | 22.69 | 5.98 |
| Earnings used in the calculation of basic and diluted earnings per unit | | |
| Net profit from continuing operations (\$'m) | 93.5 | 66.0 |
| Net loss from discontinued operations (\$'m) | (9.2) | (45.4) |
| Net profit for the period (\$'m) | 84.3 | 20.6 |
| Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)* | 371.6 | 344.4 |

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

6 Assets and liabilities classified as held for sale and discontinued operations

(a) Details of discontinued operations

In August 2014, the REIT completed the sale of the remaining two properties located in Christchurch, NZ for a gross sale price of NZ\$8.2 million (\$7.3 million).

In addition, 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 31 December 2014 and is expected to settle in 14 months.

(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.

| | 31 Dec 2014 \$'m | 30 Jun 2014 \$'m |
|--|---------------------|---------------------|
| Assets classified as held for sale | | |
| Cash and cash equivalents | - | 2.4 |
| Receivables | - | 0.2 |
| Investment properties | 23.9 | 129.4 |
| Total assets classified as held for sale | 23.9 | 132.0 |
| Liabilities classified as held for sale | | |
| Payables | - | 2.0 |
| Borrowings | - | 117.1 |
| Derivative financial instruments | - | 0.2 |
| Other liabilities | - | 1.4 |
| Total liabilities directly associated with assets classified as held for sale | - | 120.7 |

In the current period, investment properties classified as held for sale are located in Australia and carried at their expected sale value less an allowance for selling costs, which is considered their fair value.

Notes to the consolidated financial statements (continued)

6 Assets and liabilities classified as held for sale and discontinued operations (continued)

(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 for the half year ended 31 December 2014 for the discontinued operations that continued to be owned by the REIT at balance date. For assets that have been divested during the period, the relevant financial performance and cash flow information up to the date of disposal has been included.

| | | 6 months to 31 Dec 2014 | 6 months to 31 Dec 2013 |
|--|-------|----------------------------|----------------------------|
| | Notes | \$'m | \$'m |
| Net property income | | - | 12.2 |
| Other income | | - | 0.1 |
| Valuation losses on investment properties | | - | (20.1) |
| Net loss from derivative financial instruments | | - | (0.4) |
| Management fees | | - | (0.3) |
| Finance costs | | - | (4.2) |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | 12 | (9.2) | (29.2) |
| Other expenses | | - | (0.4) |
| Loss before income tax | | (9.2) | (42.3) |
| Tax expense | | - | (0.1) |
| Loss after income tax | | (9.2) | (42.4) |
| Loss on sale of investment properties | | - | (3.0) |
| Loss from discontinued operations | | (9.2) | (45.4) |
| Net cash inflow from operating activities | | - | 0.8 |
| Net cash inflow from investing activities | | - | 34.5 |
| Net increase in cash generated by discontinued operations excluding sale proceeds | | - | 35.3 |

(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 period:

| | Date of disposal | Principal activity | Ownership interest disposed | Total consideration \$'m |
|--|------------------|---------------------|-----------------------------|--------------------------|
| Australian portfolio | | | | |
| Glen Innes, NSW | 31 Jul 2014 | Investment property | 100.0% | 3.6 |
| Equity interest in German portfolio | 8 Aug 2014 | Investment property | 94.9% | - |
| NZ portfolio | 29 Aug 2014 | Investment property | 50.0% | 7.3 |
| | | | | 10.9 |

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

| | Discontinued operations \$'m | Assets held for sale \$'m | Total 6 months to 31 Dec 2014 \$'m | Total 6 months to 31 Dec 2013 \$'m |
|---|---------------------------------|------------------------------|---|---|
| Details of disposals during the period: | | | | |
| Sale price | 7.3 | 3.6 | 10.9 | 296.2 |
| Selling costs | - | (0.1) | (0.1) | (5.7) |
| Carrying amount of net assets sold | (7.3) | (3.6) | (10.9) | (293.6) |
| Loss on sale before income tax | - | (0.1) | (0.1) | (3.1) |
| Income tax expense | - | - | - | - |
| Loss on sale after income tax | - | (0.1) | (0.1) | (3.1) |

Notes to the consolidated financial statements (continued)

7 Investment properties

| | 31 Dec 2014 \$'m | 30 Jun 2014 \$'m |
|----------------------------------|---------------------|---------------------|
| Non-current | | |
| Investment properties | | |
| - Freestanding supermarkets | 190.1 | 188.1 |
| - Neighbourhood shopping centres | 938.5 | 868.0 |
| - Sub-regional shopping centres | 760.6 | 716.8 |
| | 1,889.2 | 1,772.9 |

Investment properties include a straightlining asset of \$9.1 million (30 Jun 2014: \$8.8 million) and unamortised lease incentives of \$6.4 million (30 Jun 2014: \$5.8 million).

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

| | Notes | 6 months to 31 Dec 2014 \$'m | Year to 30 Jun 2014 \$'m |
|--|-------|------------------------------------|--------------------------------|
| Carrying amount at the beginning of the period | | 1,772.9 | 1,588.5 |
| Additions | | 90.8 | 278.7 |
| Acquisition costs incurred | | 4.4 | 13.9 |
| Revaluation decrement attributable to acquisition costs | 3(a) | (4.4) | (13.9) |
| Revaluation increment | 3(a) | 50.0 | 45.2 |
| Straightlining of rental income | | 0.3 | 1.3 |
| Amortisation of lease incentives | | (1.1) | (2.1) |
| Capitalised leasing fees (net of amortisation) | | 0.2 | 0.2 |
| Foreign exchange rate differences on translation | | - | 11.0 |
| Reclassification of investment properties as held for sale | | (23.9) | (149.9) |
| Carrying amount at the end of the period | | 1,889.2 | 1,772.9 |

8 Investment in joint venture entity

During the period, 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 period, this investment has been accounted for in the consolidated interim financial statements using the equity method of accounting.

Information relating to the joint venture entity is detailed below:

| Joint venture entity | Country of establishment | Principal activity | Ownership interest | |
|--|-----------------------------|---------------------|--------------------|------------------|
| | | | 31 Dec 2014 % | 30 Jun 2014 % |
| Charter Hall Retail Partnership No.1 Trust | Australia | Property investment | 50% | 50% |

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

| | Notes | 6 months to 31 Dec 2014 \$'m | Year to 30 Jun 2014 \$'m |
|--|-------|------------------------------------|--------------------------------|
| Balance at the beginning of the period | | 129.8 | 114.6 |
| Share of profits before property valuation gains | 8(b) | 4.8 | 10.8 |
| Share of property valuation gains | 8(b) | 6.9 | 13.3 |
| Distributions paid and payable | | (2.8) | (8.9) |
| Balance at the end of the period | | 138.7 | 129.8 |

Notes to the consolidated financial statements (continued)

8 Investment in joint venture entity (continued)

(b) Share of results attributable to joint venture entity

| | 100% interest | | 50% interest | |
|--|---------------|-------------|--------------|-------------|
| | 6 months to | 6 months to | 6 months to | 6 months to |
| | 31 Dec 2014 | 31 Dec 2013 | 31 Dec 2014 | 31 Dec 2013 |
| | \$'m | \$'m | \$'m | \$'m |
| Income | | | | |
| Property rental income | 23.2 | 22.2 | 11.6 | 11.1 |
| Property expenses | (7.8) | (7.2) | (3.9) | (3.6) |
| Net property income | 15.4 | 15.0 | 7.7 | 7.5 |
| Expenses | | | | |
| Finance costs | (4.4) | (5.0) | (2.2) | (2.5) |
| Net unrealised (loss)/gain on derivative financial instruments | (1.2) | 0.8 | (0.6) | 0.4 |
| Other expenses | (0.2) | - | (0.1) | - |
| Total expenses | (5.8) | (4.2) | (2.9) | (2.1) |
| Profits before property valuation gains | 9.6 | 10.8 | 4.8 | 5.4 |
| Property valuation gains | | | | |
| Revaluation increment on investment properties | 16.0 | 12.4 | 8.0 | 6.2 |
| Revaluation decrement on investment properties attributable to acquisition costs | (2.2) | - | (1.1) | - |
| Property valuation gains | 13.8 | 12.4 | 6.9 | 6.2 |
| Profits and valuation gains of investment in joint venture entity | 23.4 | 23.2 | 11.7 | 11.6 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | 23.4 | 23.2 | 11.7 | 11.6 |

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

| | 100% interest | | 50% interest | |
|----------------------------------|---------------|-------------|--------------|-------------|
| | 31 Dec 2014 | 30 Jun 2014 | 31 Dec 2014 | 30 Jun 2014 |
| | \$'m | \$'m | \$'m | \$'m |
| Current assets | | | | |
| Cash and cash equivalents | 3.0 | 3.4 | 1.5 | 1.7 |
| Receivables | 2.8 | 2.2 | 1.4 | 1.1 |
| Other assets | 0.8 | 0.6 | 0.4 | 0.3 |
| | 6.6 | 6.2 | 3.3 | 3.1 |
| Non-current assets | | | | |
| Investment properties | 450.6 | 425.4 | 225.3 | 212.7 |
| Total assets | 457.2 | 431.6 | 228.6 | 215.8 |
| Current liabilities | | | | |
| Payables | 5.4 | 6.8 | 2.7 | 3.4 |
| | 5.4 | 6.8 | 2.7 | 3.4 |
| Non-current liabilities | | | | |
| Borrowings | 168.8 | 160.8 | 84.4 | 80.4 |
| Derivative financial instruments | 5.6 | 4.4 | 2.8 | 2.2 |
| Total liabilities | 179.8 | 172.0 | 89.9 | 86.0 |
| Net assets | 277.4 | 259.6 | 138.7 | 129.8 |

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 \$221.5 million (30 Jun 2014: \$212.7 million) against the REIT's share of the total facility of \$84.9 million (30 Jun 2014: \$81.0 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.

Notes to the consolidated financial statements (continued)

8 Investment in joint venture entity (continued)

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

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 \$34.0 million (30 Jun 2014: \$0.2 million). These commitments include the final instalment payment for Brickworks Marketplace and have not been reflected in the interim consolidated financial statements of the REIT.

9 Derivative financial instruments

| | 31 Dec 2014 \$'m | 30 Jun 2014 \$'m |
|---------------------|---------------------|---------------------|
| Assets | | |
| Non-current | | |
| Interest rate swaps | 1.4 | 1.9 |
| | 1.4 | 1.9 |
| Liabilities | | |
| Current | | |
| Interest rate swaps | 0.3 | - |
| | 0.3 | - |
| Non-current | | |
| Interest rate swaps | 16.3 | 4.4 |
| | 16.3 | 4.4 |

10 Borrowings

| | 31 Dec 2014 \$'m | 30 Jun 2014 \$'m |
|---------------------------------------|---------------------|---------------------|
| Current | | |
| Commercial mortgage backed securities | 250.0 | - |
| Less: Unamortised transaction costs | (0.2) | - |
| | 249.8 | - |
| Non-current | | |
| Bank loan - term debt | 444.1 | 367.5 |
| Commercial mortgage backed securities | - | 250.0 |
| Less: Unamortised transaction costs | (4.3) | (4.1) |
| | 439.8 | 613.4 |

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 \$1,041.2 million (30 Jun 2014: \$941.1 million). During the period, the REIT extended the term of syndicated debt facility from August 2018 to August 2019. In addition, the facility limit was increased to \$535.0 million (30 Jun 2014: \$475.0 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 31 December 2014, the interest rate on the bank loan is 3.60% per annum (30 Jun 2014: 3.46% to 3.52% 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 31 December 2014 amounts to \$871.9 million (30 Jun 2014: \$835.4 million). The CMBS matures in September 2015. Management are pursuing refinancing alternatives for these notes and have received credit approval for an additional \$250.0 million tranche of the REIT's existing bank debt facility to facilitate this refinance. This amendment remains subject to final documentation with the bank lenders. The interest rate under this facility is variable and reset periodically, usually after a period of 90 days.

Notes to the consolidated financial statements (continued)

11 Contributed equity

| | | | 6 months to 31 Dec 2014 | Year to 30 Jun 2014 |
|--------------|-----------------|------------------|----------------------------|------------------------|
| | | | \$'m | \$'m |
| No. of units | Details | Date of income | | |
| 337,582,974 | Units on issue | 30 June 2013 | | 2,010.5 |
| 4,260,906 | DRP issue | 1 July 2013 | | 15.9 |
| 21,052,632 | Placement issue | 1 July 2013 | | 78.6 |
| 2,186,273 | Placement issue | 1 January 2014 | | 7.9 |
| 3,957,965 | DRP issue | 1 January 2014 | | 14.1 |
| 369,040,750 | Units on issue | 30 June 2014 | 2,127.0 | 2,127.0 |
| 3,852,403 | DRP issue | 1 July 2014 | 15.0 | |
| 372,893,153 | Units on issue | 31 December 2014 | 2,142.0 | 2,127.0 |

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 half year ended 31 December 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 distribution record date.

12 Reserves

| | | 6 months to 31 Dec 2014 | Year to 30 Jun 2014 |
|--|------|----------------------------|------------------------|
| | | \$'m | \$'m |
| Foreign currency translation reserve | | | |
| Opening balance | | (8.8) | (41.0) |
| Translation of foreign operations and foreign denominated borrowings | | (0.4) | 1.6 |
| Transfer to profit of cumulative FX losses on disposal of assets held for sale | 6(c) | 9.2 | 30.6 |
| Closing balance | | - | (8.8) |

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.

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

13 Net tangible assets

| | 31 Dec 2014 | 30 Jun 2014 |
|--|-------------|-------------|
| | \$'m | \$'m |
| Total assets | 2,090.1 | 2,065.0 |
| Less: Total liabilities | (778.0) | (809.9) |
| Net tangible assets attributable to the REIT | 1,312.1 | 1,255.1 |
| Total number of units on issue | 372,893,153 | 369,040,750 |
| Net tangible asset backing per unit | \$3.52 | \$3.40 |

Notes to the consolidated financial statements (continued)

14 Fair value measurement

(a) Recognised fair value measurements

The REIT measures and recognises derivative financial instruments (Refer to Note 9) at fair value on a recurring basis.

To provide an indication about the reliability of inputs used in determining fair value, the REIT classifies its financial instruments into three levels prescribed under the accounting standards. An explanation of each level is set out below:

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

Financial 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 financial assets and liabilities – Level 2.

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

| | | Level 2 | | Total | |
|---|-------|-------------|-------------|-------------|-------------|
| | | 31 Dec 2014 | 30 Jun 2014 | 31 Dec 2014 | 30 Jun 2014 |
| | Notes | \$'m | \$'m | \$'m | \$'m |
| Financial assets - recurring fair value measurement | | | | | |
| <i>Derivative assets</i> | | | | | |
| Interest rate swaps | 9 | 1.4 | 1.9 | 1.4 | 1.9 |
| Total assets | | 1.4 | 1.9 | 1.4 | 1.9 |
| Financial liabilities - recurring fair value measurement | | | | | |
| <i>Derivative liabilities</i> | | | | | |
| Interest rate swaps | 9 | (16.6) | (4.4) | (16.6) | (4.4) |
| Total liabilities | | (16.6) | (4.4) | (16.6) | (4.4) |

There were no transfers between levels of fair value measurement during the period and there were no other financial assets or liabilities that were measured and recognised at fair value and classified as Level 1 or Level 3.

The policy of the REIT is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

The REIT did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2014.

(b) Disclosed fair values

The fair value of derivative financial instruments is disclosed in 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 31 December 2014 and 30 June 2014. Their fair value is estimated by comparing the margin on the facility to the pricing of a similar facility in the current market.

| Consolidated entity | 31 Dec 2014 | | 30 Jun 2014 | |
|---|-------------------------|--------------------|-------------------------|--------------------|
| | Carrying amount \$'m | Fair value \$'m | Carrying amount \$'m | Fair value \$'m |
| Bank loan - term debt | 444.1 | 445.4 | 367.5 | 368.0 |
| Commercial mortgage backed securities (CMBS) | 250.0 | 251.4 | 250.0 | 251.8 |
| | 694.1 | 696.8 | 617.5 | 619.8 |
| Borrowings directly associated with assets held for sale | | | | |
| Bank loan - term debt | - | - | 117.4 | 118.2 |
| | - | - | 117.4 | 118.2 |
| | 694.1 | 696.8 | 734.9 | 738.0 |

Notes to the consolidated financial statements (continued)

14 Fair value measurement (continued)

(c) Valuation techniques used to derive 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.

15 Commitments and contingent liabilities

The REIT has entered into contracts for the acquisition, construction and development of properties in Australia. The commitments of the REIT total \$11.3 million (30 Jun 2014: \$29.2 million). These commitments have not been reflected in the interim consolidated financial statements of the REIT.

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

16 Significant contract terms and conditions

Pre-emptive rights

Under the joint ownership arrangements in place with Telstra Superannuation Scheme, 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.

17 Events occurring after balance date

In February 2015, the REIT received credit approval for an additional \$250.0 million tranche of the REIT's existing bank debt facility to facilitate the refinance of its commercial mortgage backed securities (CMBS) maturing in September 2015. This amendment remains subject to final documentation with the bank lenders.

Since the end of the period, the Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the interim 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 periods subsequent to 31 December 2014.

Directors' declaration to unitholders

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

- a the interim financial statements and notes set out on pages 8 to 22 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 31 December 2014 and of its performance for the half 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.

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



John Harkness
Chairman
Sydney

18 February 2015



Independent auditor's review report to the members of Charter Hall Retail REIT

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Charter Hall Retail REIT (the REIT), which comprises the consolidated balance sheet as at 31 December 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, selected explanatory notes and the directors' declaration for Charter Hall Retail REIT Group (the consolidated entity). The consolidated entity comprises the REIT and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of Charter Hall Retail Management Limited (the responsible entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Charter Hall Retail REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Charter Hall Retail REIT is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


PricewaterhouseCoopers


Jane Reilly
Partner

Sydney
18 February 2015