

APPENDIX 4E

Annual Financial Report for the year ended 30 June 2015

Name of Entity: Charter Hall Retail REIT

ARSN: 093 143 965

Results for announcement to the market

	12 months to 30 June 2015 \$m	12 months to 30 June 2014 \$m	Variance (%)
Revenue from ordinary activities ^{1,2}	201.2	184.5	9.1%
Profit from ordinary activities after tax attributable to members ²	172.3	133.4	29.2%
Profit for the year attributable to members ³	162.5	85.2	90.7%
Operating earnings ^{3,4}	110.8	105.3	5.2%

¹ The composition of revenue from ordinary activities is detailed in Consolidated statement of comprehensive income of the annual financial report.

² Excludes results from discontinued operations

³ Includes results from discontinued operations

⁴ 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/(loss) to operating earnings is provided in Note 2 of the financial statements.

	12 months to 30 June 2015 cents per unit	12 months to 30 June 2014 cents per unit	Variance (%)
Basic earnings per unit	43.55	23.95	81.8%
Operating earnings per unit	29.70	29.60	0.3%

Distributions	Amount per unit cents per unit	Tax deferred amount per unit cents per unit
<i>Current year:</i>		
Final distribution	13.80	
Interim distribution	13.70	
Total	27.50	9.76
<i>Previous corresponding year:</i>		
Final distribution	13.65	
Interim distribution	13.65	
Total	27.30	12.23
Record date for determining entitlements to the distribution	30 June 2015	

Results for announcement to the market (continued)

The REIT recorded a statutory profit for the year of \$162.5 million compared to a statutory profit of \$85.2 million in 2014. Operating earnings increased to \$110.8 million from \$105.3 million in 2014 due to:

- Increased net property income from Australian properties following acquisitions, developments and income growth during the year;
- Completion of the sale of all offshore portfolios; and
- Equity raised and deployed during the 24 month period from 1 July 2013.

The REIT's statutory accounting profit of \$162.5 million includes a number of unrealised, non-cash and other non-core capital items including:

- \$87.7 million – Unrealised net valuation gains on Australian investment properties;
- (\$13.4) 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;
- (\$5.5) million – Impairment of acquisition costs incurred on Australian investment properties; and
- (\$4.1) million – Write off of capitalised borrowing costs related to extinguished debt facilities.

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.

The DRP issue price is determined at a discount of 1.0% to the daily average of 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 \$11.3 million from the DRP for the 31 December 2014 distribution and expects to raise \$12.9 million from the DRP for the 30 June 2015 distribution.

Statement of Undistributed Income

Refer attached consolidated financial statements (Note 19: *Accumulated losses*).

Net Tangible Assets

	30 June 2015	30 June 2014
Net tangible asset backing, \$ per unit ¹	3.59	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 year

During the year, the REIT liquidated Charter Hall Retail (NZ) Trust and sold a 94.9% interest in Charter Hall Retail No.2 Sarl (Luxembourg). Refer to Note 10: *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 12: *Investment in joint venture entity*).

Other significant information

Completion of the sale of all offshore portfolios

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 February 2016.

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.

Acquisitions

In July 2014, the REIT exercised its call option to acquire Coomera City Centre for a gross purchase price of \$59.2 million and acquisition costs of \$4.4 million.

In December 2014, Charter Hall Retail Partnership No.1 Trust (CHRP1), the REIT's joint venture entity, acquired land comprising the former Brickworks site in Torrensville, Adelaide, South Australia for \$7.55 million (100% interest) from Woolworths Limited (Woolworths). The land is the site of Brickworks Marketplace, a shopping centre that opened in June 2015 with an on-completion value of \$76 million (100% interest) including land value. This acquisition was settled in July 2015.

Disposals

In July 2014, the REIT sold McKenzie Mall, in Glen Innes, NSW for a gross sale price of \$3.6 million.

In February 2015, the REIT sold Olive Tree Shopping Centre in Lilydale, Vic. for a gross sale price of \$2.6 million.

In April 2015, the REIT entered into a call option deed to sell three non-core properties in Central Western NSW for \$21.55 million. This option was exercised in May 2015 and proceeds from the sale were used to retire \$18.5 million of Commercial Mortgage Backed Securities (CMBS) and pay down \$2.6 million of the REIT's revolving bank debt facility.

In December 2014, CHRP1 entered into a put and call deed to sell Windsor Marketplace for \$19.6 million (100% interest). This option was exercised in June 2015. Proceeds from the sale have been used to partially fund the acquisition of Brickworks Marketplace.

Debt restructure

In April 2015, the REIT completed several key initiatives to restructure its debt funding platform:

- US\$200 million (A\$252 million) US Private Placement (USPP) issuance:
 - 12 year duration
 - Funding to occur on 22 July 2015
 - Fixed US\$ coupon of 3.55% which is 100% hedged in Australian dollars (principal and interest) and represents a margin of 194 basis points over BBSW
- Restructured syndicated bank debt facility with agreed terms for tranches of 18 months (\$150 million), 3 years (\$150 million) and 5 years (\$285 million) for a total facility limit of \$585 million, from a previous limit of \$535 million.

Proceeds from the USPP issuance will be used to repay the existing CMBS facility which matures in September 2015 and is reflected as a current liability in this annual financial report.

On 22 July the REIT moved to a partially unsecured debt structure with a financial covenant package including a look-through gearing covenant of 50% and interest cover ratio of 2.0 times. Moody's have assigned a definitive issuer credit rating of Baa1. On 28 September 2015, on repayment of the CMBS, the REIT will move to a fully unsecured debt platform, excluding joint venture entities.

Redevelopments

During the year the REIT completed two major redevelopments at Caboolture (Queensland) and Lansell (Victoria) and commenced one major redevelopment at Mackay (Queensland).

Accounting standards used by foreign entities

International Financial Reporting Standards

Significant features of operating performance

	2015	2014
	\$'m	\$'m
Revenue		
Gross rental income	200.9	184.3
Interest income	0.3	0.2
Total revenue	201.2	184.5
Other income		
Share of net profit and valuation gains on investment in joint venture entity	25.6	24.1
Net gain on movement in fair value of investment properties	66.8	31.3
Total revenue and other income	293.6	239.9
Expenses		
Property expenses	(64.2)	(61.7)
Net loss from derivative financial instruments	(12.9)	(8.5)
Net loss on disposal of investment properties	(0.9)	(0.2)
Management fees	(9.1)	(8.1)
Finance costs	(31.0)	(24.5)
Other expenses	(3.2)	(3.5)
Total expenses	(121.3)	(106.5)
Profit for the year from continuing operations	172.3	133.4
Loss from discontinued operations	(9.8)	(48.2)
Profit for the year	162.5	85.2

Reconciliation of operating profits to statutory profit

	2015	2014
	\$'m	\$'m
Net property income from wholly owned properties	138.7	123.4
Net income from joint venture entities	11.0	10.3
Realised gains on forward foreign exchange contracts	-	0.9
Other income	0.3	0.2
Management fees	(9.1)	(8.1)
Finance costs	(26.9)	(24.5)
Other expenses	(3.2)	(3.5)
Operating earnings from discontinued operations	-	6.6
Operating earnings	110.8	105.3
Net valuation gains on Australian investment properties	87.7	59.9
Impairment of acquisition costs incurred on Australian investment properties	(5.5)	(13.9)
Net valuation losses on investment properties held for sale	-	(24.3)
Unrealised and capital transaction related realised losses on derivative financial instruments	(13.4)	(8.8)
Loss on sale of investment properties	(1.6)	(4.0)
Write off of capitalised borrowing costs related to extinguished debt facilities	(4.1)	-
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	(9.2)	(30.6)
Earnings from German operations	-	2.5
Other	(2.2)	(0.9)
Statutory profit from continuing and discontinued operations	162.5	85.2

Segment results

Refer attached financial statements (Note 2: *Segment reporting*).

Performance trends

Refer to Significant features of operating performance above.

Other factors

Refer to Other significant information above.

Audit

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

<input checked="" type="checkbox"/>	The accounts have been audited (refer attached financial statements).	<input 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 098 143 965

Annual financial report

For the year ended 30 June 2015



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.

© Charter Hall

Contents

Contents.....	3
Directors' report	4
Auditor's independence declaration	13
Consolidated statement of comprehensive income.....	14
Consolidated balance sheet.....	15
Consolidated statement of changes in equity.....	16
Consolidated cash flow statement	17
1 Summary of significant accounting policies	18
2 Segment information	27
3 Profit for the year from continuing operations.....	29
4 Distributions paid and payable	30
5 Earnings per unit	30
6 Cash and cash equivalents	30
7 Receivables.....	31
8 Derivative financial instruments	31
9 Other assets	32
10 Assets and liabilities classified as held for sale and discontinued operations.....	32
11 Investment properties	34
12 Investment in joint venture entity	35
13 Payables.....	37
14 Distribution payable	37
15 Borrowings	38
16 Other liabilities	39
17 Contributed equity	39
18 Reserves	40
19 Accumulated losses.....	40
20 Net tangible assets	40
21 Cash flow information	41
22 Capital and financial risk management.....	42
23 Fair value measurement.....	48
24 Related party information	51
25 Remuneration of the auditor	55
26 Commitments and contingent liabilities	55
27 Significant contract terms and conditions	56
28 Parent entity financial information.....	56
29 Interest in other entities	57
30 Events occurring after balance date	57
Directors' declaration to unitholders.....	58
Independent auditor's report	59

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 financial statements of Charter Hall Retail REIT and its controlled entities (together, the REIT) for the year ended 30 June 2015.

Principal Activities

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

Directors

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

- 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:

	2015 \$'m	2014 \$'m
Final distribution for the six months ended 30 June 2015 of 13.80 cents per unit payable on 31 August 2015	51.8	-
Interim distribution for the six months ended 31 December 2014 of 13.70 cents per unit paid on 27 February 2015	51.1	-
Final distribution for the six months ended 30 June 2014 of 13.65 cents per unit paid on 29 August 2014	-	50.4
Interim distribution for the six months ended 31 December of 13.65 cents per unit paid on 28 February 2014	-	49.5
	102.9	99.9

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

Distribution Reinvestment Plan

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

The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the distribution record date. The REIT raised \$11.3 million from the DRP for the 31 December 2014 distribution and expects to raise \$12.9 million from the DRP for the 30 June 2015 distribution.

Review and Results of Operations

The REIT recorded a statutory profit for the year of \$162.5 million compared to a statutory profit of \$85.2 in 2014. Operating earnings amounted to \$110.8 million compared to \$105.3 million in 2014 due to:

- Increased net property income from Australian properties following acquisitions, developments and income growth during the year;
- Completion of the sale of all offshore portfolios; and
- Equity raised and deployed during the 24 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.

Directors' report (continued)

Review and Results of Operations (continued)

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:

	2015	2014
	\$'m	\$'m
Net property income from wholly owned properties	138.7	123.4
Net income from joint venture entity	11.0	10.3
Realised gains on derivative financial instruments	-	0.9
Other income	0.3	0.2
Management fees	(9.1)	(8.1)
Finance costs	(26.9)	(24.5)
Other expenses	(3.2)	(3.5)
Operating earnings from discontinued operations	-	6.6
Operating earnings *	110.8	105.3

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

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

	2015	2014
	\$'m	\$'m
Operating earnings	110.8	105.3
Net valuation gains on Australian investment properties	87.7	59.9
Impairment of acquisition costs incurred on Australian investment properties	(5.5)	(13.9)
Net valuation losses on investment properties held for sale	-	(24.3)
Unrealised and capital transaction related realised losses on derivative financial instruments	(13.4)	(8.8)
Loss on sale of investment properties	(1.6)	(4.0)
Write off of capitalised borrowing costs related to extinguished debt facilities	(4.1)	-
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	(9.2)	(30.6)
Earnings from German operations**	-	2.5
Other	(2.2)	(0.9)
Statutory profit for the year	162.5	85.2
Basic weighted average number of units (millions)	373.1	355.7
Basic earnings per unit (cents)	43.55	23.95
Operating earnings per unit (cents)	29.70	29.60
Distribution per unit (cents)	27.50	27.30

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

The 30 June 2015 financial results are summarised as follows:

	2015	2014
Revenue (\$ millions)	201.2	184.5
Net profit after tax (\$ millions)	162.5	85.2
Basic earnings per unit (cents)	43.55	23.95
Operating earnings (\$ millions)	110.8	105.3
Operating earnings per unit (cents)	29.70	29.60
Distributions (\$ millions)	102.9	99.9
Distributions per unit (cents)	27.50	27.30
Total assets (\$ millions)	2,103.7	2,065.0
Total liabilities (\$ millions)	754.0	809.9
Net assets attributable to unitholders (\$ millions)	1,349.7	1,255.1
Units on issue (millions)	375.6	369.0
Net assets per unit (\$)	3.59	3.40
Look through gearing - total debt (net of cash) to total assets (net of cash)	33.6%	37.2%

Directors' report (continued)

Significant Changes in the State of Affairs

Completion of the sale of all offshore portfolios

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 February 2016.

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.

Acquisitions

In July 2014, the REIT exercised its call option to acquire Coomera City Centre for a gross purchase price of \$59.2 million and acquisition costs of \$4.4 million.

In December 2014, Charter Hall Retail Partnership No.1 Trust (CHRP1), the REIT's joint venture entity, acquired land comprising the former Brickworks site in Torrensville, Adelaide, South Australia for \$7.55 million (100% interest) from Woolworths Limited (Woolworths). The land is the site of Brickworks Marketplace, a shopping centre that opened in June 2015 with an on-completion value of \$76 million (100% interest) including land value. This acquisition was settled in July 2015.

Disposals

In July 2014, the REIT sold McKenzie Mall, in Glen Innes, NSW for a gross sale price of \$3.6 million.

In February 2015, the REIT sold Olive Tree Shopping Centre in Lilydale, Vic. for a gross sale price of \$2.6 million.

In April 2015, the REIT entered into a call option deed to sell three non-core properties in Central Western NSW for \$21.55 million. This option was exercised in May 2015 and proceeds from the sale were used to retire \$18.5 million of Commercial Mortgage Backed Securities (CMBS) and pay down \$2.6 million of the REIT's revolving bank debt facility.

In December 2014, CHRP1 entered into a put and call deed to sell Windsor Marketplace for \$19.6 million (100% interest). This option was exercised in June 2015. Proceeds from the sale have been used to partially fund the acquisition of Brickworks Marketplace.

Debt restructure

In April 2015, the REIT completed several key initiatives to restructure its debt funding platform:

- US\$200 million (A\$252 million) US Private Placement (USPP) issuance:
 - 12 year duration
 - Funding to occur on 22 July 2015
 - Fixed US\$ coupon of 3.55% which is 100% hedged in Australian dollars (principal and interest) and represent a margin of 194 basis points over BBSW
- Restructured syndicated bank debt facility with agreed terms for tranches of 18 months (\$150 million), 3 years (\$150 million) and 5 years (\$285 million) for a total facility limit of \$585 million, from a previous limit of \$535 million.

Proceeds from the USPP issuance will be used to repay the existing CMBS facility which matures in September 2015 and is reflected as a current liability in this annual financial report.

On 22 July the REIT moved to a partially unsecured debt structure with a financial covenant package including a look-through gearing covenant of 50% and interest cover ratio of 2.0 times. Moody's have assigned a definitive issuer credit rating of Baa1. On 28 September 2015, on repayment of the CMBS, the REIT will move to a fully unsecured debt platform, excluding joint venture entities.

Redevelopments

During the year the REIT completed two major redevelopments at Caboolture (Queensland) and Lansell (Victoria) and commenced one major redevelopment at Mackay (Queensland).

Directors' report (continued)

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 include 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 area up to 25,000sqm 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 REIT has target look through gearing range of 30-40% and a target interest cover ratio of at least 2.5 times.

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 and foreign exchange exposure in accordance with the Board approved Financial Risk Management Policy.

Development pipeline

The REIT has an identified development pipeline with the projects currently under construction at 30 June 2015 having a development cost of approximately \$61.6 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 pre-leasing the redevelopment both prior to and during construction.

Major anchor tenants' sales growth

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

Events Occurring after Balance Date

On 22 July 2015, the REIT received the proceeds of its US\$200 million US Private Placement (USPP) which will be used to repay the existing CMBS facility which matures on 28 September 2015.

On 28 July 2015 the REIT executed conditional contracts to acquire Goulburn Plaza, NSW and Katherine Central, NT, for a combined purchase price of \$94.9 million.

Furthermore, on 31 July 2015, Charter Hall Retail Partnership No.1 Trust (CHRP1), the REIT's joint venture entity, completed the acquisition of Brickworks Marketplace for a total purchase price (including land) of \$76m.

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 2015.

Directors' report (continued)

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 \$9,095,295 (2014: \$8,671,937) 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.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2015 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:

	2015	2014
Units on issue at the beginning of the year	369,040,750	337,582,974
Units issued during the year		
- via Distribution Reinvestment Plan	6,513,624	8,218,871
- via Placement issue	-	23,238,905
Units on issue at the end of the year	375,554,374	369,040,750

Value of Assets

	2015 \$'m	2014 \$'m
Value of REIT assets	2,103.7	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.

Directors' report (continued)

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 ten 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

Director	Experience	Special responsibilities	Interest in units of the REIT
John Harkness	<p>Appointed 18 August 2003 Age: 70</p> <p>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.</p> <p>He is currently Chairman of Reliance Rail and an Independent Director of the Goodman Group. John is also Chairman of the National Foundation for Medical Research and Innovation.</p> <p>John is a Fellow of both The Institute of Chartered Accountants (Australia) and the Australian Institute of Company Directors.</p> <p>Current listed directorships Goodman Group (Director since 2005) (ASX: GMG)</p> <p>Former listed directorships in last three years Nil</p>	<p>Chairman of the Board of Directors, Member of the Audit, Risk and Compliance Committee</p>	Nil

Directors' report (continued)

Information on Current Directors (continued)

Director	Experience	Special responsibilities	Interest in units of the REIT
David Harrison	<p>Appointed 1 March 2010 Age: 49</p> <p>David has 27 years of property market experience across office, retail and industrial sectors. As Charter Hall Group's Joint Managing Director, David is responsible for all aspects of the Charter Hall business, with specific focus on Investment Management, Strategy, Corporate Transactions and Property Investment activities.</p> <p>David is directly responsible for overseeing operation of the Investment Management Divisions, including the Listed REIT's, Wholesale Unlisted and Retail Unlisted Divisions, together with Investor Relations and Transactions. David also sits as an Executive Member on all Fund Boards and Investment Committees.</p> <p>David has overseen the growth of the Charter Hall Group from \$500 million to in excess of \$12 billion of assets under management in 9 years. David has been principally responsible for transactions exceeding \$15 billion of commercial, retail and industrial property assets across all property sectors over the past 24 years.</p> <p>David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow Member of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.</p> <p>Current listed directorships Charter Hall Group (ASX: CHC)</p> <p>Former listed directorships in last three years Nil</p>	Nil	Nil
Maurice Koop	<p>Appointed 12 August 2002 Age: 71</p> <p>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.</p> <p>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.</p> <p>He has a BCom and a DipEd from Melbourne University and an MBA from the University of Toronto.</p> <p>Current listed directorships Nil</p> <p>Former listed directorships in last three years Nil</p>	Chairman of Audit, Risk and Compliance Committee	48,404

Directors' report (continued)

Information on Current Directors (continued)

Director	Experience	Special responsibilities	Interest in units of the REIT
Alan Rattray-Wood	<p>Appointed 6 March 1996</p> <p>Age: 63</p> <p>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 35 years' experience involving supermarket management, neighbourhood and regional sized shopping centre management, development and leasing. Alan has held management roles with Woolworths, Westfield Holdings, Knight Frank Agency and other private retail developers.</p> <p>Since 1990, he has operated his own retail development consultancy practice, focusing on all facets of shopping centre development and retail chain insolvency workouts.</p> <p>Current listed directorships</p> <p>Nil</p> <p>Former listed directorships in last three years</p> <p>Nil</p>	Member of Audit, Risk and Compliance Committee	10,867
David Southon	<p>Appointed 1 March 2010</p> <p>Age: 49</p> <p>David is a co-founder of the Charter Hall Group and one of its Joint Managing Directors, with over 27 years of property industry experience. Together and in conjunction with the CHC Executive Leadership Group and Board, the Joint Managing Directors are responsible for the formulation and implementation of the Group's strategy. David is directly responsible for overseeing the operation of the Property Services Divisions including Retail, Office and Industrial Property Services; People, Brand and Community; Legal/CoSec; and Technology, as well as strategic involvement in project origination and direction. Together the Joint Managing Directors share responsibility with the Chief Financial Officer in relation to Group Finance, Treasury and Capital Management.</p> <p>In addition to being an Executive Director on the Charter Hall Group Board, David is an Executive Director on 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 our Valuation Sub Committee.</p> <p>David is on the Board of Advisers NSW for the Property Industry Foundation.</p> <p>David holds a Bachelor of Business Degree (Land Economy) and is a Fellow Member of the Australian Property Institute (FAPI).</p> <p>Current listed directorships</p> <p>Charter Hall Group (ASX: CHC)</p> <p>Former listed directorships in last three years</p> <p>Nil</p>	Nil	Nil

Directors' report (continued)

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	11	11	6	6
David Harrison	11	11	N/A	N/A
Maurice Koop	11	11	6	6
Alan Rattray-Wood	11	11	6	6
David Southon	11	11	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 and resigned as Company Secretary on 30 June 2015, Mark Bryant and Tracey Jordan were appointed as Company Secretaries for the REIT on 1 July 2015.

Mr Bryant holds a Bachelor of Business (Accounting) and a Bachelor of Laws (Hons) and has over 10 years experience as a solicitor, including advising on listed company governance and general corporate law. Mr Bryant is the Deputy General Counsel for the Charter Hall Group.

Tracey has more than 25 years' experience in real estate and funds management, with extensive knowledge of real estate transactions, structuring, funds management, compliance and corporate governance. Tracey is a Solicitor of the Supreme Court of NSW, and has been admitted to the Supreme Court of the Australian Capital Territory and the High Court of Australia. She holds a Bachelor of Arts and a Bachelor of Laws degree from the University of Sydney.

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 13.

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 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
14 August 2015



Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Retail REIT for the year ended 30 June 2015, 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 that reads 'J Reilly'.

Jane Reilly
Partner
PricewaterhouseCoopers

Sydney
14 August 2015

Consolidated statement of comprehensive income

	Notes	2015 \$'m	2014 \$'m
Revenue			
Gross rental income		200.9	184.3
Interest income		0.3	0.2
Total revenue		201.2	184.5
Other income			
Share of net profit and valuation gains on investment in joint venture entity	12(b)	25.6	24.1
Net gain on movement in fair value of investment properties	3(a)	66.8	31.3
Total revenue and other income		293.6	239.9
Expenses			
Property expenses		(64.2)	(61.7)
Net loss from derivative financial instruments	3(b)	(12.9)	(8.5)
Net loss on disposal of investment properties	10(e)	(0.9)	(0.2)
Management fees	24(d)	(9.1)	(8.1)
Finance costs	3(c)	(31.0)	(24.5)
Other expenses	3(d)	(3.2)	(3.5)
Total expenses		(121.3)	(106.5)
Profit for the year from continuing operations		172.3	133.4
Loss from discontinued operations	10(c)	(9.8)	(48.2)
Profit for the year		162.5	85.2
Other comprehensive income*			
Exchange differences on translation of foreign operations	18	(0.4)	1.6
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	18	9.2	30.6
Change in the fair value of cash flow hedges	18	(0.1)	-
Other comprehensive income		8.7	32.2
Total comprehensive income for the year		171.2	117.4
Basic and diluted earnings per ordinary unitholder of the REIT			
Earnings per unit (cents) for profit from continuing operations	5	46.18	37.50
Earnings per unit (cents) for loss from discontinued operations	5	(2.63)	(13.55)
Earnings per unit (cents)	5	43.55	23.95

* 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

	Notes	2015 \$'m	2014 \$'m
Assets			
Current assets			
Cash and cash equivalents	6	6.5	12.0
Receivables	7	9.2	14.9
Derivative financial instruments	8	1.0	-
Other assets	9	1.3	1.5
		18.0	28.4
Assets classified as held for sale	10	-	132.0
Total current assets		18.0	160.4
Non-current assets			
Investment properties	11	1,937.5	1,772.9
Investments in joint venture entity	12	148.2	129.8
Derivative financial instruments	8	-	1.9
Total non-current assets		2,085.7	1,904.6
Total assets		2,103.7	2,065.0
Liabilities			
Current liabilities			
Payables	13	21.5	20.7
Distribution payable	14	51.8	50.4
Borrowings	15	215.5	-
Derivative financial instruments	8	1.0	-
Other liabilities	16	0.4	0.3
		290.2	71.4
Liabilities directly associated with assets classified as held for sale	10	-	120.7
Total current liabilities		290.2	192.1
Non-current liabilities			
Borrowings	15	432.2	613.4
Derivative financial instruments	8	31.6	4.4
Total non-current liabilities		463.8	617.8
Total liabilities		754.0	809.9
Net assets		1,349.7	1,255.1
Equity			
Contributed equity	17	2,153.3	2,127.0
Reserves	18	(0.1)	(8.8)
Accumulated losses	19	(803.5)	(863.1)
Total equity		1,349.7	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 year		-	-	85.2	85.2
Other comprehensive income		-	32.2	-	32.2
Total comprehensive income for the year		-	32.2	85.2	117.4
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	17	116.5	-	-	116.5
- Distributions paid and payable	4	-	-	(99.9)	(99.9)
Total equity at 30 June 2014		2,127.0	(8.8)	(863.1)	1,255.1
Total equity at 1 July 2014		2,127.0	(8.8)	(863.1)	1,255.1
Profit for the year		-	-	162.5	162.5
Other comprehensive income		-	8.7	-	8.7
Total comprehensive income for the year		-	8.7	162.5	171.2
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	17	26.3	-	-	26.3
- Distributions paid and payable	4	-	-	(102.9)	(102.9)
Total equity at 30 June 2015		2,153.3	(0.1)	(803.5)	1,349.7

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

Consolidated cash flow statement

	Notes	2015 \$'m	2014 \$'m
Cash flows from operating activities			
Property rental income received		221.3	205.2
Property expenses paid		(67.7)	(64.0)
Distributions received from investment in joint venture entities		7.8	7.6
Distributions received from discontinued operations		0.3	3.5
Other operating expenses paid		(21.1)	(17.9)
Finance costs paid		(27.7)	(25.3)
Interest and other income		0.3	0.2
Settlement of derivative financial instruments		-	(18.7)
Net cash flows from operating activities	21(a)	113.2	90.6
Cash flows from investing activities			
Proceeds from sale of investment properties		34.0	290.8
Payments for investment properties and capital expenditure		(124.5)	(291.7)
Net cash flows from investing activities		(90.5)	(0.9)
Cash flows from financing activities			
Proceeds from borrowings		161.8	221.6
Repayment of borrowings		(114.9)	(330.9)
Proceeds from issue of units		-	86.5
Distributions paid to unitholders, net of DRP		(75.2)	(65.1)
Net cash flows from financing activities		(28.3)	(87.9)
Net increase in cash held		(5.6)	1.8
Cash and cash equivalents at the beginning of the year		12.0	17.3
Effect of exchange rate changes on cash and cash equivalents		0.1	-
Reclassification of cash and cash equivalents attributable to discontinued operations		-	(7.1)
Cash and cash equivalents at the end of the year	6	6.5	12.0

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 significant policies which have been adopted in the preparation of these consolidated financial statements for the year ended 30 June 2015 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 consolidated 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:

- derivative financial instruments – measured at fair value
- investments in financial assets held at fair value - measured at fair value
- investment properties – measured at fair value

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 2014:

AASB 2013-3 Amendments to Australian Accounting Standards – Recoverable Amount Disclosures for Non-Financial Assets

The AASB has made amendments to AASB 136 *Impairment of Assets* which requires disclosure of the recoverable amount of an asset or a cash generating unit 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.

Critical accounting estimates

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

The areas involving significant estimates or judgements are:

- Consolidation decisions and classification of joint arrangements – Note 1(b)
- Impairment of assets – Note 1(i)
- Derivative financial instruments – Note 1(l)
- Investment properties – Note 1(m)
- Fair value estimation – Note 1(v)

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.

Excess of current liabilities over current assets

The REIT's \$231.5 million commercial mortgage backed securities (CMBS) mature in September 2015 and are reflected as a current liability in this annual financial report. These notes will be repaid using proceeds from US\$200 million US Private Placement issuance that was funded on 22 July 2015.

The remaining excess of \$40.7 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 22 July, the REIT had \$403 million of undrawn debt capacity that can be used to fund its distribution liability and CMBS refinance.

Notes to the consolidated financial statements (continued)

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 group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the REIT.

(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.

During the year, the REIT had 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 post-acquisition profits or losses of the investee in profit or loss, and the REIT's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

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. The REIT treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the REIT.

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 changes 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.

Notes to the consolidated financial statements (continued)

1 Summary of significant accounting policies (continued)

(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 that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of that consolidated balance sheet;
- income and expenses for each income statement and consolidated 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 2015	30 Jun 2014
Spot rate		
US Dollar	0.7678	0.9395
NZ Dollar	1.1369	1.0749
Euro	0.6865	0.6883
Average rate		
US Dollar	0.8298	0.9140
NZ Dollar	1.0799	1.1026
Euro	0.6963	0.6722

(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.

Notes to the consolidated financial statements (continued)

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

Gains or losses on the sale of investment properties and investments 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 have transferred to the buyer. This will normally take place on settlement of the acquisition.

(f) Expenses

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

(g) Repairs and maintenance

Repairs and maintenance costs and minor renewals are charged as expenses when incurred. These repairs and maintenance costs will consist of those that, under the relevant lease agreements, are non-recoverable from tenants.

(h) 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.

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 consolidated 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.

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.

(i) 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.

(j) 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 consolidated balance sheet.

(k) Trade and other receivables

Receivables are initially recognised at the amounts due to the REIT. Rent and outgoings 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.

Notes to the consolidated financial statements (continued)

1 Summary of significant accounting policies (continued)

(k) Trade and other receivables (continued)

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.

(l) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The REIT designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

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 the 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.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 23. Movements in the hedging reserve in unitholders' equity are shown in Note 18. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, while changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised within 'Net gains/losses from derivative financial instruments'. The gain or loss relating to the ineffective portion is also recognised in profit or loss within 'Net gains/losses from derivative financial instruments'. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within 'Net gains/losses from derivative financial instruments'.

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

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(m) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of producing 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

Notes to the consolidated financial statements (continued)

1 Summary of significant accounting policies (continued)

(m) Investment properties (continued)

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.

The use of independent external valuers is on a progressive basis over a three year period, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property.

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.

Where the REIT disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

Investment property under construction is measured at fair value less costs to complete 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.

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.

Investment properties held for sale

Investment properties are classified as held for sale when it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Investment properties classified as held for sale are classified as current assets and measured at fair value.

Notes to the consolidated financial statements (continued)

1 Summary of significant accounting policies (continued)

(n) 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.

(o) 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 consolidated balance sheet. The liabilities directly associated with assets classified as held for sale are also presented separately from other liabilities in the consolidated balance sheet.

A discontinued operation is a component of the REIT 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.

(p) 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.

(q) Borrowings

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

(r) 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 interest rate applicable to the REIT's outstanding bank borrowings during the year, in this case 5.73% per annum (2014: 4.89% per annum). The weighted average interest rate takes into consideration payments made in relation to the REIT's interest rate swaps during the year.

(s) 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.

(t) Reserves

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

(u) 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.

Notes to the consolidated financial statements (continued)

1 Summary of significant accounting policies (continued)

(v) Fair value estimation

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

A fair value measurement of a non-financial asset takes into account the REIT's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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.

(w) 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.

(x) Goods and Services Tax (GST)

Income, expenses, assets (with the exception of receivables) and liabilities (with the exception of payables) are recognised net of the amount of GST recoverable from the Australian Taxation Office (ATO). The non-recoverable GST is recognised as part of the income, expense, asset or liability.

Receivables and payables are inclusive of GST. The net amount of GST recoverable from or payable to the ATO is included in receivables or payables in the consolidated balance sheet.

Cash flows relating to GST are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

Notes to the consolidated financial statements (continued)

1 Summary of significant accounting policies (continued)

(y) 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 exceeds their recoverable amount, the assets are written down to the lower value. The write-down is expensed in the year in which it occurs.

(z) 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 2015 reporting period but are available for early adoption. The impact of these new standards (to the extent relevant to the REIT) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* (Applicable 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities and sets out new rules for hedge accounting. 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 15 *Revenue from Contracts with Customers* (Applicable 1 January 2018)

The standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer, so the notion of control replaces the notion of risks and rewards. It applies to all contracts with customers except leases, financial instruments and insurance contracts. AASB 15 requires reporting entities to provide users of financial statements with more informative, relevant disclosures. The REIT is in the process of assessing the implications of the new standard to its operational and financial results.

(iii) AASB 2014-3 *Accounting for Acquisitions of Interests in Joint Operations* (Applicable 1 January 2016)

AASB 11 *Joint Arrangements* clarifies the accounting for the acquisition of an interest in a joint operation where the joint operation constitutes a business under AASB 3 *Business Combinations*. The changes are applicable from 1 January 2016. The REIT does not expect a significant impact from its application.

(aa) Comparative information

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

(ab) Rounding of amounts

The REIT is a registered scheme of a kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and 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.

Notes to the consolidated financial statements (continued)

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 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.

Income is presented on the basis of each segment's operating earnings. Presentation of prior year operating earnings was restated to conform to the presentation in the current year. 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.

(b) Segment information provided to the Board

The operating earnings reported to the Board for the operating segments for the year ended 30 June 2015 is as follows:

	Freestanding supermarkets	Neighbourhood shopping centres	Sub-regional shopping centres	REIT operations	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
2015					
Net property income from wholly owned properties	14.1	68.6	56.0	-	138.7
Net income from joint venture entity	-	6.8	8.4	(4.2)	11.0
Other income	-	-	-	0.3	0.3
Management fees	-	-	-	(9.1)	(9.1)
Finance costs	-	-	-	(26.9)	(26.9)
Other expenses	-	-	-	(3.2)	(3.2)
Operating earnings	14.1	75.4	64.4	(43.1)	110.8

	Freestanding supermarkets	Neighbourhood shopping centres	Sub-regional shopping centres	REIT operations	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
2014					
Net property income from wholly owned Australian properties	13.8	63.0	46.6	-	123.4
Net income from joint venture entity	-	6.9	8.1	(4.7)	10.3
Realised gains on derivative financial instruments	-	-	-	0.9	0.9
Other income	-	-	-	0.2	0.2
Management fees	-	-	-	(8.1)	(8.1)
Finance costs	-	-	-	(24.5)	(24.5)
Other expenses	-	-	-	(3.5)	(3.5)
Operating earnings from discontinued operations	-	-	-	6.6	6.6
Operating earnings	13.8	69.9	54.7	(33.1)	105.3

Notes to the consolidated financial statements (continued)

2 Segment information (continued)

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

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

	2015 \$'m	2014 \$'m
Operating earnings	110.8	105.3
Unrealised net valuation gains on investment properties	82.2	21.7
Unrealised and capital transaction related realised losses on derivative financial instruments	(13.4)	(8.8)
Loss on sale of investment properties	(1.6)	(4.0)
Write off of capitalised borrowing costs related to extinguished debt facilities	(4.1)	
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	(9.2)	(30.6)
Earnings from German operations *	-	2.5
Other	(2.2)	(0.9)
Profit from continuing and discontinued operations	162.5	85.2

* 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.

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

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

	2015 \$'m	2014 \$'m
Total net property income from wholly owned properties	138.7	123.4
Add back: Property expenses	64.2	61.7
Interest income	0.3	0.2
Adjustments relating to straightlining and amortisation of lease incentives	(2.0)	(0.8)
Total revenues	201.2	184.5

Notes to the consolidated financial statements (continued)

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

	Note	2015 \$'m	2014 \$'m
Valuation gains on wholly owned investment properties			
<i>Australia</i>			
Revaluation increment on investment properties		71.2	46.6
Revaluation decrement on investment properties attributable to acquisition costs		(4.4)	(13.9)
Revaluation decrement on investment properties held for sale		-	(1.4)
		66.8	31.3
Valuation gains on investment properties in joint venture entity			
<i>Australia</i>			
Revaluation increment on investment properties		16.5	13.3
Revaluation decrement on investment properties attributable to acquisition costs		(1.1)	-
		15.4	13.3

(b) Net losses from derivative financial instruments

	2015 \$'m	2014 \$'m
Gain on derivative financial instruments – realised*	-	1.2
Loss on derivative financial instruments – unrealised**	(12.9)	(9.7)
	(12.9)	(8.5)

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

** Includes net loss of \$0.4 million (2014: nil) on derivative financial instruments designated as a fair value hedge.

(c) Finance costs

	2015 \$'m	2014 \$'m
Finance costs paid or payable	35.5	27.6
Less: Capitalised finance costs	(4.5)	(3.1)
	31.0	24.5

(d) Other expenses

	Notes	2015 \$'m	2014 \$'m
Accounting fees		1.0	1.0
Independent directors fees	24	0.3	0.3
Audit fees	25	0.4	0.4
Legal, tax and other consulting services		0.3	0.4
Custodian, registry and stock exchange fees		0.5	0.5
Insurance expenses		0.4	0.4
Other		0.3	0.5
		3.2	3.5

Notes to the consolidated financial statements (continued)

4 Distributions paid and payable

	Distribution cents per unit	Total amount \$'m	Tax deferred %	CGT concession amount %	Taxable %
<i>Ordinary unitholders</i>					
2015 distributions for the half year ended:					
31 December 2014	13.70	51.1			
30 June 2015*	13.80	51.8			
	27.50	102.9	35.49	4.21	60.30
<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			
	27.30	99.9	44.78	-	55.22

* The distribution of 13.80 cents per unit for the year ended 30 June 2015 was declared prior to 30 June 2015 and will be paid on 31 August 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.

5 Earnings per unit

	2015	2014
Basic and diluted earnings per ordinary unitholder of the REIT		
Earnings per unit (cents) for profit from continuing operations	46.18	37.50
Earnings per unit (cents) for loss from discontinued operations	(2.63)	(13.55)
Earnings per unit (cents)	43.55	23.95
Earnings used in the calculation of basic and diluted earnings per unit		
Net profit from continuing operations (\$'m)	172.3	133.4
Net loss from discontinued operations (\$'m)	(9.8)	(48.2)
Net profit for the year (\$'m)	162.5	85.2
Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)*	373.1	355.7

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

6 Cash and cash equivalents

	2015	2014
	\$'m	\$'m
Operating accounts	6.5	12.0
	6.5	12.0

(a) Operating accounts

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

Notes to the consolidated financial statements (continued)

7 Receivables

	2015 \$'m	2014 \$'m
Rent receivable	2.6	3.3
Provision for doubtful debts	(0.7)	(0.5)
	1.9	2.8
Turnover rent receivable	4.2	5.4
Outgoings receivable	2.4	3.7
GST receivable	-	0.8
Distributions receivable	0.6	1.3
Sundry debtors	0.1	0.9
	9.2	14.9

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

8 Derivative financial instruments

	2015 \$'m	2014 \$'m
Assets		
Current		
Interest rate swaps	1.0	-
	1.0	-
Non-current		
Interest rate swaps	-	1.9
	-	1.9
Liabilities		
Current		
Interest rate swaps	1.0	-
	1.0	-
Non-current		
Interest rate swaps	15.6	4.4
Cross currency swaps	16.0	-
	31.6	4.4

Interest rate swaps

The REIT has entered into interest rate swap agreements totalling \$825.0 million (2014: \$925.0 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 2015, the fixed rate varies from 2.59% to 3.75% per annum (2014: 2.64% to 3.75% 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:

	2015 \$'m	2014 \$'m
Swaps - REIT pays fixed rate and receives floating rate		
1 year or less	275.0	200.0
1 - 2 years	-	375.0
2 - 3 years	100.0	-
3 - 4 years	100.0	275.0
4 - 5 years	350.0	75.0
Net position - REIT pays fixed rate and receives floating rate	825.0	925.0

The REIT is also a party to an interest rate swap agreement totalling \$40.0 million (2014: \$40.0 million) that entitle it to receive interest, at quarterly intervals, at a fixed rate on a notional principal amount.

Notes to the consolidated financial statements (continued)

8 Derivative financial instruments (continued)

Cross currency swaps

In April 2015, the REIT entered into A\$/US\$ cross currency swap agreements that entitle it to receive interest, at semi-annual intervals, at a fixed rate on a notional principal amount of US\$200.0 million and oblige it to pay, at quarterly intervals, at a floating rate on a notional principal amount of A\$251.6 million. The swap matures in July 2027 and allows the REIT to hedge its US dollar borrowings into an Australian dollar interest rate.

These cross currency swaps hedge the REIT's exposure to foreign currency and interest rate fluctuations arising from a US Private Placement (USPP) note issuance, funded in July 2015 (Refer to Note 26).

9 Other assets

	2015 \$'m	2014 \$'m
Current		
Prepayments	1.3	1.3
Property acquisition costs and deposits	-	0.2
	1.3	1.5

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

(a) Details of discontinued operations

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 February 2016.

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.

(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.

	2015 \$'m	2014 \$'m
Assets classified as held for sale		
Cash and cash equivalents	-	2.4
Receivables	-	0.2
Investment properties	-	129.4
Total assets classified as held for sale	-	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

Notes to the consolidated financial statements (continued)

10 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 discontinued operations and shows the relevant financial performance and cash flow information up to the date of disposal.

	Notes	2015 \$'m	2014 \$'m
Net property income		-	17.4
Other income		-	0.3
Valuation losses on investment properties		-	(22.9)
Net loss from derivative financial instruments		-	2.9
Net realised losses from derivative financial instruments		-	(2.7)
Management fees		-	(0.6)
Finance costs		-	(7.2)
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	18	(9.2)	(30.6)
Other expenses		-	(0.7)
Loss before income tax		(9.2)	(44.1)
Current and withholding tax expense		-	(0.1)
Deferred tax expense		-	(0.2)
Loss after income tax		(9.2)	(44.4)
Loss on sale of investment properties		(0.6)	(3.8)
Loss from discontinued operations		(9.8)	(48.2)
Net cash inflow from operating activities		-	4.3
Net cash outflow from investing activities		-	(17.4)
Net decrease in cash generated by discontinued operations excluding sale proceeds		-	(13.1)

(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
Australian portfolio				
Glen Innes, NSW (Freestanding supermarket)	31 Jul 2014	Investment property	100.0%	3.6
Olive Tree, Vic (Neighbourhood shopping centre)	2 Feb 2015	Investment property	100.0%	2.6
Bathurst, NSW (Neighbourhood shopping centre)	29 May 2015	Investment property	100.0%	15.5
Narromine, NSW (Neighbourhood shopping centre)	29 May 2015	Investment property	100.0%	3.4
Wellington, NSW (Freestanding supermarket)	29 May 2015	Investment property	100.0%	2.7
Equity interest in German portfolio	8 Aug 2014	Investment property	94.9%	-
Residual NZ portfolio (Kaipoi, Beckenham)	27 Aug 2014	Investment property	50.0%	7.3
				35.1

Notes to the consolidated financial statements (continued)

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

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

	Discontinued operations \$'m	Assets held for sale \$'m	2015 \$'m	2014 \$'m
Details of disposals during the year:				
Sale price	7.3	27.8	35.1	302.7
Selling costs	(0.2)	(0.9)	(1.1)	(7.2)
Carrying amount of net assets sold	(7.7)	(27.8)	(35.5)	(299.5)
Loss on sale before income tax	(0.6)	(0.9)	(1.5)	(4.0)
Income tax expense	-	-	-	-
Loss on sale after income tax	(0.6)	(0.9)	(1.5)	(4.0)

11 Investment properties

	2015 \$'m	2014 \$'m
Non-current		
Freestanding supermarkets	201.9	188.1
Neighbourhood shopping centres	962.1	868.0
Sub-regional shopping centres	773.5	716.8
	1,937.5	1,772.9

Investment properties include a straightlining asset of \$9.3 million (2014: \$8.8 million) and unamortised lease incentives of \$6.6 million (2014: \$5.8 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:

	Notes	2015 \$'m	2014 \$'m
Carrying amount at the beginning of the year		1,772.9	1,588.5
Additions		118.4	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)	70.1	44.6
Revaluation adjustments	3(a)	1.1	0.6
Straightlining of rental income		0.7	1.3
Amortisation of lease incentives		(2.5)	(2.1)
Capitalised leasing fees (net of amortisation)		0.7	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 year		1,937.5	1,772.9

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.

Notes to the consolidated financial statements (continued)

11 Investment properties (continued)

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:

	2015 \$'m	2014 \$'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	148.0	148.4
Later than 1 year but not later than 5 years	441.1	456.3
Later than 5 years	447.5	463.5
	1,036.6	1,068.2

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 annual 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	
			2015 %	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	2015 \$'m	2014 \$'m
Balance at the beginning of the year		129.8	114.6
Share of profits before property valuation gains	12(b)	10.2	10.8
Share of property valuation gains	12(b)	15.4	13.3
Distributions paid and payable		(11.0)	(13.6)
Distributions reinvested		3.8	4.7
Balance at the end of the year		148.2	129.8

Notes to the consolidated financial statements (continued)

12 Investment in joint venture entity (continued)

(b) Share of results attributable to joint venture entity

	100% interest		50% interest	
	2015	2014	2015	2014
	\$'m	\$'m	\$'m	\$'m
Income				
Property rental income	45.8	45.2	22.9	22.6
Property expenses	(15.6)	(14.8)	(7.8)	(7.4)
Net property income	30.2	30.4	15.1	15.2
Expenses				
Finance costs	(8.4)	(9.4)	(4.2)	(4.7)
Loss on disposal of investment property	(0.2)	-	(0.1)	-
Net unrealised (loss)/gain on derivative financial instruments	(1.0)	0.8	(0.5)	0.4
Other expenses	(0.2)	(0.2)	(0.1)	(0.1)
Total expenses	(9.8)	(8.8)	(4.9)	(4.4)
Profits before property valuation gains	20.4	21.6	10.2	10.8
Property valuation gains				
Revaluation increment on investment properties	31.0	27.4	15.5	13.7
Revaluation adjustments*	(0.2)	(0.8)	(0.1)	(0.4)
Property valuation gains	30.8	26.6	15.4	13.3
Profits and valuation gains of investment in joint venture entity	51.2	48.2	25.6	24.1
Other comprehensive income	-	-	-	-
Total comprehensive income	51.2	48.2	25.6	24.1

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

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

	100% interest		50% interest	
	2015	2014	2015	2014
	\$'m	\$'m	\$'m	\$'m
Current assets				
Cash and cash equivalents	2.2	3.4	1.1	1.7
Receivables	1.8	2.2	0.9	1.1
Other assets	0.6	0.6	0.3	0.3
	4.6	6.2	2.3	3.1
Non-current assets				
Investment properties	450.4	425.4	225.2	212.7
Total assets	455.0	431.6	227.5	215.8
Current liabilities				
Payables	4.4	6.8	2.2	3.4
	4.4	6.8	2.2	3.4
Non-current liabilities				
Borrowings	148.8	160.8	74.4	80.4
Derivative financial instruments	5.4	4.4	2.7	2.2
Total liabilities	158.6	172.0	79.3	86.0
Net assets	296.4	259.6	148.2	129.8

Borrowings reflect a bank loan secured by registered mortgages over nine Australian properties owned in a joint venture entity. The carrying value of the REIT's share of the properties pledged as security is \$221.4 million (2014: \$212.7 million) against the REIT's share of the drawn balance of \$74.9 million (2014: \$81.0 million). The facility matures in July 2017.

Notes to the consolidated financial statements (continued)

12 Investment in joint venture entity (continued)

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

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 no contractual commitments as at 30 June 2015 (2014: \$0.2 million).

13 Payables

	2015 \$'m	2014 \$'m
Current		
Income received in advance	4.1	7.4
Accrued property expenses	9.7	6.6
Accrued capital expenses	3.7	2.8
Management fees	2.3	2.4
Interest payable on interest bearing liabilities	0.4	0.6
Trade and sundry creditors	0.7	0.8
Custodian fees	0.1	0.1
GST payable	0.5	-
	21.5	20.7

14 Distribution payable

	Notes	2015 \$'m	2014 \$'m
Distributions to ordinary unitholders			
Opening balance		50.4	45.6
Distributions declared	19	102.9	99.9
Paid during the year		(75.2)	(65.1)
Distributions reinvested	17	(26.3)	(30.0)
Closing balance		51.8	50.4

Notes to the consolidated financial statements (continued)

15 Borrowings

	2015 \$'m	2014 \$'m
Current		
Commercial mortgage backed securities (CMBS)	231.5	-
Movement in fair value of US PP commitment attributable to the hedged position	(16.0)	-
	215.5	-
Non-current		
Bank loan - term debt	432.9	367.5
Commercial mortgage backed securities (CMBS)	-	250.0
Less: Unamortised transaction costs	(0.7)	(4.1)
	432.2	613.4
	2015 \$'m	2014 \$'m
Credit facilities		
At 30 June 2015 and 2014, the REIT had access to:		
Bank loan facility		
Bank debt facility	535.0	475.0
CMBS notes	231.5	250.0
	766.5	725.0
Amount of facilities used:		
Drawdown at year end - bank loan	432.9	367.5
Drawdown at year end - CMBS debt	231.5	250.0
	664.4	617.5
Amount of facilities unused	102.1	107.5

Commercial mortgage backed securities

The CMBS are secured by registered mortgages over 38 Australian properties. The carrying amount of properties pledged as security as at 30 June 2015 amounts to \$874.4 million (2014: \$835.4 million). The interest rate under this facility is variable and reset periodically, usually after a period of 90 days. The CMBS matures in September 2015 and its repayment will be funded from the proceeds of the USPP issuance (refer to Note 26).

Movement in fair value of US PP commitment attributable to the hedged position

This adjustment reflects movement in the fair value of an unrecognised firm commitment to issue US PP notes which offsets the change in the fair value of cross currency swaps designated as a fair value hedge.

Bank loans

The bank debt facility is secured by registered mortgages over all wholly owned 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 \$1,063.1 million (2014: \$941.1 million). During the year, 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 (2014: \$475.0 million).

The 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. This facility was discharged and replaced with a new revolving bank debt facility post balance date, refer Note 26.

Interest rates on the bank loans are variable and are reset periodically, usually after a period of 90 days. As at 30 June 2015, the interest rate on the bank loan is 2.86% per annum (2014: 3.46% to 3.52% per annum).

Notes to the consolidated financial statements (continued)

15 Borrowings (continued)

Bank loans (continued)

Debt restructure

In April 2015, the REIT completed several key initiatives to restructure its debt funding platform:

- US\$200 million (A\$252 million) US Private Placement (USPP) issuance:
 - 12 year duration
 - Funding to occur on 22 July 2015
 - Fixed US\$ coupon of 3.55% which is 100% hedged in Australian dollars (principal and interest) and represent a margin of 194 basis points over BBSW
- Restructured syndicated bank debt facility with agreed terms for tranches of 18 months (\$150 million), 3 years (\$150 million) and 5 years (\$285 million) for a total facility limit of \$585 million, from a previous limit of \$535 million.

Proceeds from the USPP issuance will be used to repay the existing CMBS facility which matures in September 2015 and is reflected as a current liability in this annual financial report.

On 22 July the REIT moved to a partially unsecured debt structure with a financial covenant package including a look-through gearing covenant of 50% and interest cover ratio of 2.0 times. Moody's have assigned a definite issuer credit rating of Baa1. On 28 September 2015, on the repayment of the CMBS, the REIT will move to a fully unsecured debt platform, excluding joint venture entities.

16 Other liabilities

	2015 \$'m	2014 \$'m
Rental deposits	0.4	0.3

17 Contributed equity

	Notes	2015 \$'m	2014 \$'m
<i>No. of units</i>	<i>Details</i>		
337,582,974	Units on issue		2,010.5
4,260,906	DRP issue		15.9
21,052,632	Placement issue		78.6
2,186,273	Placement issue		7.9
3,957,965	DRP issue		14.1
369,040,750	Units on issue	2,127.0	2,127.0
3,852,403	DRP issue	15.0	
2,661,221	DRP issue	11.3	
375,554,374	Units on issue	2,153.3	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 year ended 30 June 2015. 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.

Notes to the consolidated financial statements (continued)

18 Reserves

	Note	2015 \$'m	2014 \$'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	10(c)	9.2	30.6
Closing balance		-	(8.8)
Cash flow hedge reserve			
Opening balance		-	-
Changes in the fair value of cash flow hedges		(0.1)	-
Closing balance		(0.1)	-
		(0.1)	(8.8)

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*.

Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge relationship.

19 Accumulated losses

	Notes	2015 \$'m	2014 \$'m
Opening balance		(863.1)	(848.4)
Profit after tax		162.5	85.2
Distributions paid and payable	14	(102.9)	(99.9)
Closing balance		(803.5)	(863.1)

20 Net tangible assets

	2015 \$'m	2014 \$'m
Total assets	2,103.7	2,065.0
Less: Total liabilities	(754.0)	(809.9)
Net tangible assets attributable to the REIT	1,349.7	1,255.1
Total number of units on issue	375,554,374	369,040,750
Net tangible asset backing per unit	\$3.59	\$3.40

Notes to the consolidated financial statements (continued)

21 Cash flow information

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

	Notes	2015 \$'m	2014 \$'m
Profit after tax		162.5	85.2
<i>Non-cash items</i>			
Straightlining of rental income		(0.7)	(1.5)
Amortisation of lease incentives		2.9	2.2
Property valuation (gains)/losses			
Discontinued operations	10(c)	-	22.9
Wholly owned entities	3(a)	(66.8)	(31.3)
Joint venture entities	3(a)	(15.4)	(13.3)
Loss on sale of investment properties	10(e),12(b)	1.6	4.0
Unrealised net gain on derivative financial instruments*	3(b),12(b)	13.4	6.4
Deferred tax expense		-	0.2
Write off of capitalised borrowing cost related to extinguished debt facilities		4.1	-
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	18	9.2	30.6
<i>Change in assets and liabilities</i>			
(Increase)/decrease in assets			
Receivables		5.7	(2.0)
Prepayments		-	1.3
Net income receivable from investment in joint venture entities		(3.2)	(2.8)
Decrease in liabilities			
Payables		(0.1)	(11.3)
Net cash flows from operating activities		113.2	90.6

* 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:

	Note	2015 \$'m	2014 \$'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	14	26.3	30.0

Notes to the consolidated financial statements (continued)

22 Capital and financial risk management

(a) Capital risk management

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

The REIT assesses its capital management approach as a key part of its overall strategy and 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 look-through gearing of 30% to 40% of debt to total assets.

Protection of the REIT's assets or liabilities in foreign denominated assets is achieved through the use of cross currency swaps. The REIT's policy is to hedge 100% of the gross asset or liability 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 interest rate swaps and cross currency 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.

Foreign income

In the prior years, the REIT was earning foreign denominated income from its investments in overseas assets. Net property income derived is naturally offset by local denominated expenses including interest and tax. Foreign exchange risk associated with the foreign income was hedged using forward foreign exchange contracts to convert net foreign denominated currency exposure back to Australian dollars at pre-determined exchange rates.

Notes to the consolidated financial statements (continued)

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, Poland and Germany, the REIT has minimal residual interest (less than 0.1% of total assets) in its remaining offshore structures.

As at the balance sheet date, the REIT is exposed to foreign exchange risk through commitments under its US Private Placement issuance. The risk was hedged using cross currency swaps to convert US dollar exposure into Australian dollars. The REIT has no other significant exposures to foreign exchange rates.

A movement in foreign currency exchange rates applied to the net exposures in foreign currencies may result in a change to the net assets of the REIT.

Interest rate risk

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 ⁽¹⁾		Euros ⁽¹⁾		NZ dollars ⁽¹⁾		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Fixed rate										
Borrowings ⁽²⁾	-	-	-	-	-	-	-	-	-	-
Net fixed rate exposure	-	-	-	-	-	-	-	-	-	-
Floating rate										
Cash	5.9	11.2	-	0.1	0.6	0.7	-	-	6.5	12.0
Cash - discontinued operations	-	-	-	-	-	2.3	-	0.1	-	2.4
Cash - joint venture entities ⁽³⁾	1.1	1.7	-	-	-	-	-	-	1.1	1.7
Borrowings ⁽²⁾	(664.4)	(617.5)	-	-	-	(117.4)	-	-	(664.4)	(734.9)
Borrowings - joint venture entities ⁽³⁾	(74.9)	(81.0)	-	-	-	-	-	-	(74.9)	(81.0)
	(732.3)	(685.6)	-	0.1	0.6	(114.4)	-	0.1	(731.7)	(799.8)
Derivative financial instruments										
Interest rate swaps - floating to fixed ⁽⁴⁾	630.0	490.0	-	-	-	48.7	-	-	630.0	538.7
	630.0	490.0	-	-	-	48.7	-	-	630.0	538.7
Net floating rate exposure	(102.3)	(195.6)	-	0.1	0.6	(65.7)	-	0.1	(101.7)	(261.1)

(1) Australian dollar equivalents of foreign denominated balances.

(2) Unamortised borrowing costs are excluded as they are not impacted by interest rate risk.

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

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

At balance date, the REIT fixed 86.1% (2014: 67.4%) of its interest rate exposure.

Notes to the consolidated financial statements (continued)

22 Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Interest rate risk (continued)

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 2015, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2014.

	2015		2014	
	Profit and loss \$'m	Reserves \$'m	Profit and loss \$'m	Reserves \$'m
<i>Australian dollars</i>				
+ 1.00% (2014: + 1.00%)	10.1	-	5.1	-
- 1.00% (2014: - 1.00%)	(10.9)	-	(5.1)	-

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.

Notes to the consolidated financial statements (continued)

22 Capital and financial risk management (continued)

(b) Financial risk management (continued)

(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 2015. 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	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
2015								
Financial liabilities								
Payables	(21.5)	(21.5)	-	-	-	-	-	(21.5)
Distribution payable	(51.8)	(51.8)	-	-	-	-	-	(51.8)
Borrowings	(663.7)	2.7	(172.9)	(20.1)	(165.4)	(15.0)	(460.1)	(830.8)
Derivative financial instruments								
Contractual amounts payable	(32.6)	(26.9)	(28.4)	(26.4)	(23.5)	(13.1)	(325.2)	(443.5)
Contractual amounts receivable	1.0	21.5	21.1	19.4	17.3	10.9	326.7	416.9
Other liabilities	(0.4)	(0.4)	-	-	-	-	-	(0.4)
Total financial liabilities	(769.0)	(76.4)	(180.2)	(27.1)	(171.6)	(17.2)	(458.6)	(931.1)
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)

* 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 2015 is \$102.1 million (2014: \$107.5 million). Refer to Note 15.

Notes to the consolidated financial statements (continued)

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. As at 30 June 2015 the REIT has no significant concentrations of credit risk on its receivables other than exposure to the Woolworths and Wesfarmers businesses which contribute 51.8% (2014: 52.8%) of the total portfolio income including income generated by joint venture entities. The REIT holds collateral in the form of security deposits or bank guarantees over some receivables where appropriate.

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

	2015 \$'m	2014 \$'m
<i>Australia</i>		
Cash and cash equivalents	6.1	11.3
Receivables	9.2	14.4
Derivative financial instruments	1.0	1.9
	16.3	27.6
<i>Offshore locations</i>		
Cash and cash equivalents	0.4	3.1
Receivables	-	0.7
	0.4	3.8
Total financial assets	16.7	31.4
Joint venture entities		
<i>Australia</i>		
Cash and cash equivalents	1.1	1.7
Receivables	0.9	1.1
	2.0	2.8
Total financial assets including joint venture entities	18.7	34.2

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.

Notes to the consolidated financial statements (continued)

22 Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Credit risk (continued)

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				Impaired \$'m	Total \$'m
	Less than 30 days \$'m	31 to 60 days \$'m	61 to 90 days \$'m	More than 90 days \$'m		
2015						
Rent receivables - Australia						
- Major tenants	0.1	0.1	0.1	0.5	-	0.8
- Specialty tenants	0.6	0.2	0.2	0.1	0.7	1.8
	0.7	0.3	0.3	0.6	0.7	2.6
Rent receivables - joint venture entities	0.1	0.1	-	-	0.1	0.3
	0.8	0.4	0.3	0.6	0.8	2.9
2014						
Rent receivables - Australia						
- Major tenants	0.7	0.1	0.2	-	-	1.0
- Specialty tenants	0.8	0.7	0.3	-	0.5	2.3
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

Based on a review of rent receivables by management, a provision of \$0.8 million (2014: \$0.6 million) has been provided against rent receivables with a gross balance of \$2.9 million (2014: \$4.0 million).

The REIT holds \$0.3 million (2014: \$0.4 million) of collateral against the impaired rent receivables in the form of bank guarantees and security deposits and can also recover \$0.1 million (2014: \$0.1 million) GST 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.

Notes to the consolidated financial statements (continued)

22 Capital and financial risk management (continued)

(c) Offsetting financial assets and financial liabilities

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

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

Consolidated entity	Gross amounts of financial instruments \$'m	Amounts subject to set-off \$'m	Net amount post set-off \$'m
2015			
Derivative assets	1.0	(1.0)	-
Derivative liabilities	(32.6)	-	(32.6)
Borrowings	(647.7)	1.0	(646.7)
	(679.3)	-	(679.3)
2014			
Derivative assets	1.9	(1.9)	-
Derivative liabilities	(4.4)	-	(4.4)
Borrowings	(613.4)	1.9	(611.5)
	(615.9)	-	(615.9)

23 Fair value measurement

(a) Recognised fair value measurements

The REIT measures and recognises derivative financial instruments (Refer to Note 8) 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.

Notes to the consolidated financial statements (continued)

23 Fair value measurement (continued)

(a) Recognised fair value measurements (continued)

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

		Level 2		Level 3		Total	
	Notes	2015 \$'m	2014 \$'m	2015 \$'m	2014 \$'m	2015 \$'m	2014 \$'m
Financial assets - recurring fair value measurement							
<i>Derivative assets</i>							
Interest rate swaps	8	1.0	1.9	-	-	1.0	1.9
Non-financial assets - recurring fair value measurement							
Investment properties	11	-	-	1,937.5	1,772.9	1,937.5	1,772.9
Non-financial assets - non-recurring fair value measurement							
Investment properties	10(b)	-	-	-	129.4	-	129.4
Total assets		1.0	1.9	1,937.5	1,902.3	1,938.5	1,904.2
Financial liabilities - recurring fair value measurement							
<i>Derivative liabilities</i>							
Interest rate swaps	8	(16.6)	(4.4)	-	-	(16.6)	(4.4)
Cross currency swaps	8	(16.0)	-	-	-	(16.0)	-
Total liabilities		(32.6)	(4.4)	-	-	(32.6)	(4.4)

There were no transfers between levels of fair value measurement during the year 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 30 June 2015.

(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 30 June 2015 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.

	2015		2014	
	Carrying amount \$'m	Fair value \$'m	Carrying amount \$'m	Fair value \$'m
Bank loan - term debt	432.9	433.7	367.5	368.0
Commercial mortgage backed securities (CMBS)	231.5	231.8	250.0	251.8
	664.4	665.5	617.5	619.8
Borrowings directly associated with assets held for sale				
Bank loan - term debt	-	-	117.4	118.2
	-	-	117.4	118.2
	664.4	665.5	734.9	738.0

(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.

Notes to the consolidated financial statements (continued)

23 Fair value measurement (continued)

(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 2015 \$'m	Valuation technique	Significant unobservable inputs used to measure fair value	Range of unobservable inputs
Recurring fair value adjustments					
- Australia	Level 3	1,937.5	DCF and income capitalisation method	Gross market rent (\$ p.a./sq.m.)	\$121 - \$637
				Adopted capitalisation rate	6.00 – 8.25%
				Adopted terminal yield	6.25 – 8.75%
				Adopted discount rate	7.00 – 9.50%

Term	Definition
Discounted Cash Flow (DCF) method	A method in which a discount rate is applied to future expected income streams to estimate the present value.
Income capitalisation method	A valuation approach that provides an indication of value by converting future cash flows to a single current capital value.
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 by obtaining an estimate of the current capitalisation and rates per square metre, by reference to comparable sales evidence, and the net property income;
- 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.

Notes to the consolidated financial statements (continued)

23 Fair value measurement (continued)

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

If the prior external valuation is under 12 months old and the change between the initial assessment and current book value is:

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

Development properties

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

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

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

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 (% p.a.)	Decrease	Increase
Adopted terminal yield (% p.a.)	Decrease	Increase
Adopted discount rate (% p.a.)	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.

Notes to the consolidated financial statements (continued)

24 Related parties (continued)

(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 (2014: \$324,492) 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:

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

Total assets are adjusted in the fee calculation to 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.

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 semiannual 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.

Notes to the consolidated financial statements (continued)

24 Related parties (continued)

(d) Management fees (continued)

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

	2015 \$'000	2014 \$'000
Base fees	9,095	8,672
Performance fees	-	-
	9,095	8,672

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 2015 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 2015, the Index increased in value by 140.1% compared to the REIT's cumulative performance which increased by 51.4% (difference of 88.7%).

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

The Responsible Entity and its related parties held 40,298,579 units as at 30 June 2015 (2014: 37,708,510).

Following is a summary of related party transactions, excluding base management fees, for the year ended 30 June 2015:

Type of fee	Method of fee calculation	Basis of fee calculation		Fee amount	
		2015 \$'m	2014 \$'m	2015 \$	2014 \$
Property management	3% of total property income	224.1	203.9	6,723,832	6,118,200
Acquisition	0.75% of sale price less amounts paid to external agents	95.8	166.9	718,125	1,251,713
Disposal	0.75% of sale price less amounts paid to external agents	10.9	309.6	81,851	386,804
Due diligence	0.25% of sale price	140.6	476.5	351,535	1,191,297
Development management	3% of development cost if > \$1m 5% of development cost if < \$1m	43.8	47.2	1,313,450	1,415,263
Development management cost recovery	Cost recovery			825,926	688,184
Project management	6% of project cost	17.9	7.2	1,073,590	429,960
Majors and specialty leasing - new leases	20.0% - 15.0% of year one gross rent	22.5	26.2	3,437,524	3,477,573
Specialty leasing - renewals	10.0% - 7.5% of year one gross rent	13.3	10.8	1,250,327	965,874
Tenancy co-ordination and lease administration, (number of tenants)	Range from \$500 - \$4,500 per tenancy	520	567	1,066,350	1,146,574
Accounting services	Annual fee			1,093,750	1,049,167
Other	Various			32,300	33,950
				17,968,560	18,154,559

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

	2015 \$	2014 \$
Charter Hall Holdings Pty Limited	17,968,560	18,103,025
Charter Hall Asset Services Europe Sp. z o.o. (Poland)	-	51,534
	17,968,560	18,154,559

Charter Hall Holdings Pty Limited was also reimbursed \$9,918,242 (2014: \$9,746,572) for centre and property management expenses incurred. These expenses include salaries, finance and IT costs and other overhead charges, of which approximately 38% (2014: 36%) 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.

Notes to the consolidated financial statements (continued)

24 Related parties (continued)

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

	2015 \$'m	2014 \$'m
Charter Hall Retail Management Limited	2,297,083	2,411,531
Charter Hall Holdings Pty Limited	1,990,588	866,823
	4,287,671	3,278,354

(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
2015				
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
2014				
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 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.

Notes to the consolidated financial statements (continued)

24 Related parties (continued)

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

Scott Dundas, Fund Manager of the REIT, received, on a cash basis, remuneration of \$635,116 from 1 July 2014 to 30 June 2015 (\$606,222 from 1 July 2013 to 30 June 2014). In addition, deferred rights to CQR units were granted to the Fund Manager to the value of \$91,758 from 1 July 2014 to 30 June 2015 (\$66,611 from 1 July 2013 to 30 June 2014) as part of his incentive program. Half of these units will vest one year after they have been granted with the remaining units vesting two years following their grant date.

(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 2015	Units held 2014
John Harkness	-	-
David Harrison	-	-
Maurice Koop	48,404	48,404
Alan Rattray-Wood	10,867	10,867
David Southon	-	-
Scott Dundas (alternate)	35,923	23,775

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 2015	Units 2014
Scott Dundas	12,148	1,673

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

	2015 \$'000	2014 \$'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	396	388
	396	388
Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for:		
Audit services	-	33
Taxation compliance services	44	312
	44	345
	440	733

In addition to the above fees, PricewaterhouseCoopers was remunerated with \$10,000 (2014: \$9,700) 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

Debt restructure

In June 2015, the REIT committed to issue US\$200 million (\$252 million) of USPP notes under the following conditions:

- 12 year duration;
- Funding to occur on 22 July 2015; and
- Fixed US\$ coupon of 3.55% which is 100% hedged in Australian dollars (principal and interest) and represent a margin of 194 basis points over BBSW.

In addition, the REIT secured a new bank debt facility to commence on funding of the USPP with the following terms:

- Three tranches of 18 months (\$150 million), 3 years (\$150 million) and 5 years (\$285 million) with a total facility limit of \$585 million;

Notes to the consolidated financial statements (continued)

26 Commitments and contingent liabilities (continued)

- Mortgage on all wholly owned Australian properties of the REIT, except those specifically pooled as security for the REIT's CMBS debt, has been discharged in July 2015; and
- Financial covenants that include requirement to maintain look through gearing of no more than 50% and an interest cover ratio of no less than 2.00 times.

Other commitments

The REIT has entered into contracts for the acquisition, construction and development of properties in Australia. The commitments of the REIT total \$8.0 million (2014: \$29.2 million). These commitments have not been reflected in the consolidated financial statements of the REIT.

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

27 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, the lender may be entitled to call for early repayment of the facility or may place additional conditions upon the REIT if:

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

28 Parent entity financial information

(a) Summary financial information

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

	Parent 2015 \$'m	Parent 2014 \$'m
Balance sheet		
Current assets	17.6	57.5
Assets held for sale	-	3.6
Non-current assets	2,097.5	1,921.5
Total assets	2,115.1	1,982.6
Current liabilities	300.7	318.5
Non-current liabilities	465.1	367.8
Total liabilities	765.8	686.3
Equity		
Contributed equity	2,153.3	2,127.0
Reserves	(155.4)	(164.5)
Accumulated losses	(648.6)	(666.2)
Total equity	1,349.3	1,296.3
Statement of comprehensive income		
Profit after tax	121.7	104.8
Total comprehensive income	121.7	104.8

Notes to the consolidated financial statements (continued)

28 Parent entity financial information (continued)

(b) Guarantees and contingent liabilities

The parent entity did not have any other contingent liabilities which are material, either individually or as a class, at 30 June 2015 (2014: nil).

(c) Commitments

Debt restructure

In June 2015, the REIT committed to issue US\$200 million (\$252 million) of USPP notes under the following conditions:

- 12 year duration;
- Funding to occur on 22 July 2015;
- Fixed US\$ coupon of 3.55% which is 100% hedged in Australian dollars (principal and interest) and represent a margin of 194 basis points over BBSW.

In addition, the REIT secured a new bank debt facility to commence on funding of the USPP with the following terms:

- Three tranches of 18 months (\$150 million), 3 years (\$150 million) and 5 years (\$285 million) with a total facility limit of \$585 million;
- Mortgage on all wholly owned Australian properties of the REIT, except those specifically pooled as security for the REIT's CMBS debt, has been discharged in July 2015;
- Financial covenants that include requirement to maintain look through gearing of no more than 50% and an interest cover ratio of no less than 2.00 times

Other commitments

The parent entity has entered into contracts for the construction and development of properties in Australia. The commitments of the parent entity total \$8.0 million (2014: \$29.2 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

Material subsidiaries

The REIT's principal subsidiaries at 30 June 2015 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
			2015	2014	
Charter Hall Retail Finance Pty Limited	Australia	Australia	100%	100%	Issuer of the REIT's CMBS Notes
Charter Hall Retail JV Trust	Australia	Australia	100%	100%	Property investment

Information relating to the REIT's joint venture entities accounted for using equity method is disclosed in Note 11.

30 Events occurring after balance date

On 22 July 2015, the REIT completed the issuance of a US\$200 million US Private Placement (USPP) which will be used to repay the existing CMBS facility which matures on 28 September 2015.

On 28 July 2015 the REIT executed conditional contracts to acquire Goulburn Plaza, NSW and Katherine Central, NT, for a combined purchase price of \$94.9 million.

Furthermore, on 31 July 2015, Charter Hall Retail Partnership No.1 Trust (CHRP1), the REIT's joint venture entity, completed the acquisition of Brickworks Marketplace for a total purchase price (including land) of \$76m.

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 2015.

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 consolidated financial statements and notes set out on pages 14 to 57 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 2015 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

14 August 2015



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 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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

Liability limited by a scheme approved under Professional Standards Legislation.



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 2015 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.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

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

Jane Reilly
Partner

Sydney
14 August 2015