Annual Report 2016

Charter Hall Retail REIT

Charter Hall

FOCUSED DELIVERY

$2.55b
Portfolio Value
↑17.9%

$180.7m
Statutory Profit
↑11.2%

30.40cpu
OEPS
↑2.4%

> "We are delivering secure long-term sustainable returns for our unitholders by focusing on the three pillars of our strategy: active asset management, enhancing portfolio quality, and prudent capital management."

SCOTT DUNDAS
FUND MANAGER

Throughout the report we have rich video content available on your smart phone/tablet

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OUR STRATEGY

#1 ACTIVE MANAGEMENT

Maintaining strong tenant relationships, optimising tenancy mix through proactive leasing and enhancing the overall shopper experience.

98.0%
stable occupancy

2.2%
same property NOI growth

1.4%
specialty rent growth from 136 renewals and 54 new leases

4.9%
specialty MAT growth

#2 ENHANCE PORTFOLIO QUALITY

Through value enhancing redevelopment, selective acquisitions and non-core disposals.

4 properties acquired
for $227.8 million, at a yield of 7.0%

2 non-core properties divested
for $20.3 million, at a yield of 6.5%

$179.2 million
of development projects completed or underway

#3 PRUDENT CAPITAL MANAGEMENT

With a focus on a strong and flexible balance sheet, prudent gearing and a sustainable payout ratio.

6.2yrs
weighted average debt maturity

35.9%
look through gearing

32.0%
balance sheet gearing

2
US Private Placement market issuances completed

Brickworks Marketplace,
Torrensville, SA

ABOUT US

Charter Hall Retail REIT invests in high quality Australian neighbourhood, regional and sub-regional supermarket anchored shopping centres that aim to provide a secure and growing income stream to investors. Our geographically diverse portfolio comprises 74 properties and has a combined value of $2.55 billion. We derive over 50% of annual base rent from Wesfarmers and Woolworths.

With a focus on non-discretionary retail, we optimise returns for our investors and create enjoyable and convenient shopping experiences for more than 150 million shopper visitations to our centres each year, by providing end-to-end property services to our entire portfolio.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC), one of Australia's leading property groups. CHC owns and manages office, retail and industrial and logistics properties on behalf of institutional, wholesale and retail clients, with funds under management totalling $17.5 billion as at 30 June 2016.

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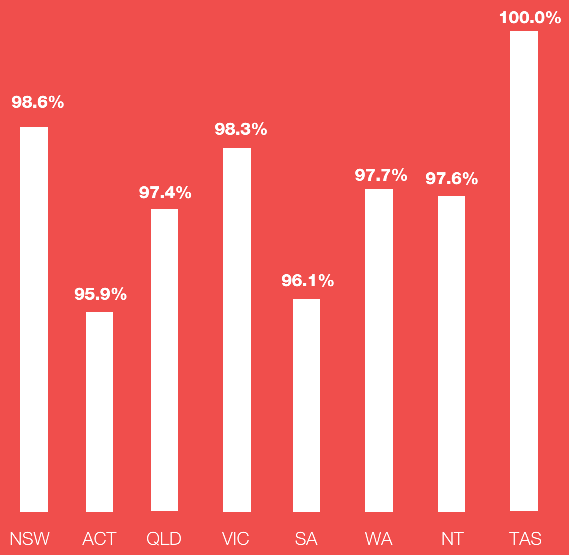
2016 HIGHLIGHTS

We have continued to grow the REIT, enhancing the quality of the portfolio by recycling out of non-core properties into larger assets with forecast higher growth characteristics.

OCCUPANCY BY STATE



STABLE OCCUPANCY

98.0%

WEIGHTED AVERAGE DEBT MATURITY

6.2yrs

DISTRIBUTION PER UNIT

28.10cpu

↑2.2%

NET TANGIBLE ASSET

$3.79 per unit

↑5.6%

PORTFOLIO VALUE

$2.55b

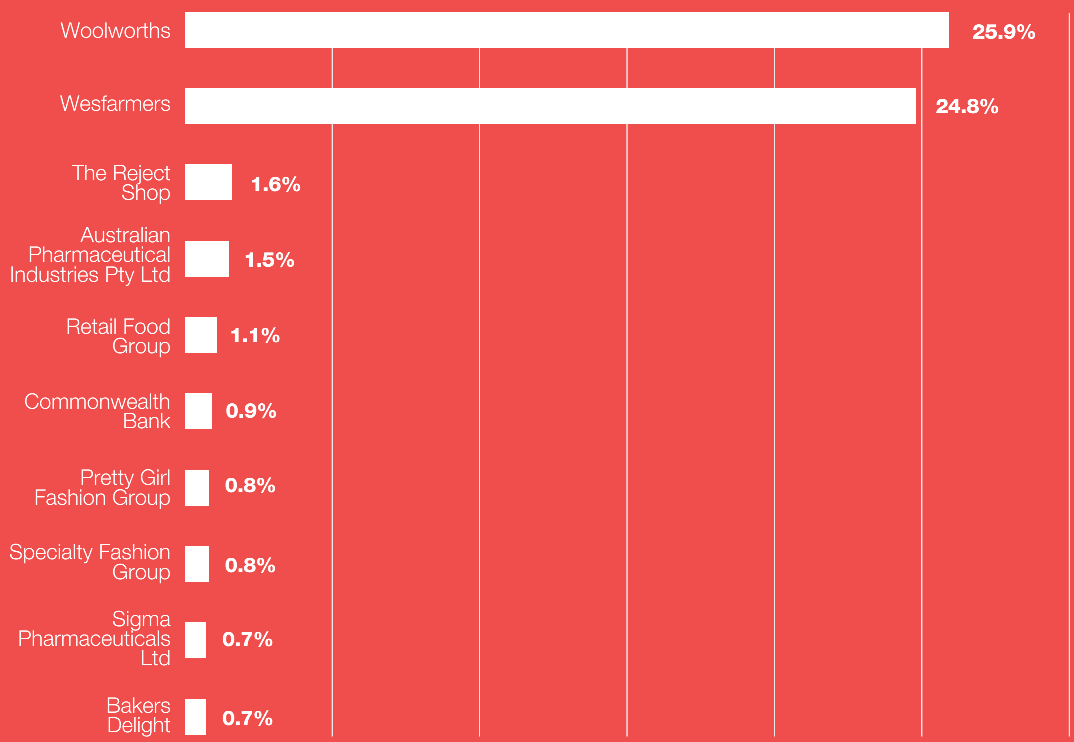
↑17.9%

SPECIALTY MAT GROWTH

4.9%

MAT Growth doesn't have a direct effect from leasing

TOP 10 TENANTS (BY SHARE OF BASE RENT)



LETTER FROM CHAIR AND FUND MANAGER

It is our pleasure to announce a solid financial result for 2016, reporting operating earnings growth of 2.4% to 30.4 cents per unit, and an increase in the portfolio value by 17.9% to $2.55 billion.

John Harkness
Chair

Scott Dundas
Fund Manager

The theme of this year's Annual Report, 'focused delivery' on strategy, signifies the importance that the Charter Hall Retail REIT places on the three pillars of its strategy of active asset management, enhancing portfolio quality, and prudent capital management to deliver our securityholders with a secure and growing income stream.

In this our 21st year as an ASX listed A-REIT, we achieved another year of solid growth with statutory profit up 11.2% to $180.7 million, operating earnings of $120.3 million and a final distribution increase of 2.2% to 28.10 cents per unit.

Positive portfolio performance

Charter Hall Retail REIT is the leading owner and manager of non-discretionary Australian supermarket anchored shopping centres with a portfolio of 74 sub-regional and neighbourhood shopping centres and freestanding supermarkets valued at $2.55 billion, an increase in value of 17.9% over FY15.

With a firm focus on strong tenant relationships, customer amenity and convenience, the portfolio has continued to perform well with a weighted average lease expiry (WALE) of 6.9 years, including an anchor tenant WALE of 10.6 years. The REIT's active asset management approach and focus on optimising tenancy mix delivered stable occupancy of 98.0%, and same property NOI growth of 2.2%, along with specialty rent growth of 1.4%. Our highly skilled team of retail property professionals secured 177 new leases[1] and 136 lease renewals, reflecting 26 new leases and renewals per month over the financial year.

This active management approach across our Australian retail portfolio has seen the retention rate of specialty retailers improve to 87% with specialty tenants moving annual turnover (MAT) growth of 4.9%. We have improved average specialty rent across the portfolio by 9.7% to $891 sqm and average specialty shop productivity has grown to $9,173 sqm from $8,741 sqm at June 2015.

Anchor tenants Wesfarmers (Coles, Kmart and Target) and Woolworths Limited (including Big W and Dan Murphy's) continue to represent more than 50% of annual base rent, consistent with our focus on non-discretionary retail. Importantly, the inclusion of Aldi into the portfolio at Bateau Bay, NSW and part of the current redevelopments at Southgate, south of Adelaide, SA, and Secret Harbour in Perth, WA, provides further balance to our customer offering. In addition, 10 lease renewals were completed during the year with anchor tenants.

Strong investor interest in the non-discretionary retail asset class has further increased the REIT's Australian property valuations by $91.3 million or 3.7% over the year, with the total weighted average capitalisation rate firming by 44 basis points to 6.71%.

Prudent capital management

This year has been a very active year with the REIT completing a number of initiatives to restructure its debt funding platform. The REIT is well placed to capitalise on strategic acquisition and redevelopment opportunities with the enhanced flexibility and scalability of its debt platform.

During the year, the REIT announced significant enhancements to its debt funding platform, resulting in no debt maturing until financial year 2019 and approximately 50% of all debt maturing in 2026 and beyond.

1. Includes 54 comparable leasing transactions

Following the completion of several key initiatives to restructure its debt funding platform, the REIT's debt maturity profile is now the longest and the most diverse since the REIT was listed in 1995.

Our decision to undertake enhancements to the REIT's funding platform has continued to support the Moody's credit rating of Baa1.

With a focused and disciplined use of capital, the REIT will continue its disciplined investment strategy to enhance the quality of the portfolio through strategic acquisitions, redevelopments and divestments, and recycling out of non-core properties into larger assets with forecast higher growth characteristics.

For further information about our best practice capital management structure, please see the case study on page 6.

A disciplined investment strategy

A key aspect to enhancing the quality of the portfolio is our focus on strategic acquisitions and divestment of non-core properties into larger assets with forecast higher growth characteristics. Due to this disciplined investment approach, the REIT's average asset size increased from $32.7 million at June 2015 to $39.7 million at June 2016.

Over $248 million in capital transactions were completed in the year, further diversifying the REIT's geographic exposure.

Four supermarket anchored shopping centres were selectively acquired. They are located in either high growth corridors or operate as the dominant shopping centre in the region, which is in line with the REIT's investment criteria. The four new centres; Brickworks Marketplace, SA, Goulburn Square and Bateau Bay Square, NSW and Katherine Central, NT were purchased for a total price of $227.8 million at an average initial yield of 7.0%.

In line with our strategy, the REIT contracted to sell $20.3 million of non-core properties at an average yield of 6.5%. These sales included two West Australian centres in Collie and Ballajura, reflecting a 4.7% premium to the June 2015 book value.

Post balance date the REIT is actively marketing additional non-core properties.

STATUTORY PROFIT
$180.7m
↑11.2%

TOTAL RETURN
13.4%

TOTAL ACQUISITIONS
$228m

Value enhancing redevelopments

Value enhancing redevelopment is a key element of the REIT's growth strategy as an alternative to competing for assets on market. During the year, the REIT announced two major redevelopment projects with a total value of $106.8 million; Lake Macquarie Fair in NSW and Secret Harbour Shopping Centre in WA.

Development delivery is a core competency for the REIT and during FY16 our development team lodged a Development Application (DA) with Lake Macquarie City Council. The proposed DA will deliver a major $47.9 million redevelopment of the Lake Macquarie Fair and Mount Hutton Plaza shopping centres, which will include a new expanded Coles supermarket, improved centre amenities and the integration of both centres into a double supermarket anchored shopping centre with improved access and parking.

The $58.9 million redevelopment of Secret Harbour is progressing on schedule and we remain on target to complete the redevelopment in April 2017. Our leasing team has also recorded strong leasing activity well ahead of completion in April 2017.

The current and completed development pipeline of $179 million is forecast to produce a stabilised yield of 7.7%, continuing to enhance the growth profile of the fund.

For further information about our value enhancing redevelopments, please see the case study on page 7.

Board renewal

During the year, the Charter Hall Retail REIT Board continued to undertake an orderly phase of board renewal, making two key appointments.

In November 2015, we announced the appointment of Sue Palmer as an Independent Director of the Responsible Entity for CQR, Charter Hall Retail Management Limited. Sue brings extensive financial and commercial experience from a career which has spanned a range of industry sectors in Australia and Asia, including construction, mining, property development, energy, infrastructure and agriculture.

In February 2016, Charter Hall Group announced David Harrison's appointment as Chief Executive Officer and Managing Director (CEO and MD) of the Group, with David Southon electing to step down as Joint Managing Director (JMD) following the Board and JMDs' decision to move to a single CEO/MD structure.

As a result, David Southon also retired from his position on the CQR Board and Greg Chubb, Charter Hall's Head of Retail, was appointed as a Director. Greg is a highly regarded property executive and it's a pleasure to welcome both Greg and Sue to the Board.

On behalf of the Board we would also like to thank David Southon for his leadership and significant contribution to the business, our investors and management team over a long period of time. David's property expertise has helped position Charter Hall as one of Australia's leading property groups and we wish him well for the future.

Outlook

CQR is now in its 21st year as an ASX listed A-REIT. Over this period, the REIT has faced different market conditions and taken full advantage of opportunities due to the strength of the leadership of the Board and management team. As a result, the REIT has always enjoyed the strong support of investors, financiers, tenants and the community, something that we do not take lightly.

With continued investor demand for high quality assets in the non-discretionary retail sector, we expect to see yields continue to tighten, which will see further growth in the value of the REIT's portfolio into FY17.

We will continue to consistently deliver on our strategy with a clear focus on actively constructing our portfolio to deliver future long-term income growth. We will target acquisitions of higher growth shopping centres and develop existing core assets that have the potential to deliver higher growth. This activity will be funded by taking advantage of the current market conditions for smaller centres and single tenant assets.

We will reduce exposure to freestanding and smaller neighbourhood assets and acquire larger, higher growth assets to increase the average size and opportunities for income growth. An important part of this strategy will be to ensure that our assets are the dominant convenience based shopping centres in the catchments that we invest into.

In line with our strategy to deliver a best practice capital management structure, the timing of any divestments will be managed to ensure minimal or no earnings impact with proceeds deployed into income accretive acquisitions and the development pipeline.

We are well placed to continue to deliver on our strategy to provide investors with a secure and growing income stream, and we thank you, our unitholders, for your ongoing support and trust in our team and ability to execute on strategy.

CASE STUDY
DEBT RESTRUCTURING

"We have delivered an enhanced debt funding platform to establish a best practice capital structure. With a firm focus on prudent capital management, the REIT has no debt maturing until FY19 and a weighted average debt maturity of 6.2 years."

CHRISTINE KELLY, HEAD OF RETAIL FINANCE

This year has been very active with the Charter Hall Retail REIT completing a number of initiatives to restructure its debt funding platform. The REIT is in a strong position to capitalise on strategic acquisition and redevelopment opportunities with the enhanced flexibility and scalability of its debt platform.

During the year, the REIT announced significant enhancements to its debt funding platform that will see no debt maturing until financial year 2019.

Following the completion of several key initiatives to restructure its debt funding platform, the REIT's debt maturity profile is now the longest and the most diverse it has been since it listed in 1995.

Refinanced bank debt facility well ahead of expiry

Following the strong support from the inaugural US Private Placement issuance in 2015, we further enhanced our debt funding platform with a second oversubscribed issuance.

Accessing the US Private Placement market for the second time saw the REIT issue a new 10 year US$125 million (A$177.4 million equivalent) bond to mature in May 2026. The notes were issued with a fixed US$ coupon of 3.76%, which is 100% hedged in Australian dollars. This represents a margin of 2.55% over the bank bill swap rate.

Proceeds from this transaction repaid and cancelled the $150 million syndicated bank debt tranche that was due to mature in January 2017.

Importantly, the REIT's issuances into the USPP market during the period increased non-bank debt in the REIT to 47% of total drawn debt and extended the REIT's weighted average debt maturity by 1.4 years to 6.2 years as at 30 June 2016.

Improved and diversified liquidity sources

Separately, the REIT also agreed terms for a new $50 million five year bank debt facility from an international bank. Diversity of bank debt providers and tenor provides further flexibility to the funding platform.

Restructured hedge book reducing overall cost of debt

We also announced the extension and restructure of the REIT's interest rate hedge book.

This resulted in the weighted average maturity of the REIT's interest rate swap portfolio increasing to 4.0 years and a reduction in the average hedge rate to 2.3% over the swap duration as at 30 June 2016.

These initiatives increased the REIT's weighted average debt maturity by 1.4 years with the increased margin of the US Private Placement offset by the lower hedge rate following the interest rate swap restructure. Finance costs of 56% are now hedged over the next five years, reducing volatility from finance costs in the REIT's forecast earnings growth.

The flexibility of bank debt supports our strategy of enhancing the portfolio quality by providing liquidity to fund our forecast development pipeline and divestment and acquisition program. The extension of tenor and spreading of maturity profile reduces refinancing risk in any one period.

With a focused and disciplined use of capital, the REIT has maintained its Moody's credit rating of Baa1. The REIT will continue its disciplined investment strategy to enhance the quality of the portfolio through strategic acquisitions, redevelopments and divestments, recycling out of non-core properties into larger assets with forecast higher growth characteristics.

WEIGHTED AVERAGE DEBT MATURITY

6.2 yrs

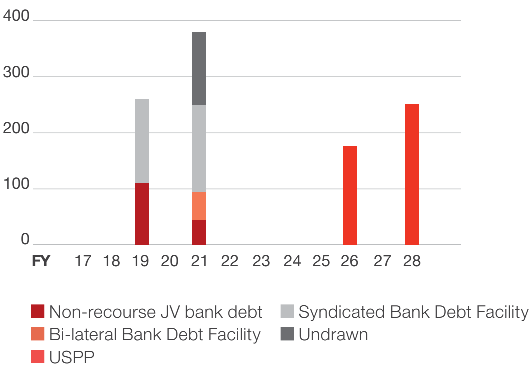
WEIGHTED AVERAGE HEDGE MATURITY

4.0 yrs

Key Metrics	Jun-16	Jun-15
Average interest cost[1] (%)	4.30	4.60
Weighted average debt maturity (years)	6.2	5.8
Weighted average hedge maturity (years)	4.0	3.5
Interest rate hedging[2] (%)	72	81
ICR	4.5x	4.6x

1. Includes line fee (including cost of undrawn debt) and usage fee and excludes amortisation of upfront debt costs
2. For the next 12 month period

Debt Maturity Profile



CASE STUDY
REDEVELOPMENTS

"Value enhancing redevelopments are a key element of the REIT's growth strategy and we continue to drive attractive cash yields from our development pipeline. The current development pipeline of $135.4 million is forecast to produce a stabilised yield of 7.4%, continuing the growth profile of the fund."

YVETTE KEATINGS,
NATIONAL RETAIL DEVELOPMENT MANAGER

CURRENT PROJECT PIPELINE
$179.2m

STABILISED YIELD
7.7%

As National Retail Development Manager, I work closely with the REIT's management team to oversee the delivery of shopping centre redevelopments across the portfolio. Retail is a niche skill set and at Charter Hall, the development team takes a project from feasibility and planning through to delivery.

Value enhancing redevelopments, like those announced at Secret Harbour, WA, and Lake Macquarie Fair, NSW, are a key element of the REIT's growth strategy. Part of our investment rationale for both acquisitions and centre redevelopments is identifying centres located in areas of demographic growth.

Secret Harbour is a high performing shopping centre situated in the middle of a major growth area in Perth's southern suburbs. While Australian average population growth is currently around 1.3%, the Secret Harbour catchment has growth of approximately 4.5% and is a standout in Australian growth metrics.

The $58.9 million redevelopment of Secret Harbour is progressing on schedule. It comprises the expansion of the existing Woolworths store, a new 4,050 sqm Coles supermarket, the addition of Aldi and a new 1,225 sqm Dan Murphy's, along with an improved mix of food and beverage operators. With 77% of total specialty retail space as at 30 June 2016, currently leased or under offer and 100% of the major tenant's space pre-committed, we remain on target to complete the redevelopment in April 2017.

During the period, our development team also lodged a Development Application with Lake Macquarie City Council, which will see an investment of approximately $48 million to deliver a major redevelopment of the Lake Macquarie Fair and Mount Hutton Plaza shopping centres. The redevelopment will include a new expanded Coles supermarket, improved centre amenities and the integration of both centres into a larger single asset shopping centre with improved access and parking.

The REIT's active management approach includes building and maintaining strong tenant relations as well as enhancing the value of our centres through value accretive redevelopments.

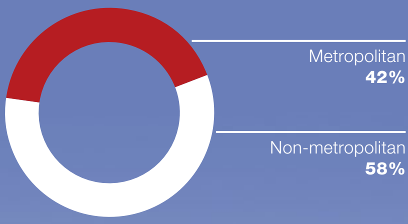
In November 2015, the REIT acquired a 47.5% interest in Bateau Bay Square from a Charter Hall joint venture at an equivalent purchase price of $200 million. The team immediately commenced active management of the asset, which included entering into new major tenant leases for Coles, Kmart and Aldi as well as completing a major refurbishment. As the dominant convenience based shopping centre in the area, the centre is now trading higher than on previous levels by between 15% and 25% and, pleasingly, the June revaluation increased by 7.5% to $215 million.

Across the Charter Hall Retail REIT, the annual spend by shoppers is more than $5 billion and these redevelopments, along with a number of various minor projects across the portfolio, are delivering our more than 150 million shoppers every year a more enjoyable and convenient shopping experience.

PORTFOLIO PERFORMANCE

Our geographically diverse portfolio benefits from exposure to high growth corridors and operate as the dominant shopping centre in each region.

ASSET VALUE BY LOCATION



PORTFOLIO VALUE

$2.55b

SPECIALTY MAT GROWTH

4.9%

CUSTOMER VISITS ANNUALLY

>150m

PORTFOLIO OCCUPANCY

98%

RETAIL SALES ANNUALLY

>$5b

GROSS LETTABLE AREA

>550,000sqm

NEW LEASES[1]

177

LEASE RENEWALS

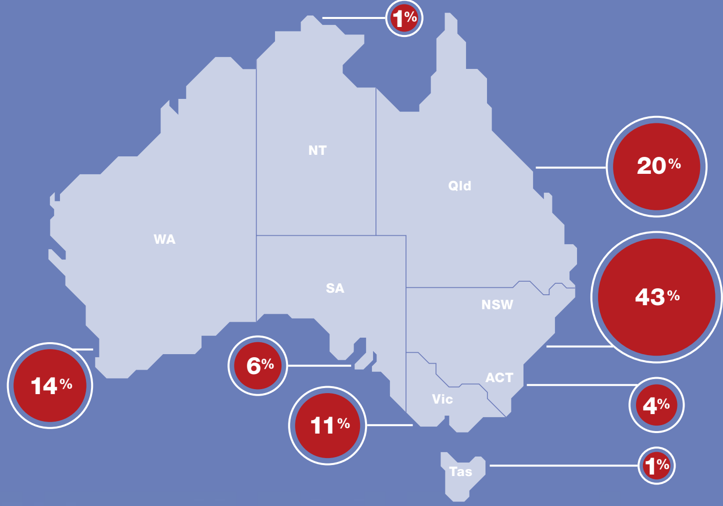
136

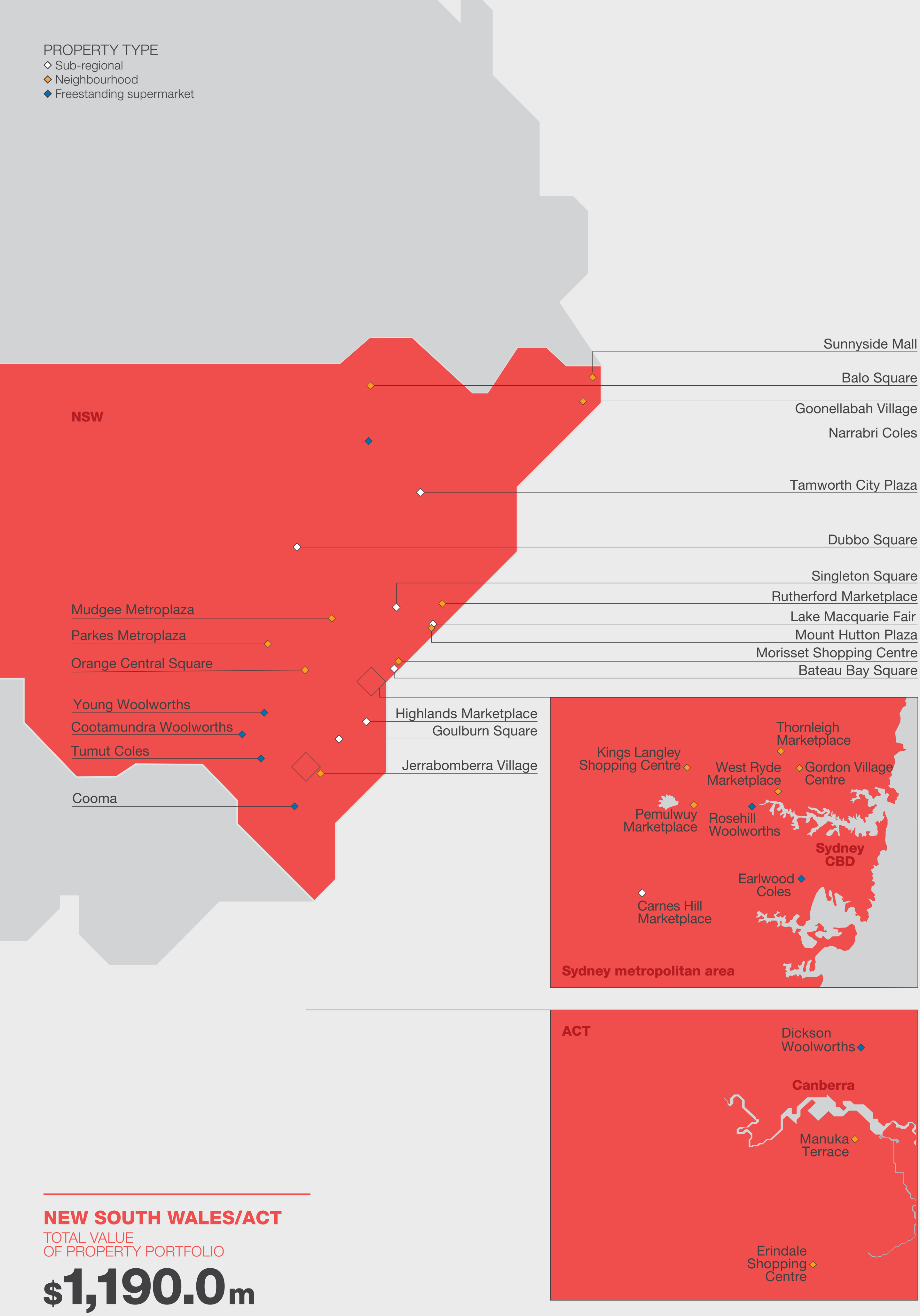
1. Includes 54 comparable leasing transactions

SUMMARY BY ASSET TYPE

Asset Type	#	GLA ('000 sqm)	Occupancy (%)	Same Property NOI Growth (%)	Total Value
Sub-regional	20	287.6	98.0	2.1	1,183.7
Neighbourhood	37	215.5	97.3	2.0	1,142.4
Freestander	17	56.2	100.0	3.5	223.6
Metro	25	199.7	98.3	2.0	1,077.0
Non-Metro	49	359.6	97.8	2.3	1,472.7
Total	**74**	**559.3**	**98.0**	**2.2**	**2,549.7**

ASSET VALUE BY STATE (%)





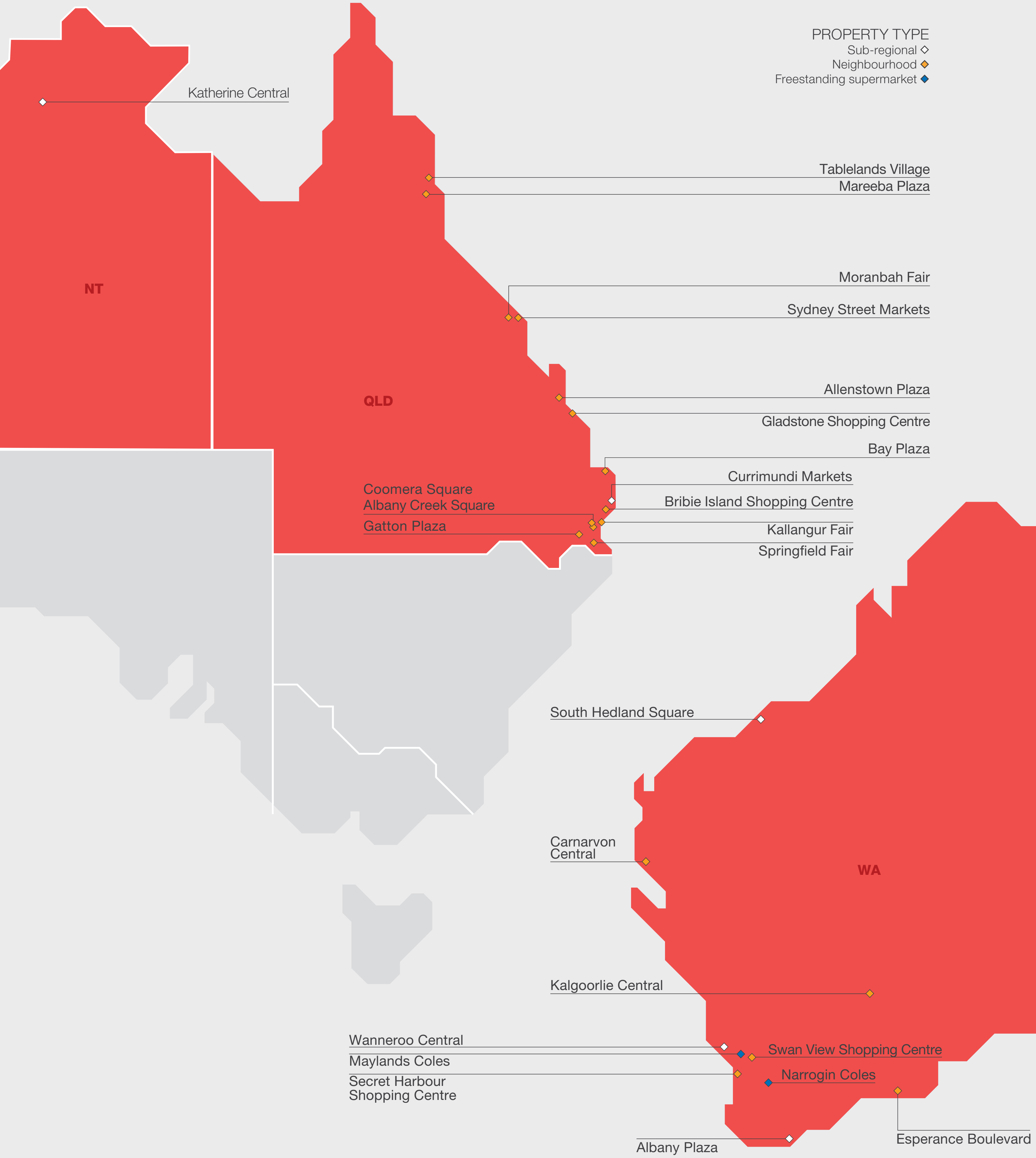
NEW SOUTH WALES/ACT

TOTAL VALUE
OF PROPERTY PORTFOLIO

$1,190.0m

Property	Location	Asset Type	Interest	Book Value (CQR Share)	Cap Rate
ACT					
Dickson Woolworths	Dickson	Freestander	100%	18.1	6.00%
Erindale Shopping Centre	Wanniassa	Neighbourhood	100%	36.8	7.00%
Manuka Terrace	Manuka	Neighbourhood	100%	48.4	6.50%
ACT Total				**103.3**	
NSW					
Balo Square	Moree	Neighbourhood	100%	14.9	7.50%
Bateau Bay Square	Bateau Bay	Sub-regional	48%	102.4	6.00%
Carnes Hill Marketplace	Horningsea Park	Sub-regional	50%	57.5	6.00%
Cooma Woolworths	Cooma	Freestander	100%	13.2	6.50%
Cootamundra Woolworths	Cootamundra	Freestander	100%	13.2	7.00%
Dubbo Square	Dubbo	Sub-regional	100%	43.0	7.50%
Earlwood Coles	Earlwood	Freestander	100%	21.8	5.50%
Goonellabah Village	Goonellabah	Neighbourhood	100%	14.3	7.50%
Gordon Village Centre	Gordon	Neighbourhood	100%	107.1	6.53%
Goulburn Square[1]	Goulburn	Sub-regional	100%	69.0	n/a
Highlands Marketplace	Mittagong	Sub-regional	50%	36.5	6.25%
Jerrabomberra Village	Jerrabomberra	Neighbourhood	100%	22.7	6.50%
Kings Langley Shopping Centre	Kings Langley	Neighbourhood	100%	36.3	6.25%
Lake Macquarie Fair[1]	Mount Hutton	Sub-regional	100%	66.4	n/a
Morisset Shopping Centre	Morisset	Neighbourhood	100%	37.7	7.05%
Mount Hutton Plaza[1]	Mount Hutton	Neighbourhood	100%	10.4	n/a
Mudgee Metroplaza	Mudgee	Neighbourhood	100%	23.7	6.75%
Narrabri Coles	Narrabri	Freestander	100%	10.5	7.00%
Orange Central Square	Orange	Neighbourhood	100%	49.5	6.50%
Parkes Metroplaza	Parkes	Neighbourhood	100%	21.1	6.75%
Pemulwuy Marketplace	Greystanes	Neighbourhood	50%	14.3	6.25%
Rosehill Woolworths	Rosehill	Freestander	100%	12.0	5.75%
Rutherford Marketplace	Rutherford	Neighbourhood	50%	17.3	6.50%
Singleton Square	Singleton	Sub-regional	100%	118.4	6.75%
Sunnyside Mall	Murwillumbah	Neighbourhood	100%	42.0	7.25%
Tamworth City Plaza	Tamworth	Sub-regional	100%	45.0	7.25%
Thornleigh Marketplace	Thornleigh	Neighbourhood	50%	18.3	6.25%
Tumut Coles	Tumut	Freestander	100%	8.7	6.25%
West Ryde Marketplace	West Ryde	Neighbourhood	50%	23.5	6.25%
Young Woolworths	Young	Freestander	100%	16.0	6.50%
NSW Total				**1,086.7**	

1. Asset currently classified as redevelopment



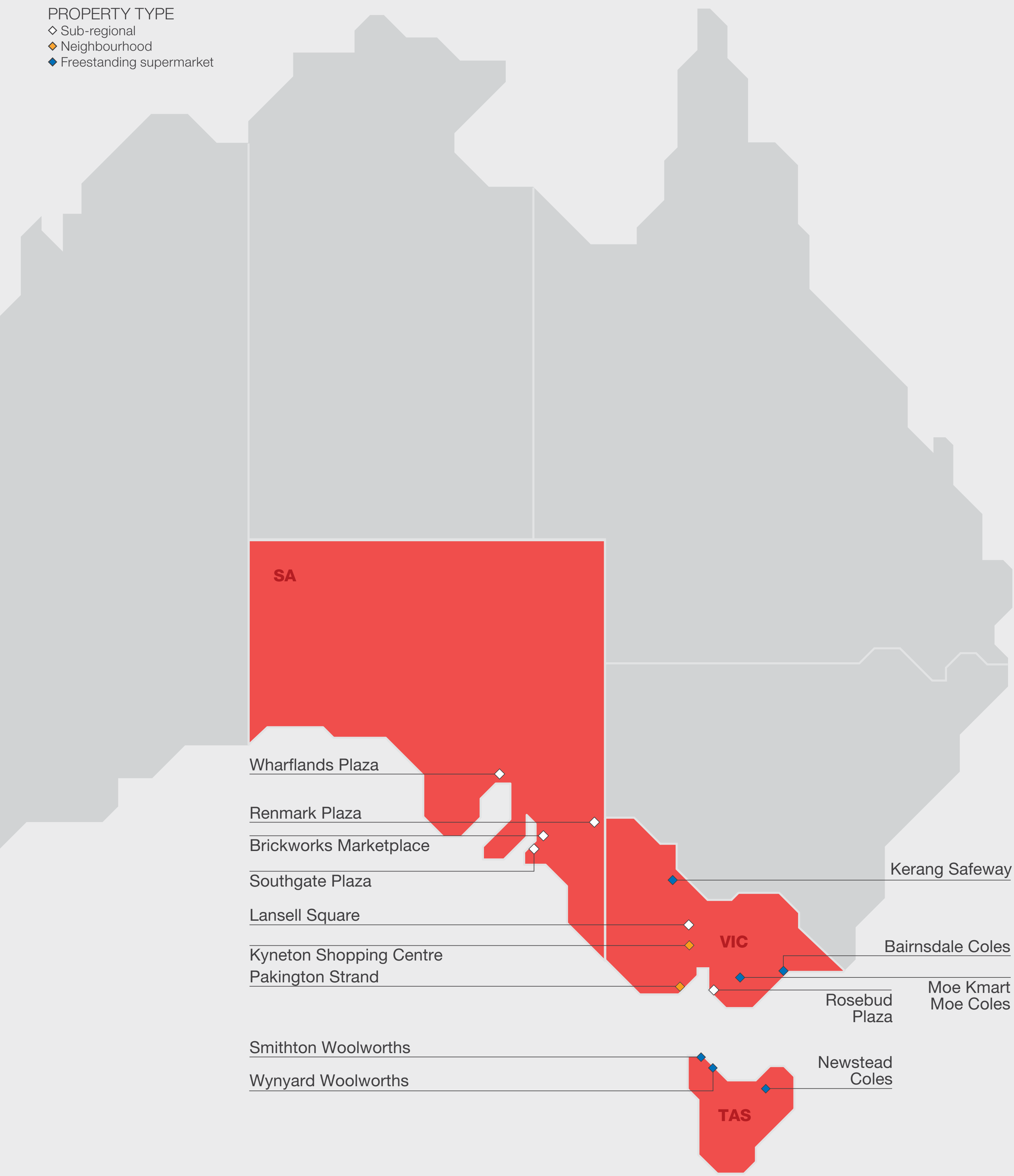
QUEENSLAND
TOTAL VALUE OF PROPERTY PORTFOLIO
$473.7m

WESTERN AUSTRALIA
TOTAL VALUE OF PROPERTY PORTFOLIO
$361.9m

NORTHERN TERRITORY
TOTAL VALUE OF PROPERTY PORTFOLIO
$28.8m

Property	Location	Asset Type	Interest	Book Value (CQR Share)	Cap Rate
NT					
Katherine Central	Katherine	Sub-regional	100%	28.8	8.00%
NT Total				**28.8**	
WA					
Albany Plaza	Albany	Sub-regional	100%	58.1	7.00%
Carnarvon Central	Carnarvon	Neighbourhood	100%	18.3	7.50%
Esperance Boulevard	Esperance	Neighbourhood	100%	28.2	7.00%
Kalgoorlie Central	Kalgoorlie	Neighbourhood	100%	38.3	7.00%
Maylands Coles	Maylands	Freestander	100%	15.3	5.75%
Narrogin Coles	Narrogin	Freestander	100%	11.6	6.25%
Secret Harbour Shopping Centre[1]	Secret Harbour	Neighbourhood	100%	50.1	n/a
South Hedland Square	South Hedland	Sub-regional	100%	76.1	7.25%
Swan View Shopping Centre	Swan View	Neighbourhood	100%	18.4	6.25%
Wanneroo Central	Wanneroo	Sub-regional	50%	47.5	6.50%
WA Total				**361.9**	
QLD					
Albany Creek Square	Brisbane	Neighbourhood	100%	58.2	6.50%
Allenstown Square	Rockhampton	Neighbourhood	100%	49.2	7.25%
Bribie Island Shopping Centre	Bribie Island	Sub-regional	100%	52.0	6.75%
Coomera Square	Coomera	Neighbourhood	100%	60.0	6.50%
Currimundi Markets	Currimundi	Neighbourhood	100%	34.5	6.25%
Gatton Plaza	Gatton	Neighbourhood	100%	20.7	6.75%
Gladstone Square	Gladstone	Neighbourhood	50%	16.0	7.00%
Bay Plaza	Hervey Bay	Neighbourhood	100%	19.5	7.25%
Kallangur Fair	Kallangur	Neighbourhood	100%	18.2	7.00%
Mareeba Square	Mareeba	Neighbourhood	100%	16.7	7.00%
Moranbah Fair	Moranbah	Neighbourhood	100%	25.5	8.00%
Springfield Fair	Springfield	Neighbourhood	100%	20.5	7.00%
Sydney Street Markets[1]	Mackay	Neighbourhood	100%	49.2	n/a
Tablelands Square	Atherton	Neighbourhood	100%	33.5	6.75%
QLD Total				**473.7**	

1. Asset currently classified as redevelopment



VICTORIA
TOTAL VALUE
OF PROPERTY PORTFOLIO
$294.4m

SOUTH AUSTRALIA
TOTAL VALUE
OF PROPERTY PORTFOLIO
$148.2m

TASMANIA
TOTAL VALUE
OF PROPERTY PORTFOLIO
$25.3m

Property	Location	Asset Type	Interest	Book Value (CQR Share)	Cap Rate
SA					
Brickworks Marketplace	Torrensville	Sub-regional	50%	34.4	6.50%
Renmark Plaza	Renmark	Sub-regional	100%	25.0	7.50%
Southgate Plaza[1]	Morphett Vale	Sub-regional	100%	66.8	n/a
Wharflands Plaza	Port Augusta	Sub-regional	100%	22.0	8.00%
SA Total				**148.2**	
TAS					
Newstead Coles	Newstead	Freestander	100%	8.5	7.00%
Smithton Woolworths	Smithton	Freestander	100%	7.1	7.00%
Wynyard Woolworths	Wynyard	Freestander	100%	9.7	6.75%
TAS Total				**25.3**	
VIC					
Bairnsdale Coles	Bairnsdale	Freestander	100%	14.5	6.25%
Kerang Safeway	Kerang	Freestander	100%	14.5	7.00%
Kyneton Shopping Centre	Kyneton	Neighbourhood	100%	16.7	6.75%
Lansell Square	Kangaroo Flat	Sub-regional	100%	95.6	6.50%
Moe Coles	Moe	Freestander	100%	17.7	6.25%
Moe Kmart	Moe	Freestander	100%	11.1	7.00%
Pakington Strand	Geelong West	Neighbourhood	50%	12.5	6.50%
Rosebud Plaza	Rosebud	Sub-regional	100%	111.8	6.50%
VIC Total				**294.4**	
Total CQR Portfolio				**2,549.7**	

1. Asset currently classified as redevelopment

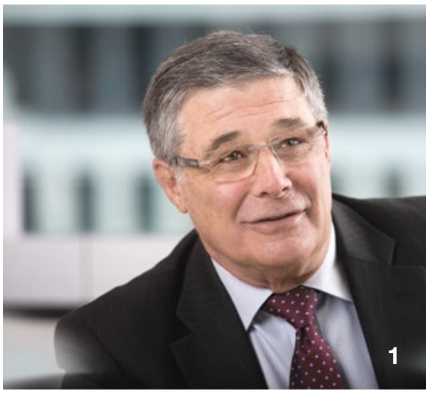
SUSTAINABILITY

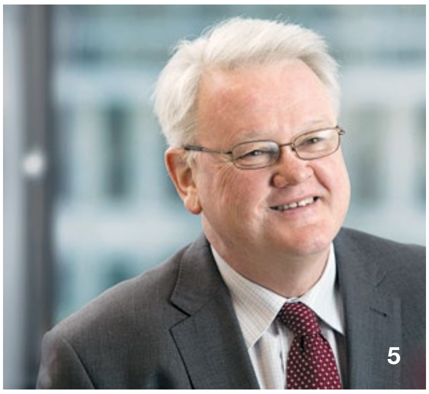
Charter Hall Retail REIT continues to align is sustainability aspirations, with that of the Charter Hall Group, and has adopted the Charter Hall Group's Shared Value Framework and the focus areas of Eco-Innovation, Place Creation and Wellbeing.

2016 Commitments	2016 Performance	FY 17 Targets	FY20 Targets	Aspirational Targets
ECO INNOVATION				
Resilience				
Leverage cross-departmental collaboration in design and development to optimise efficiencies over the life of our assets.	Consistent environmental reporting processes. Climate Change Framework commenced with 100% of assets assessed for Climate Risk. Implemented Operational Emergency Management Systems. Community Programs undertaken to facilitate community recovery during times of climate impacts.	Implementation of Climate Change Framework. Creation of Environmental Management. Framework Emergency management framework for all managed buildings, integrated with Charter Hall's emergency control organisation plan.	Climate change adaption and community resilience plans on all assets. Environmental management plans on all assets to AS 14001. Fully integrated emergency management framework. Community resilience programs.	Resilient communities and future proofed assets.
Environmental Performance				
Develop the tools and processes required to streamline sustainability reporting and facilitate the setting of long term targets and objectives.	Tools and processes developed and incorporated into business reporting. Targets set for environmental performance.	Green Star Portfolio ratings on existing retail portfolio. Green Star ratings sought on all new large developments. NABERS ratings in retail centres over 15,000sqm. Renewable energy on all new large retail developments. Development and implementation of Waste Management Strategy. Pilot recycling de-fit projects in retail assets.	Material reduction in energy and water intensity by 2020. Renewable energy creation in portfolio. Increase NABERS Energy and water ratings. Tenant and community environmental programs in place. Green procurement. Targeted waste diversion rate of 60% by 2020.	Achieving net zero.
Develop a strategy for the delivery of solar projects across our portfolio.	Feasibility of solar systems: 250kW system at Singleton Square and 100kW system at Katherine Central. Renewable Energy generation feasibility study for portfolio completed.			
Review current waste management initiatives across all states and track reduction in waste disposal to landfills.	Waste management strategy commenced across our assets.			
Energy Efficiency Initiatives.	1.7 million kWh saved through LED lighting initiatives – equivalent to a reduction of 913 tonnes of carbon emissions.			
Undertake a trial of new technology for HVAC and heat exchange coil efficiency with a view to undertaking a portfolio approach if successful.	Piloted new technologies – SKYCOOL rooftop insulation resulting in savings of over 516,000 kW hours. – NANOSURE technology creating 10% energy ratio improvements.			
Develop user-friendly retail fit-out guidelines to facilitate the tenancy delivery experience for our retail tenants.	Launch of Retail Development Design and Tenant Fitout Guidelines. Place Experience guidelines implemented in retail assets.			

2016 Commitments		2016 Performance	FY 17 Targets	FY20 Targets	Aspirational Targets
PLACE CREATION					
Fit for the Future					
Engage with our tenants and explore opportunities to positively impact their commercial and personal wellbeing through asset design and building management services.	✓	Stakeholder engagement plans piloted in retail developments.	Engage with our tenants and our supply chain to create innovation in place. Develop a place impact index which measures our success in place and collective impact. Pilot community hub concepts in retail properties. Pilot an employment project in a new development.	Provision of a menu of benefits and programs for our buildings and our communities. Application of place impact index across portfolio. Community hubs in key retail assets. Employment projects in new developments.	Creation of the largest community hub network in Australia.
Culture of Innovation					
Develop a strategic community approach that further promotes our engagement with local community groups and initiatives.	✓	Contributed over 3,500sqm of space, valued at $500,000 to community groups. Supported Charter Hall charity program and partners. Community investment strategy developed.	Consistent stakeholder engagement plans in all new developments and across all retail properties. Continued support of Charter Hall community investment approach and partners. Continued contribution of community space.	100% properties and developments with stakeholder engagement plans. Create a national network of innovation enterprises. National programs with community place and creation partners to curate programs in all large assets.	Leader in innovative place creation in our communities.
Undertake a customer project to further develop our retail customer engagement strategies.	✓				
Further develop our tenant relationships, and explore opportunities to more effectively engage with both our tenants and suppliers.	✓	Customer project developed. Supplier engagement in retail supply chain.	Partner with a network of community, social and innovative enterprises to create innovative spaces and services.	Social and indigenous enterprises in all aspects of Charter Hall Supply Chain.	
WELLBEING					
Creating Healthy Minds Spaces and Environments					
Engage with our tenants and explore opportunities to positively impact their commercial and personal wellbeing through asset design and building management services.	✓	Tenant engagement programs developed. 3 Charter Hall employees trained in WELL Building Standard. Pilot Well building standard in new CH Tenancies and application to catering, supply chain and environmental monitoring.	Investigate application of WELL Building Standard to retail context. Pilot new technologies in environmental quality and wellbeing monitors. Partner with community and social enterprises, to promote physical and mental health outcomes.	Application of WELL building principles in retail pilots. Broader application of environmental and wellbeing monitors.	Leader in health and wellbeing in our communities.
Access to Fresh and Healthy Food					
Build on the trust and respectable track record we have developed with our unitholders by effectively communicating the responsibility for our investments from an environmental, social and commercial performance perspective.	✓	Social traders connect Corporate Membership. Social Procurement incorporated in retail procurement strategy.	With our stakeholders develop Healthy Food and Nutrition Strategy for our assets and our communities. Procure Social Enterprises that deliver fresh and healthy food products and services into our supply chain and our assets.	Fresh and healthy food footprint mapped and actions identified for our assets. Our tenants and our communities have access to fresh and healthy food. Active living and mental health programs / facilities accessible to all assets and employees. Integrate sustainable and equitable supply chain into assets and developments.	Leader in health and wellbeing in our communities.

OUR BOARD AND MANAGEMENT





1. John Harkness
Independent Chairman

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

He is currently 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.

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

2. Alan Rattray-Wood
Independent Director

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.

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

3. David Harrison
Managing Director and Group CEO
B.Bus (Land Economy), G Dip App Fin

David has 29 years of property market experience across office, retail and industrial sectors in multiple geographies globally. David is responsible for all aspects of the Charter Hall business, with specific focus on strategy and continuing the momentum from building a $17.5 billion Investment Manager recognised as a multi-core sector market leader.

David is an executive member of various fund boards and partnership investment committees and Chair of the Executive Property Valuation Committee and Executive Leadership Group. David has overseen the growth of Charter Hall Group from $500 million to $17.5 billion of assets under management in 12 years. David has been principally responsible for transactions exceeding $25 billion of commercial, retail and industrial property assets over the past 27 years.

David holds a Bachelor of Business (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.

4. Sue Palmer
Independent Director

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

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

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

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

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

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

6. Greg Chubb
Head of Retail
B.Bus (Land Economy), FAPI

Greg joined Charter Hall in 2014 as Head of Retail and is responsible for leading the Charter Hall Retail strategy associated with the Groups $4.9 billion non discretionary retail portfolio of shopping centres, hardware, hospitality and automotive assets. He was appointed to the Charter Hall Retail REIT (CQR) board as an executive director in February 2016.

Greg leads the team of 170 retail specialists responsible for the groups funds, property, asset and development management activities Australia-wide.

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

Greg holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and Registered Valuer.

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

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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 2016.

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:

- Greg Chubb – Executive Director and Head of Retail of Charter Hall Group (appointed on 5 February 2016)
- John Harkness – Chairman and Non-Executive Director
- David Harrison – Executive Director and Chief Executive Officer/ Managing Director of Charter Hall Group
- Maurice Koop – Non-Executive Director and Chairman of Audit, Risk and Compliance Committee (resigned on 31 March 2016)
- Sue Palmer – Non-Executive Director and Chairperson of Audit, Risk and Compliance Committee (appointed on 10 November 2015)
- Alan Rattray-Wood – Non-Executive Director
- David Southon – Executive Director and Joint-Managing Director of Charter Hall Group (resigned on 1 February 2016)
- Scott Dundas – Alternate for David Harrison

Distributions

Distributions paid or declared by the REIT to unitholders:

	2016 $'m	2015 $'m
Final distribution for the six months ended 30 June 2016 of 14.1 cents per unit payable on 31 August 2016	**57.0**	–
Interim distribution for the six months ended 31 December 2015 of 14.0 cents per unit paid on 29 February 2016	**56.3**	–
Final distribution for the six months ended 30 June 2015 of 13.80 cents per unit paid 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
	113.3	102.9

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 $9.0 million from the DRP for the 31 December 2015 distribution and expects to raise $9.0 million from the DRP for the 30 June 2016 distribution.

Review and results of operations

The REIT recorded a statutory profit for the year of $180.7 million (2015: $162.5 million). Operating earnings amounted to $120.3 million (2015: $110.8 million) predominantly due to increased net property income following acquisitions and developments combined with net property income growth during the year.

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

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.

Review and results of operations continued

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

	2016 $'m	2015 $'m
Net property income from wholly owned properties	147.0	138.7
Net income from joint venture entities	14.0	11.0
Other income	0.3	0.3
Management fees	(10.2)	(9.1)
Finance costs	(27.4)	(26.9)
Other expenses	(3.4)	(3.2)
Operating earnings*	120.3	110.8

* Further detail on operating earnings is contained in Note 2.

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

	2016 $'m	2015 $'m
Operating earnings	120.3	110.8
Revaluation increment on investment properties	92.1	87.7
Revaluation decrement on investment properties attributable to acquisition costs	(8.0)	(5.5)
Net losses on derivative financial instruments	(19.0)	(13.4)
Loss on sale of investment properties	(0.8)	(1.6)
Write off capitalised borrowing costs related to extinguished debt facilities	(0.8)	(4.1)
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	–	(9.2)
Other	(3.1)	(2.2)
Statutory profit for the year	180.7	162.5
Basic weighted average number of units (millions)	395.8	373.1
Basic earnings per unit (cents)	45.65	43.55
Operating earnings per unit (cents)	30.40	29.70
Distribution per unit (cents)	28.10	27.50

The 30 June 2016 financial results are summarised as follows:

	2016	2015
Revenue ($ millions)	211.9	201.2
Net profit after tax ($ millions)	180.7	162.5
Basic earnings per unit (cents)	45.65	43.55
Operating earnings ($ millions)	120.3	110.8
Operating earnings per unit (cents)	30.40	29.70
Distributions ($ millions)	113.3	102.9
Distributions per unit (cents)	28.10	27.50
Total assets ($ millions)	2,449.0	2,103.7
Total liabilities ($ millions)	916.8	754.0
Net assets attributable to unitholders ($ millions)	1,532.2	1,349.7
Units on issue (millions)	404.3	375.6
Net assets per unit ($)	3.79	3.59
Balance sheet gearing – total debt (net of cash) to total assets (net of cash)	32.0%	31.3%
Look through gearing – total debt (net of cash) to total assets (net of cash)	35.9%	33.6%

Significant changes in the state of affairs

Acquisitions

In July 2015, Charter Hall Retail Partnership No.1 Trust (CHRP1), one of the REIT's joint venture entities, completed the acquisition of Brickworks Marketplace for a total purchase price (including land) of $76 million.

In August 2015, the REIT acquired Goulburn Plaza, NSW, and Katherine Central, NT, for a combined purchase price of $94.9 million. This acquisition was partially funded via a placement of 12.4 million units of the REIT with institutional investors at a fixed price of $4.02 per unit.

In November 2015, the REIT acquired a 47.5% interest in Charter Hall Retail Partnership No.2 Trust (CHRP2), which owns Bateau Bay Square in Bateau Bay, NSW. This acquisition was partially funded via a placement of 11.0 million units of the REIT with Charter Hall Group at a price of $4.1167.

In October 2015 and June 2016, the REIT acquired additional land adjacent to the existing Gordon Centre, NSW, for a combined purchase price of $11.7 million.

Disposals

In February 2016, the REIT sold Ballajura Central, in Western Australia, for a gross price of $13.5 million.

In March 2016, the REIT sold Collie Central, in Western Australia, for a gross price of $6.8 million.

Debt restructure

In July 2015, the REIT received the proceeds of its US$200 million (A$252 million) US Private Placement (USPP). These proceeds were used to repay the CMBS facility which matured in September 2015.

In May 2016, the REIT received the proceeds of its US$125 million (A$177 million) US Private Placement (USPP). These proceeds were predominantly used to repay and cancel the $150 million tranche of the unsecured syndicated bank debt facility which was due to mature in January 2017.

Redevelopments

During the year, the REIT completed one major redevelopment at Lansell (Vic) and five other development projects at Gladstone (Qld) (CHRP1), Tamworth (NSW), Mackay (Qld), Kalgoorlie (WA) and Dubbo (NSW).

The REIT also commenced the major redevelopment of Secret Harbour (WA) in addition to other developments at Southgate (SA), Bateau Bay (NSW) (CHRP2), Gatton (Qld) and Goulburn (NSW).

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 considerations:

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

These centres typically range in area up to 25,000 sqm 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 a target look through gearing range of 30–40% and a target interest cover ratio of at least 2.5. The REIT maintains a Baa1 Moody's rating.

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 increases in interest rates that are not hedged), may have an adverse impact on the REIT's performance and financial position. The REIT seeks to minimise this risk through proactive refinancing and maintaining adequate liquidity to fund future forecast expenditure and hedging its interest rate exposure in accordance with the REIT's Board approved Financial Risk Management Policy.

Development pipeline

The REIT has an identified development pipeline with the projects currently under construction at 30 June 2016 having a development cost of approximately $68.2 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 price construction contracts and through pre-leasing the redevelopment both prior to and during construction.

Major anchor tenants' growth

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

Events occurring after balance date

Since the end of the year, the Directors of the Responsible Entity are not aware of any 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 year subsequent to 30 June 2016.

Likely developments and expected results of operations

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

Likely developments and expected results of operations continued

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

Indemnification and insurance of directors, officers and auditor

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

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

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

Base fees of $10,389,053 (2015: $9,095,295) 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 23(d) to the consolidated financial statements.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2016 and fees paid to its associates during the year are disclosed in Note 23 to the consolidated financial statements.

Interests in the REIT

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

	2016	2015
Units on issue at the beginning of the year	**375,554,374**	369,040,750
Units issued during the year		
– via Distribution Reinvestment Plan	**5,311,633**	6,513,624
– via Placement issue	**23,441,845**	–
Units on issue at the end of the year	**404,307,852**	375,554,374

Value of assets

	2016 $'m	2015 $'m
Value of REIT assets	**2,449.0**	2,103.7

The value of the REIT's assets is derived using the basis set out in Note 1 to the consolidated financial statements for the year ended 30 June 2016.

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 10 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
Greg Chubb	Appointed 5 February 2016 Greg is Charter Hall's Head of Retail, joining the Group in October 2014 with more than 25 years' property market experience. Greg's mandate includes overseeing the management of all Retail Funds Management platforms to deliver value creation within the retail portfolio and optimise returns for our investors. In addition to being appointed as an Executive Director of Charter Hall Retail REIT in February 2016, Greg is a Director of Charter Hall Wholesale Management Limited, Charter Hall Holdings and Charter Hall Real Estate Management Services. Prior to joining Charter Hall, Greg was Property Director at Coles Supermarkets Australia and Managing Director and Head of Retail for Sandalwood/Jones Lang LaSalle in Greater China. Greg has also held executive leadership roles at Mirvac and Lend Lease. Greg holds a Bachelor of Business Degree (Land Economy) from Western Sydney University, is a Registered Valuer, Licensed Real Estate Agent and a Fellow of the Australian Property Institute (FAPI). **Current listed directorships** Nil **Former listed directorships in last three years** Nil	Nil	Nil
John Harkness (Independent)	Appointed 18 August 2003 John was appointed to the Board of the management company for the Charter Hall Retail REIT on 18 August 2003, and was appointed Chairman on 27 April 2011. John brings extensive financial and business skills to the Board. A partner at KPMG for 25 years and National Executive Chairman for five years, John has held a number of non-executive director roles since leaving KPMG in 2000. He is currently 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. John is a Fellow of both The Institute of Chartered Accountants (Australia) and the Australian Institute of Company Directors. **Current listed directorships** Goodman Group (Director since 2005) (ASX: GMG) **Former listed directorships in last three years** Nil	Chairman of the Board of Directors, Member of the Audit, Risk and Compliance Committee	Nil

Information on current Directors continued

Director	Experience	Special responsibilities	Interest in units of the REIT
David Harrison	Appointed 1 March 2010 David has 29 years of property market experience across office, retail and industrial sectors in multiple geographies globally. As Charter Hall's Managing Director and Group CEO, David is responsible for all aspects of the Charter Hall business, with specific focus on strategy and continuing the momentum from building an Investment Manager recognised as a multi-core sector market leader. David is an executive member of various Fund Boards and Partnership Investment Committees, Chair of the Executive Property Valuation Committee and Executive Leadership Group. David has overseen the growth of the Charter Hall Group from $500 million to $17.4 billion of assets under management in 12 years. David has been principally responsible for transactions exceeding $25 billion of commercial, retail and industrial property assets over the past 27 years. David holds a Bachelor of Business Degree (Land Economy) from Western Sydney University, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia. **Current listed directorships** Charter Hall Group (ASX: CHC) **Former listed directorships in last three years** Nil	Nil	Nil
Sue Palmer (Independent)	Appointed 10 November 2015 Sue was appointed to the Board of the management company for the Charter Hall Retail REIT on 10 November 2015. Sue is a professional non-executive director and experienced corporate and finance executive. Sue has held senior finance roles across a range of diversified industries, with the most recent being as Chief Finance Officer of the large construction and mining company Thiess. During her executive career and subsequently, Sue has held a number of non-executive director roles on ASX listed, government and private company boards. Sue is a Chartered Accountant and Fellow of the Australian Institute of Company Directors. **Current listed directorships** New Hope Corporation Limited (Director since 2012) (ASX: NHC) RCR Tomlinson Limited (Director since 2014) (ASX: RCR) **Former listed directorships in last three years** Nil	Chairperson of the Audit, Risk and Compliance Committee	Nil
Alan Rattray-Wood (Independent)	Appointed 6 March 1996 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. Since 1990, he has operated his own retail development consultancy practice, focusing on all facets of shopping centre development and retail chain insolvency workouts. **Current listed directorships** Nil **Former listed directorships in last three years** Nil	Member of the Audit, Risk and Compliance Committee	10,867

Information on Former Directors

Director	Experience	Special responsibilities	Interest in units of the REIT
Maurice Koop (Independent)	Appointed 12 August 2002 and resigned 31 March 2016 Maurice was appointed to the Board of the management company for the Charter Hall Retail REIT on 12 August 2002, and was Chairman of the Audit, Risk and Compliance Committee. His experience included 26 years in consulting with particular focus on consumer goods, retailing and the financial services industry. Maurice is a senior adviser to The Boston Consulting Group. He has served as a non-executive director on a number of company boards including 13 years as a director of the Just Jeans Retail Group. He has a BCom and a DipEd from Melbourne University and an MBA from the University of Toronto. **Former listed directorships in last three years** Nil	Former member of the Audit, Risk and Compliance Committee	10,867
David Southon	Appointed 1 March 2010 and resigned 1 February 2016 David is a co-founder of the Charter Hall Group and (with David Harrison), was one of its Joint Managing Directors until 1 February 2016. David has over 28 years of property industry experience. David was directly responsible for overseeing the operation of the Property and Support 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, and shared responsibility for the Chief Financial Officer in relation to Group Finance, Treasury and Capital Management. David holds a Bachelor of Business Degree (Land Economy) from Western Sydney University. **Former listed directorships in last three years** Nil	Nil	N/A

Meetings of Directors

	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
Name	Eligible to attend	Attended	Eligible to attend	Attended
Greg Chubb	5	5	2	2
John Harkness	9	9	5	5
David Harrison	9	8	5	4
Maurice Koop	6	5	4	4
Alan Rattray-Wood	9	9	5	5
David Southon	4	3	4	3
Sue Palmer	7	7	3	3
Scott Dundas (Alternate)	9	9	5	5

Company Secretary

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 12 years' experience as a solicitor, including advising on listed company governance, securities law, funds management, real estate 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 24 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 24 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 29.

Rounding of amounts to the nearest hundred thousand dollars

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

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

John Harkness
Chairman

Sydney

17 August 2016

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Retail REIT for the year ended 30 June 2016, 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.

JReilly

Jane Reilly
Partner
PricewaterhouseCoopers

Sydney
17 August 2016

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $'m	2015 $'m
Revenue			
Gross rental income		**211.6**	200.9
Interest income		**0.3**	0.3
Total revenue		**211.9**	201.2
Other income			
Share of net profit and valuation gains on investment in joint venture entities	11(b)	**34.4**	25.6
Net gain on movement in fair value of investment properties	3(a)	**63.7**	66.8
Unrealised foreign exchange gains		**0.3**	–
Total revenue and other income		**310.3**	293.6
Expenses			
Property expenses		**(67.7)**	(64.2)
Net loss from derivative financial instruments	3(b)	**(19.4)**	(12.9)
Net loss on disposal of investment properties		**(0.8)**	(0.9)
Management fees	23(d)	**(10.2)**	(9.1)
Finance costs	3(c)	**(28.1)**	(31.0)
Other expenses	3(d)	**(3.4)**	(3.2)
Total expenses		**(129.6)**	(121.3)
Profit for the year from continuing operations		**180.7**	172.3
Loss from discontinued operations		**–**	(9.8)
Profit for the year		**180.7**	162.5
Other comprehensive income*			
Change in the fair value of cash flow hedges	17	**(1.2)**	(0.1)
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	17	**–**	9.2
Exchange differences on translation of foreign operations	17	**–**	(0.4)
Other comprehensive income		**(1.2)**	8.7
Total comprehensive income for the year		**179.5**	171.2
Basic and diluted earnings per ordinary unitholder of the REIT			
Earnings per unit (cents) for profit from continuing operations	5	**45.65**	46.18
Earnings per unit (cents) for loss from discontinued operations	5	**–**	(2.63)
Earnings per unit (cents)	5	**45.65**	43.55

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

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2016

	Notes	2016 $'m	2015 $'m
Assets			
Current assets			
Cash and cash equivalents	6	**12.2**	6.5
Receivables	7	**9.4**	9.2
Derivative financial instruments	8	**4.5**	1.0
Other assets	9	**1.4**	1.3
Assets classified as held for sale	10	**27.4**	–
Total current assets		**54.9**	18.0
Non-current assets			
Investment properties	10	**2,142.3**	1,937.5
Investments in joint venture entities	11	**222.0**	148.2
Derivative financial instruments	8	**29.8**	–
Total non-current assets		**2,394.1**	2,085.7
Total assets		**2,449.0**	2,103.7
Liabilities			
Current liabilities			
Payables	12	**35.4**	21.5
Distribution payable	13	**57.0**	51.8
Borrowings	14	**–**	215.5
Derivative financial instruments	8	**–**	1.0
Other liabilities	15	**0.3**	0.4
Total current liabilities		**92.7**	290.2
Non-current liabilities			
Borrowings	14	**805.7**	432.2
Derivative financial instruments	8	**18.4**	31.6
Total non-current liabilities		**824.1**	463.8
Total liabilities		**916.8**	754.0
Net assets		**1,532.2**	1,349.7
Equity			
Contributed equity	16	**2,269.6**	2,153.3
Reserves	17	**(1.3)**	(0.1)
Accumulated losses	18	**(736.1)**	(803.5)
Total equity		**1,532.2**	1,349.7

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Contributed equity $'m	Reserves $'m	Accumulated losses $'m	Consolidated $'m
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	16	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
Total equity at 1 July 2015		**2,153.3**	**(0.1)**	**(803.5)**	**1,349.7**
Profit for the year		**–**	**–**	**180.7**	**180.7**
Other comprehensive income		**–**	**(1.2)**	**–**	**(1.2)**
Total comprehensive income for the year		**–**	**(1.2)**	**180.7**	**179.5**
Transactions with unitholders in their capacity as unitholders					
– Contributions of equity, net of issue costs	16	**116.3**	**–**	**–**	**116.3**
– Distributions paid and payable	4	**–**	**–**	**(113.3)**	**(113.3)**
Total equity at 30 June 2016		**2,269.6**	**(1.3)**	**(736.1)**	**1,532. 2**

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $'m	2015 $'m
Cash flows from operating activities			
Property rental income received		**235.0**	221.3
Property expenses paid		**(68.1)**	(67.7)
Distributions received from investment in joint venture entities		**10.1**	7.8
Distributions received from discontinued operations		**–**	0.3
Other operating expenses paid		**(17.4)**	(13.5)
Finance costs paid		**(30.9)**	(27.7)
Interest and other income		**0.3**	0.3
Net GST paid to ATO on operating activities		**(13.6)**	(8.4)
Net GST (paid to)/received from ATO on investing activities		**(0.2)**	0.8
Net cash flows from operating activities	20(a)	**115.2**	113.2
Cash flows from investing activities			
Proceeds from sale of investment properties		**19.3**	34.0
Payments for investment properties and capital expenditure		**(184.1)**	(124.5)
Payments for investment in joint venture entities		**(50.7)**	–
Net cash flows from investing activities		**(215.5)**	(90.5)
Cash flows from financing activities			
Proceeds from borrowings		**603.8**	161.8
Repayment of borrowings		**(483.7)**	(114.9)
Settlement of derivative financial instruments		**(22.3)**	–
Proceeds from issue of units		**94.4**	–
Distributions paid to unitholders, net of DRP		**(86.2)**	(75.2)
Net cash flows from financing activities		**106.0**	(28.3)
Net increase in cash held		**5.7**	(5.6)
Cash and cash equivalents at the beginning of the year		**6.5**	12.0
Effect of exchange rate changes on cash and cash equivalents		**–**	0.1
Cash and cash equivalents at the end of the year	6	**12.2**	6.5

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

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 2016 are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

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

Excess of current liabilities over current assets

The REIT maintains a proactive cash management practice of using excess available cash to reduce drawn revolving debt facilities. This practice, when combined with the REIT's distribution liability at the end of the reporting period, results in the excess of current liabilities over current assets of $37.8 million (2015: $272.2 million).

The entity has readily accessible credit facilities with $129.5 million of undrawn non-current debt facilities at 30 June 2016 and operating cash flows to meet current liabilities. The REIT does not foresee any issues in meeting the current liabilities over the course of the next 12 months, and therefore, these financial statements have been prepared on a going concern basis.

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

Historical cost convention

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

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

New and amended standards adopted

No new accounting standards or amendments have come into effect for the year ended 30 June 2016 that affect the REIT's operations or reporting requirements.

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.

(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 investments in joint ventures only.

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) Change in ownership interests

When the REIT ceases to equity account for an investment because of a loss of joint control or significant influence, 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 or an associate is reduced but joint control or significant influence 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.

(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 interests 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 2016	30 Jun 2015
Spot rate		
US Dollar	**0.7457**	0.7678
Average rate		
US Dollar	**0.7266**	0.8298

(e) Revenue recognition

Rental income

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

Interest income is recognised using the effective interest rate method.

Gains or losses on sale of investment properties and joint venture entities

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.

1 Summary of significant accounting policies continued

(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.

(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

Trade and other 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.

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 22. Movements in the hedging reserve in unitholders' equity are shown in Note 17. 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.

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 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 properties under construction are 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, is 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 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 the property and the past experience with similar constructions.

Investment properties under development are classified as investment properties and stated at fair value at each balance date. Fair value is assessed with reference to reliable estimates of cash flows, status of the development and the associated risk profile. Finance costs incurred on investment properties undergoing development or redevelopment are included in the cost of the development as set out in Note 1(r).

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 22(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.

(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.

1 Summary of significant accounting policies continued

(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 properties 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 the 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 weighted average interest rate applicable to the REIT's outstanding Australian bank borrowings during the year, in this case 5.88% per annum (2015: 5.73% 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.

(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 cash flow 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.

(y) Parent entity financial information

At 30 June 2016, the entity had an excess of current liabilities over current assets of $46.5 million (2015: $283.1 million). The entity has readily accessible credit facilities and operating cash flows to meet current liabilities and the Directors of CHRML, the responsible entity of the REIT, do not foresee any issues in meeting the current liabilities over the course of the next 12 months, and therefore, these financial statements have been prepared on a going concern basis.

The financial information for the parent entity, Charter Hall Retail REIT, disclosed in Note 27, has been prepared on the same basis as the REIT's consolidated financial statements except as set out below:

(i) Investments in controlled entities

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

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

(ii) Receivables and payables

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

(iii) Recoverable amount of assets

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

(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 year ended 30 June 2016 but are available for early adoption. The impact of these new standards and interpretations (to the extent relevant to the REIT) 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.

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

The standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. The accounting by lessors will not significantly change. The REIT is currently assessing the impact and implication of the new standard to its operational and financial results.

1 Summary of significant accounting policies continued

(aa) Comparative information

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

(ab) Rounding of amounts

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

2 Segment information

(a) Description of segments

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The REIT's operating segments are as follows:

- *Freestanding supermarkets* – standalone supermarket with no specialty shops;
- *Neighbourhood shopping centres* – local shopping centres with one supermarket and a gross lettable area (GLA) less than 10,000 sqm;
- *Sub-regional shopping centres* – medium sized shopping centres typically incorporating at least one full line discount department store and a major supermarket with total GLA of up to 40,000 sqm; 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. 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 10. 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 2016 is as follows:

	Freestanding supermarkets $'m	**Neighbourhood shopping centres $'m**	**Sub-regional shopping centres $'m**	**REIT operations $'m**	**Total $'m**
2016					
Net property income from wholly owned properties	**14.3**	**68.7**	**64.0**	**–**	**147.0**
Net income from joint venture entities	**–**	**6.4**	**14.4**	**(6.8)**	**14.0**
Other income	**–**	**–**	**–**	**0.3**	**0.3**
Management fees	**–**	**–**	**–**	**(10.2)**	**(10.2)**
Finance costs	**–**	**–**	**–**	**(27.4)**	**(27.4)**
Other expenses	**–**	**–**	**–**	**(3.4)**	**(3.4)**
Operating earnings	**14.3**	**75.1**	**78.4**	**(47.5)**	**120.3**

	Freestanding supermarkets $'m	Neighbourhood shopping centres $'m	Sub-regional shopping centres $'m	REIT operations $'m	Total $'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

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

	2016 $'m	2015 $'m
Operating earnings	**120.3**	110.8
Revaluation increment on investment properties	**92.1**	87.7
Revaluation decrement on investment properties attributable to acquisition costs	**(8.0)**	(5.5)
Net losses on derivative financial instruments	**(19.0)**	(13.4)
Loss on sale of investment properties	**(0.8)**	(1.6)
Write off capitalised borrowing costs related to extinguished debt facilities	**(0.8)**	(4.1)
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	**–**	(9.2)
Other	**(3.1)**	(2.2)
Profit from continuing and discontinued operations	**180.7**	162.5

Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straightlining of rental income and amortisations and other unrealised or one-off items.

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

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

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

	2016 $'m	2015 $'m
Total net property income from wholly owned properties	**147.0**	138.7
Add back: Property expenses	**67.7**	64.2
Interest income	**0.3**	0.3
Non-cash adjustments	**(3.1)**	(2.0)
Total revenues	**211.9**	201.2

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	2016 $'m	2015 $'m
Valuation gains on wholly owned investment properties			
Australia			
Revaluation increment on investment properties		**85.8**	71.2
Unrealised valuation losses on assets held for sale at year end		**(14.9)**	–
Revaluation decrement on investment properties attributable to acquisition costs		**(7.2)**	(4.4)
		63.7	66.8
Valuation gains on investment properties in joint venture entities			
Australia			
Revaluation increment on investment properties	11(b)	**21.2**	16.5
Revaluation decrement on investment properties attributable to acquisition costs		**(0.8)**	(1.1)
		20.4	15.4

(b) Net losses from derivative financial instruments

	2016 $'m	2015 $'m
Loss on derivative financial instruments – realised	**(22.3)**	–
Gain/(loss) on derivative financial instruments – unrealised*	**2.9**	(12.9)
	(19.4)	(12.9)

* Includes net loss of $2.6 million (2015: $0.4 million) on derivative financial instruments designated as a fair value hedge.

3 Profit for the year from continuing operations continued

(c) Finance costs

	2016 $'m	2015 $'m
Finance costs paid or payable	**32.1**	35.5
Less: Capitalised finance costs	**(4.0)**	(4.5)
	28.1	31.0

(d) Other expenses

	Notes	2016 $'m	2015 $'m
Accounting cost recoveries		**1.1**	1.0
Independent directors' fees	23	**0.4**	0.3
Audit fees	24	**0.3**	0.4
Legal, tax and other consulting services		**0.2**	0.3
Custodian, registry and stock exchange fees		**0.7**	0.5
Insurance expenses		**0.3**	0.4
Other		**0.4**	0.3
		3.4	3.2

(e) Loss from discontinued operations

In the prior year, the REIT reported losses from discontinued operations which reflected the REIT's investments in offshore investment properties. This prior year loss of $9.8 million includes a $9.2 million transfer from reserves of cumulative FX losses following the disposal of German and New Zealand assets.

There were no cash flows associated with the discontinued operations, other than those relating to the disposal of New Zealand assets.

4 Distributions paid and payable

	Distribution cents per unit	Total amount $'m	Tax deferred %	CGT concession amount %	Taxable %
Ordinary unitholders					
2016 distributions for the half year ended:					
31 December 2015	**14.00**	**56.3**			
30 June 2016*	**14.10**	**57.0**			
	28.10	**113.3**	**68.29**	**–**	**31.71**
Ordinary unitholders					
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

* The distribution of 14.10 cents per unit for the six month period ended 30 June 2016 was declared prior to 30 June 2016 and will be paid on 31 August 2016.

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

	2016	2015
Basic and diluted earnings per ordinary unitholder of the REIT		
Earnings per unit (cents) for profit from continuing operations	**45.65**	46.18
Earnings per unit (cents) for loss from discontinued operations	**–**	(2.63)
Earnings per unit (cents)	**45.65**	43.55
Earnings used in the calculation of basic and diluted earnings per unit		
Net profit from continuing operations ($'m)	**180.7**	172.3
Net loss from discontinued operations ($'m)	**–**	(9.8)
Net profit for the year ($'m)	**180.7**	162.5
Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)*	**395.8**	373.1

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

6 Cash and cash equivalents

	2016 $'m	2015 $'m
Australian dollar bank accounts	**11.7**	5.7
Foreign currency bank accounts	**0.5**	0.8
	12.2	6.5

(a) Bank accounts

The majority of the cash and cash equivalents are held in bank accounts earning interest at the market interest rate.

7 Receivables

	2016 $'m	2015 $'m
Rent receivable	**2.3**	2.6
Provision for doubtful debts	**(0.4)**	(0.7)
	1.9	1.9
Turnover rent receivable	**3.3**	4.2
Accrued income	**2.3**	2.4
Distributions receivable	**1.7**	0.6
GST receivable	**0.2**	–
Sundry debtors	**–**	0.1
	9.4	9.2

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

8 Derivative financial instruments

	2016 $'m	2015 $'m
Assets		
Current		
Interest rate swaps	–	1.0
Cross currency swaps	4.5	–
	4.5	1.0
Non-current		
Cross currency swaps	29.8	–
	29.8	–
Liabilities		
Current		
Interest rate swaps	–	1.0
	–	1.0
Non-current		
Interest rate swaps	10.0	15.6
Cross currency swaps	8.4	16.0
	18.4	31.6

Interest rate swaps

The REIT has entered into interest rate swap agreements totalling $575.0 million (2015: $825.0 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 2016, the fixed rate varies from 2.10% to 2.42% per annum (2015: 2.59% 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:

	2016 $'m	2015 $'m
Swaps – REIT pays fixed rate and receives floating rate		
1 year or less	–	275.0
2 – 3 years	200.0	100.0
3 – 4 years	–	100.0
4 – 5 years	175.0	350.0
More than 5 years	200.0	–
Net position – REIT pays fixed rate and receives floating rate	**575.0**	825.0

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 agreement matures in July 2027 and allows the REIT to hedge its US dollar borrowings into an Australian dollar interest rate.

In February 2016, 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$125.0 million and oblige it to pay, at quarterly intervals, at a floating rate on a notional principal amount of A$177.4 million. The swap agreement matures in May 2026 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 US Private Placement (USPP) note issuances, funded in July 2015 and May 2016 (refer to Note 21).

9 Other assets

	2016 $'m	2015 $'m
Current		
Prepayments	**1.4**	1.3
	1.4	1.3

10 Investment properties

	2016 $'m	2015 $'m
Current		
Held for sale	**27.4**	–
	27.4	–
Non-current		
Freestanding supermarkets	**223.6**	201.9
Neighbourhood shopping centres	**1,040.6**	962.1
Sub-regional shopping centres	**878.1**	773.5
	2,142.3	1,937.5

Investment properties include a straightlining asset of $10.2 million (2015: $9.3 million) and unamortised lease incentives of $11.9 million (2015: $6.6 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	2016 $'m	2015 $'m
Carrying amount at the beginning of the year		**1,937.5**	1,772.9
Additions		**182.0**	118.4
Acquisition costs incurred		**7.2**	4.4
Revaluation decrement attributable to acquisition costs	3(a)	**(7.2)**	(4.4)
Revaluation increment	3(a)	**70.9**	71.2
Straightlining of rental income		**1.0**	0.7
Amortisation of lease incentives		**(4.1)**	(2.5)
Capitalised leasing fees		**2.5**	0.7
Disposals		**(20.1)**	–
Reclassification of investment properties as held for sale		**(27.4)**	(23.9)
Carrying amount at the end of the year		**2,142.3**	1,937.5

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 22.

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:

	2016 $'m	2015 $'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	**165.7**	148.0
Later than 1 year but not later than 5 years	**493.1**	441.1
Later than 5 years	**447.5**	447.5
	1,106.3	1,036.6

11 Investment in joint venture entities

In November 2015, the REIT acquired a 47.5% interest in Charter Hall Retail Partnership No. 2 Trust (CHRP2) for $50.6 million, which owns Bateau Bay Square in Bateau Bay, NSW. This acquisition was partially funded via a placement of 11.0 million units of the REIT to Charter Hall Group at a price of $4.1167 per unit.

During the year, the REIT had an investment in two Australian joint venture entities. The REIT exercises joint control over the joint venture entities, but neither the REIT nor its joint venture partners have control in their own right, irrespective of their ownership interest. During the year, the investments have been accounted for in the consolidated financial statements using the equity method of accounting.

Information relating to the joint venture entities is detailed below:

			Ownership interest	
Joint venture entity	Country of establishment	Principal activity	**2016 %**	2015 %
Charter Hall Retail Partnership No.1 Trust	Australia	Property investment	**50.0%**	50.0%
Charter Hall Retail Partnership No.2 Trust	Australia	Property investment	**47.5%**	n/a

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

	Note	**2016 $'m**	2015 $'m
Balance at the beginning of the year		**148.2**	129.8
Acquisition of interest in CHRP2		**50.6**	–
Share of profits and property valuation gains	11(b)	**34.4**	25.6
Distributions paid and payable		**(13.9)**	(11.0)
Distribution reinvested		**2.7**	3.8
Balance at the end of the year		**222.0**	148.2

(b) Share of results attributable to joint venture entities

The table below provides summarised information about the financial performance of the joint venture entities. The information presented reflects the amounts in the financial statements of the joint venture, not the REIT's proportionate share, and covers the period of the REIT's ownership of each joint venture entity during the year.

	CHRP1 100% interest 2016 $'m	CHRP2 100% interest 2015 $'m	**Total CQR interest 30 Nov 2015 to 30 Jun 2016 $'m**	**Total CQR interest 2016 $'m**	2015 $'m
Income					
Property rental income	**51.3**	45.7	**10.3**	**30.5**	22.9
Property expenses	**(16.8)**	(15.1)	**(2.6)**	**(9.6)**	(7.6)
Net property income	**34.5**	30.6	**7.7**	**20.9**	15.3
Finance costs	**(11.1)**	(8.4)	**(2.3)**	**(6.6)**	(4.2)
Other expenses	**(0.2)**	(0.2)	**(0.5)**	**(0.3)**	(0.1)
Total expenses	**(11.3)**	(8.6)	**(2.8)**	**(6.9)**	(4.3)
Operating earnings	**23.2**	22.0	**4.9**	**14.0**	11.0
Revaluation increment on investment properties	**29.0**	33.0	**14.2**	**21.2**	16.5
Revaluation decrement on investment properties attributable to acquisition costs	**(0.7)**	(2.2)	**(1.0)**	**(0.8)**	(1.1)
Loss on disposal	**–**	(0.2)	**–**	**–**	(0.1)
Net unrealised gain/(loss) on derivative financial instruments	**2.1**	(1.0)	**(1.4)**	**0.4**	(0.5)
Other	**(0.3)**	(0.4)	**(0.4)**	**(0.4)**	(0.2)
Statutory profit for the year	**53.3**	51.2	**16.3**	**34.4**	25.6
Other comprehensive income	**–**	–	**–**	**–**	–
Total comprehensive income	**53.3**	51.2	**16.3**	**34.4**	25.6
REIT's interest in total comprehensive income	**26.7**	25.6	**7.7**		

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

The table below provides summarised information about the financial position of the joint entities as at 30 June 2016. The information presented reflects the amounts in the financial statements of the joint ventures, not the REIT's proportionate share.

	CHRP1		CHRP2	
	2016 $'m	2015 $'m	**2016 $'m**	2015 $'m
Current assets				
Cash and cash equivalents	**4.2**	2.2	**1.2**	–
Receivables	**3.6**	1.8	**0.4**	–
Other assets	**0.5**	0.6	**0.1**	–
Total current assets	**8.3**	4.6	**1.7**	–
Non-current assets				
Investment properties	**555.3**	450.4	**215.5**	–
Total assets	**563.6**	455.0	**217.2**	–
Current liabilities				
Payables	**7.6**	4.4	**5.1**	
Derivative financial instruments	**3.3**	–	**–**	
Total current liabilities	**10.9**	4.4	**5.1**	–
Non-current liabilities				
Borrowings	**220.7**	148.8	**92.4**	
Derivative financial instruments	**–**	5.4	**1.7**	
Total liabilities	**231.6**	158.6	**99.2**	–
Net assets	**332.0**	296.4	**118.0**	–
REIT's interest in net assets	**166.0**	148.2	**56.0**	–

Charter Hall Retail Partnership No.1 Trust (CHRP1) has a bank loan secured by registered mortgages over 10 investment properties. This facility matures in July 2018 and 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 carrying value of the properties pledged as security is $555.3 million (30 Jun 2015: $450.4 million) against the total facility limit of $235.0 million (30 Jun 2015: $235.0 million).

Charter Hall Retail Partnership No. 2 Trust (CHRP2) has a bank loan secured by registered mortgages over one investment property. This facility matures in April 2020 and is repayable immediately if the joint venture entity 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 1.50:1. The carrying value of the property pledged as security is $215.5 million against the total facility limit of $100.0 million.

Both CHRP1 and CHRP2 maintain a proactive cash management practice of using excess available cash to reduce drawn revolving debt facilities. This practice, when combined with distribution liability at the end of the reporting period, results in the excess of current liabilities over current assets. CHRP1 and CHRP2 have sufficient operating cash flows to meet current liabilities. In addition, as at 30 June 2016, CHRP1 had undrawn debt capacity of $13.6 million and CHRP2 had undrawn debt capacity of $7.0 million.

The joint venture entities have entered into contracts for the construction and development of some of their properties. The REIT's share in the commitments of the joint venture entities total $0.3 million (2015: $nil). These commitments have not been reflected in the consolidated financial statements of the REIT.

12 Payables

	2016 $'m	2015 $'m
Current		
Accrued capital expenditure	**11.3**	3.7
Accrued property expenses	**9.6**	9.7
Income received in advance	**6.9**	4.1
Interest payable on interest bearing liabilities	**5.3**	0.4
Trade and sundry creditors	**1.8**	0.7
Other	**0.5**	2.9
	35.4	21.5

13 Distribution payable

	Notes	2016 $'m	2015 $'m
Distributions to ordinary unitholders			
Opening balance		**51.8**	50.4
Distributions declared	4	**113.3**	102.9
Paid during the year		**(86.2)**	(75.2)
Distributions reinvested	16	**(21.9)**	(26.3)
Closing balance		**57.0**	51.8

14 Borrowings

	2016 $'m	2015 $'m
Current		
Commercial mortgage backed securities (CMBS)	**–**	231.5
Fair value hedge adjustment	**–**	(16.0)
	–	215.5
Non-current		
US Private Placement notes (USPP notes)	**435.8**	–
Fair value hedge adjustment	**18.2**	–
Unsecured bank loans	**355.5**	432.9
Less: Unamortised transaction costs	**(3.8)**	(0.7)
	805.7	432.2
Credit facilities		
At 30 June 2016 and 2015, the REIT had access to:		
Unsecured bank loans		
Syndicated	**435.0**	535.0
Bank debt facility	**50.0**	–
	485.0	535.0
Amount of facilities used:		
Drawdown at year end – bank loan	**355.5**	432.9
	355.5	432.9
Amount of facilities unused	**129.5**	102.1

Syndicated bank facility

In September 2015, the REIT completed the transition to a fully unsecured syndicated bank debt facility with tranches of 18 months ($150 million), three years ($150 million) and five years ($285 million) with a total facility limit of $585 million. Interest rates on the debt facility are variable and are reset periodically, usually after a period of 90 days. As at 30 June 2016, the interest rate on the bank loan is 3.32% per annum (2015: 2.86% per annum).

In May 2016, the REIT repaid the 18 month tranche of $150 million with proceeds from the issue of US$125 million (A$177 million) USPP notes.

Bank debt facility

In February 2016, the REIT entered into a bilateral revolving facility agreement for $50 million for a five year term. Interest rates on the facility are variable and are reset periodically, usually after a period of 90 days. As at 30 June 2016, the interest rate on the bank loan is 3.20% per annum.

US Private Placement notes

Information about USPP notes is summarised in the table below:

	US dollar fixed coupon	Issue date	Maturity date	Australian dollar equivalent at issue date $m	Carrying amount $'m
USPP	3.55%	July 2015	July 2027	251.6	268.2
USPP	3.76%	May 2016	May 2026	177.4	167.6
Net exposure				**429.0**	**435.8**
Fair value hedge adjustment				–	18.2
Total				**429.0**	**454.0**

The REIT's interest rate and foreign exchange exposure under these notes is 100% hedged with cross currency interest rate swaps (refer to Note 21).

Fair value hedge adjustment

This adjustment reflects movement in the fair value of USPP notes in the current year and movement in the fair value of unrecognised firm commitment to issue USPP notes in the prior year. These movements offset the change in the fair value of cross currency swaps designated as a fair value hedge.

Commercial mortgage backed securities

The CMBS matured in September 2015 and its repayment was funded by proceeds from the issue of US$200 million USPP notes.

Covenants

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

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

15 Other liabilities

	2016 $'m	2015 $'m
Security deposits	**0.3**	0.4

16 Contributed equity

No. of units	Details	Date of income entitlement	**2016 $'m**	2015 $'m
369,040,750	Units on issue	30 June 2014		2,127.0
3,852,403	DRP issue	1 July 2014		15.0
2,661,221	DRP issue	1 January 2015		11.3
375,554,374	Units on issue	30 June 2015	**2,153.3**	2,153.3
12,437,810	Placement issue	1 July 2015	**49.2**	
3,055,054	DRP issue	1 July 2015	**12.9**	
11,004,035	Placement issue	1 July 2015	**45.2**	
2,256,579	DRP issue	1 January 2016	**9.0**	
404,307,852	Units on issue	30 June 2016	**2,269.6**	2,153.3

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.

16 Contributed equity continued

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 2016. 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.

17 Reserves

	2016 $'m	2015 $'m
Cash flow hedge reserve		
Opening balance	**(0.1)**	–
Changes in the fair value of cash flow hedges	**(1.2)**	(0.1)
Closing balance	**(1.3)**	(0.1)
Foreign currency translation reserve		
Opening balance	**–**	(8.8)
Translation of foreign operations and foreign denominated borrowings	**–**	(0.4)
Transfer to profit of cumulative FX losses on disposal of assets held for sale	**–**	9.2
Closing balance	**–**	–
	(1.3)	(0.1)

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.

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*.

18 Accumulated losses

	Note	2016 $'m	2015 $'m
Opening balance		**(803.5)**	(863.1)
Profit after tax		**180.7**	162.5
Distributions paid and payable	4	**(113.3)**	(102.9)
Closing balance		**(736.1)**	(803.5)

19 Net tangible assets

	2016 $'m	2015 $'m
Total assets	**2,449.0**	2,103.7
Less: Total liabilities	**(916.8)**	(754.0)
Net tangible assets attributable to the REIT	**1,532.2**	1,349.7
Total number of units on issue	**404,307,852**	375,554,374
Net tangible asset backing per unit	**$3.79**	$3.59

20 Cash flow information

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

	Notes	2016 $'m	2015 $'m
Profit after tax		**180.7**	162.5
Non-cash items			
Straightlining of rental income		**(1.3)**	(0.7)
Amortisation of lease incentives		**4.8**	2.9
Property valuation (gains)/losses			
Wholly owned entities	3(a)	**(63.7)**	(66.8)
Joint venture entities from continuing operations	3(a)	**(20.4)**	(15.4)
Loss on sale of investment properties		**0.8**	1.6
Unrealised net loss/(gain) on derivative financial instruments*	3(b),11(b)	**(3.3)**	13.4
Settlement of derivative financial instruments		**22.3**	–
Unrealised foreign exchange gains		**(0.3)**	–
Transfer from reserves of cumulative FX losses on disposal of assets held for sale	17	**–**	9.2
Change in assets and liabilities			
(Increase)/decrease in assets			
Receivables		**(0.2)**	5.7
Accrued interest on cross currency and interest rate swaps		**(4.5)**	0.1
Net income receivable from investment in joint venture entities		**(2.8)**	(3.1)
Other assets		**(0.1)**	–
Change in unamortised borrowing costs		**(3.1)**	3.8
Increase in liabilities			
Payables		**6.3**	–
Net cash flows from operating activities		**115.2**	113.2

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

(b) Non-cash financing and investing activities

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

	Notes	2016 $'m	2015 $'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	13, 16	**21.9**	26.3

21 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.

21 Capital and financial risk management continued

(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.

USPP exposure

As at the balance sheet date, the REIT is exposed to foreign exchange risk under its US Private Placement issuances. The risk is hedged using cross currency swaps to convert US dollar exposure into Australian dollars.

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

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)		Total	
	2016 $'m	2015 $'m	**2016 $'m**	2015 $'m	**2016 $'m**	2015 $'m	**2016 $'m**	2015 $'m
Fixed rate								
USPP(2)	**–**	–	**(435.8)**	–	**–**	–	**(435.8)**	–
Net fixed rate exposure	**–**	–	**(435.8)**	–	**–**	–	**(435.8)**	–
Floating rate								
Cash	**11.7**	5.9	**–**	–	**0.5**	0.6	**12.2**	6.5
Cash – joint venture entities(3)	**2.7**	1.1	**–**	–	**–**	–	**2.7**	1.1
Borrowings(2)	**(355.5)**	(664.4)	**–**	–	**–**	–	**(355.5)**	(664.4)
Borrowings – joint venture entities(3)	**(154.9)**	(74.9)	**–**	–	**–**	–	**(154.9)**	(74.9)
	(496.0)	(732.3)	**–**	–	**0.5**	0.6	**(495.5)**	(731.7)
Derivative financial instruments								
Cross currency interest rate swaps – fixed to floating(4)	**(429.0)**	–	**435.8**	–	**–**	–	**6.8**	–
Interest rate swaps – floating to fixed(5)	**678.8**	630.0	**–**	–	**–**	–	**678.8**	630.0
	249.8	630.0	**435.8**	–	**–**	–	**685.6**	630.0
Net floating rate exposure	**(246.2)**	(102.3)	**–**	–	**0.5**	0.6	**(245.7)**	(101.7)

(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 receivable and payable under the derivative contracts.
(5) The amounts represent the notional principal payable under the derivative contracts (excluding derivatives where cash flows have not commenced at balance sheet date and including derivative contracts held by joint venture entities).

At balance date, the REIT fixed 73.4% (2015: 86.1%) of its direct and joint venture interest rate exposure.

Sensitivity analysis

The table below reflects the potential net increase/(decrease) in the profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2016, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2015.

	2016		2015	
	Profit and loss $'m	**Reserves $'m**	Profit and loss $'m	Reserves $'m
Australian interest rates				
+ 1.00% (2015: + 1.00%)	**(22.9)**	**–**	10.1	–
- 1.00% (2015: - 1.00%)	**26.6**	**–**	(10.9)	–
US interest rates				
+ 1.00% (2015: + 1.00%)	**–**	**–**	–	–
- 1.00% (2015: - 1.00%)	**–**	**–**	–	–

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.

(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 2016. The amounts presented represent the future contractual undiscounted principal and interest cash inflows/(outflows) based on interest rates and foreign exchange rates prevailing at balance date and therefore do not equate to the value shown in the consolidated balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Liquidity risk							
	Carrying value $'m	Less than 1 year $'m	1 to 2 years $'m	2 to 3 years $'m	3 to 4 years $'m	4 to 5 years $'m	Over 5 years $'m	Total $'m
2016								
Financial liabilities								
Payables	**(35.4)**	**(35.4)**	**–**	**–**	**–**	**–**	**–**	**(35.4)**
Distribution payable	**(57.0)**	**(57.0)**	**–**	**–**	**–**	**–**	**–**	**(57.0)**
Borrowings	**(771.3)**	**(28.4)**	**(28.1)**	**(173.0)**	**(28.7)**	**(216.6)**	**(524.5)**	**(999.3)**
Derivative financial instruments								
Contractual amounts payable	**(18.4)**	**(30.0)**	**(30.0)**	**(26.9)**	**(26.0)**	**(23.3)**	**(110.0)**	**(246.2)**
Contractual amounts receivable	**28.5**	**28.5**	**28.5**	**24.9**	**23.9**	**21.0**	**98.8**	**225.6**
Other liabilities	**(0.3)**	**(0.3)**	**–**	**–**	**–**	**–**	**–**	**(0.3)**
Total financial liabilities	**(853.9)**	**(122.6)**	**(29.6)**	**(175.0)**	**(30.8)**	**(218.9)**	**(535.7)**	**(1,112.6)**
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)

The amount of credit facilities unused by the REIT at 30 June 2016 is $129.5 million (2015: $102.1 million). Refer to Note 14.

21 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 2016 the REIT has no significant concentrations of credit risk on its receivables other than exposure to the Woolworths and Wesfarmers businesses which contribute 50.7% (2015: 51.8%) 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 Australia and offshore locations:

	2016 $'m	2015 $'m
Australia		
Cash and cash equivalents	**12.2**	6.1
Receivables	**9.4**	9.2
Derivative financial instruments	**4.5**	1.0
	26.1	16.3
Offshore locations		
Cash and cash equivalents	**–**	0.4
	–	0.4
Total financial assets	**26.1**	16.7
Joint venture entities		
Australia		
Cash and cash equivalents	**2.7**	1.1
Receivables	**2.0**	0.9
	4.7	2.0
Total financial assets including joint venture entities	**30.8**	18.7

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

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

	Past due but not impaired					
	Less than 30 days $'m	31 to 60 days $'m	61 to 90 days $'m	More than 90 days $'m	Impaired $'m	Total $'m
2016						
Rent receivables – Australia						
– Major tenants	**0.2**	**0.1**	**0.1**	**0.7**	**–**	**1.1**
– Specialty tenants	**0.4**	**0.1**	**–**	**–**	**0.7**	**1.2**
	0.6	**0.2**	**0.1**	**0.7**	**0.7**	**2.3**
Rent receivables – joint venture entities	**0.1**	**0.1**	**–**	**–**	**0.2**	**0.4**
	0.7	**0.3**	**0.1**	**0.7**	**0.9**	**2.7**
2015						
Rent receivables – Australia						
– Major tenants	0.1	0.1	0.1	0.5	–	0.8
– Specialty tenants	0.5	0.2	–	–	1.1	1.8
	0.6	0.3	0.1	0.5	1.1	2.6
Rent receivables – joint venture entities	0.1	–	–	–	0.1	0.2
	0.7	0.3	0.1	0.5	1.2	2.8

Based on a review of rent receivables by management, a provision of $0.5 million (2015: $0.8 million) has been provided against rent receivables with a gross balance of $2.7 million (2015: $2.8 million).

The REIT holds $0.3 million (2015: $0.3 million) of collateral against the impaired rent receivables in the form of bank guarantees and security deposits and can also recover $0.1 million (2015: $0.1 million) of 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

Other than financial instruments, the REIT is exposed to property price risk including property rental risks. Refer to Note 22 for the sensitivity analysis. The REIT has no other significant exposure to price risks as it does not hold any securities or commodities.

(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
2016			
Derivative assets	**34.3**	**(34.3)**	**–**
Derivative liabilities	**(18.4)**	**–**	**(18.4)**
Borrowings	**(805.7)**	**34.3**	**(771.4)**
	(789.8)	**–**	**(789.8)**
2015			
Derivative assets	1.0	(1.0)	–
Derivative liabilities	(32.6)	–	(32.6)
Borrowings	(647.7)	1.0	(646.7)
	(679.3)	–	(679.3)

22 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:

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

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

- cash and cash equivalents – Level 1; and
- all other financial assets and liabilities – Level 2.

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

		Level 2		Level 3		Total	
	Notes	**2016 $'m**	2015 $'m	**2016 $'m**	2015 $'m	**2016 $'m**	2015 $'m
Financial assets – recurring fair value measurement							
Derivative assets							
Interest rate swaps	8	**–**	1.0	**–**	–	**–**	1.0
Cross currency swaps	8	**34.3**	–	**–**	–	**34.3**	–
Non-financial assets – recurring fair value measurement							
Investment properties	10	**–**	–	**2,169.7**	1,937.5	**2,169.7**	1,937.5
Total assets		**34.3**	1.0	**2,169.7**	1,937.5	**2,204.0**	1,938.5
Financial liabilities – recurring fair value measurement							
Derivative liabilities							
Interest rate swaps	8	**(10.0)**	(16.6)	**–**	–	**(10.0)**	(16.6)
Cross currency swaps	8	**(8.4)**	(16.0)	**–**	–	**(8.4)**	(16.0)
Total liabilities		**(18.4)**	(32.6)	**–**	–	**(18.4)**	(32.6)

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 2016.

(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 2016 and 30 June 2015. Their fair value is estimated by comparing the margin on the facility to the pricing of a similar facility in the current market.

	2016		2015	
	Carrying amount $'m	**Fair value $'m**	Carrying amount $'m	Fair value $'m
US Private Placement notes	**435.8**	**454.0**	–	–
Bank loan – term debt	**355.5**	**356.6**	432.9	433.7
Commercial mortgage backed securities	**–**	**–**	231.5	231.8
	791.3	**810.6**	664.4	665.5

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

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

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

(d) Valuation techniques used to derive Level 3 fair values

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

Class of property	Fair value hierarchy	Fair value $'m	Valuation technique	Significant unobservable inputs used to measure fair value	Range of unobservable inputs
As at 30 June 2016					
Recurring fair value adjustments					
Australia	Level 3	2,169.7	DCF and income capitalisation method	Gross market rent ($ p.a./sqm)	$100 – $661
				Adopted capitalisation rate (% p.a.)	5.5 – 8.0%
				Adopted terminal yield (% p.a.)	5.75 – 8.25%
				Adopted discount rate (% p.a.)	6.5 – 9.0%
As at 30 June 2015					
Recurring fair value adjustments					
Australia	Level 3	1,937.5	DCF and income capitalisation method	Gross market rent ($ p.a./sqm)	$121 – $637
				Adopted capitalisation rate (% p.a.)	6.0 – 8.25%
				Adopted terminal yield (% p.a.)	6.25 – 8.75%
				Adopted discount rate (% p.a.)	7.0 – 9.5%

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

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 semiannual 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.

22 Fair value measurement continued

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

Valuation process continued

Stable properties 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%	The valuation will consist of the initial assessment which will be further documented for review purposes. This will include: • internal valuation model; or • external short form report.
5 to 10%	The initial assessment will be supplemented by further internal or external analysis, which will be documented for review purposes, to determine the value. This will include: • 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 and direct comparison.
More than 10%	Recommend that further analysis be undertaken externally to determine the value. This will include: • 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.

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

23 Related party information

(a) Responsible Entity

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

(b) Directors

The following persons were Directors of the Responsible Entity during the year:

- Greg Chubb – Executive Director and Head of Retail of Charter Hall Group (appointed on 5 February 2016)
- John Harkness – Chairman and Non-Executive Director
- David Harrison – Executive Director and Chief Executive Officer/Managing Director of Charter Hall Group
- Maurice Koop – Non-Executive Director and Chairman of Audit, Risk and Compliance Committee (resigned on 31 March 2016)
- Sue Palmer – Non-Executive Director and Chairperson of Audit, Risk and Compliance Committee (appointed on 10 November 2015)
- Alan Rattray-Wood – Non-Executive Director
- David Southon – Executive Director and Joint-Managing Director of Charter Hall Group (resigned on 1 February 2016)
- Scott Dundas – Alternate for 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 $362,407 (2015: $324,492) were paid or payable by the REIT to the Independent Directors, being John Harkness, Maurice Koop, Sue Palmer and Alan Rattray-Wood, for the year, refer to Note 23(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 27 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 deduct the carrying value of investment in joint venture entities and to add back the REIT's share of total assets in CHRP1.

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

Performance fee

In addition to the base management 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 basis is higher than the percentage increase in the Index, then the Responsible Entity is entitled to new units in the REIT with a total value equal to:

(i) 5% of the total Increased Unitholder Value from outperformance; plus

(ii) 15% of the Increased Unitholder Value above 2% nominal outperformance per annum (1% per half year).

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

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

Management fee expenses in CHRP2

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

Base fee

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

Performance fee

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

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

(ii) 20% on any excess return over 13.0%.

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

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

	2016 $'000	2015 $'000
Base fees	**10,167**	9,095
Performance fees	**–**	–
Management fees paid by the REIT	**10,167**	9,095
REIT's share of management fees paid by CHRP2	**222**	–
	10,389	9,095

No performance fee was earned by the Responsible Entity of the REIT during the year. In the calculation of the performance fee, outperformance will be assessed on a cumulative basis and, accordingly, underperformance for the period from 1 January 2004 to 30 June 2016 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 2016, the Index increased in value by 200.1% compared to the REIT's cumulative performance which increased by 80.7% (difference of 119.4%).

23 Related party information continued

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

The Responsible Entity and its related parties held 57,662,876 units as at 30 June 2016 (2015: 40,298,579).

Following is a summary of related party transactions, excluding base management fees, for the year ended 30 June 2016:

		Basis of fee calculation		Fee amount	
Type of fee	Method of fee calculation	2016 $	2015 $	2016 $	2015 $
Property management	3% of total property income	**233.4**	224.1	**7,003,279**	6,723,832
Acquisition	0.75% of sale price (no external agent used)	**95.7**	95.8	**717,600**	718,125
Acquisition	0.5% of sale price (external agent)	**101.2**	–	**508,384**	–
Disposal	0.75% of sale price less amounts paid to external agents	**118.3**	10.9	**101,250**	81,851
Due diligence	0.25% of sale price	**139.5**	140.6	**348,850**	351,535
Debt fees	0.25% of debt raised less fees paid to agents and lenders	**835.0**	–	**1,075,000**	–
Development management	3% of development cost if > $1m 5% of development cost if < $1m	**31.2**	43.8	**683,881**	1,313,450
Development management cost recovery	Cost recovery			**709,730**	825,926
Project management	6% of project cost	**15.5**	17.9	**931,108**	1,073,590
Majors and specialty leasing – new leases	17.5% – 15.0% of year one gross rent	**14.9**	22.5	**2,336,815**	3,437,524
Specialty leasing – renewals	10.0% – 7.5% of year one gross rent	**15.0**	13.3	**1,426,109**	1,250,327
Tenancy co-ordination and lease administration (number of tenants)	Range from $500 – $4,500 per tenancy	**524**	520	**1,035,089**	1,066,350
Accounting services	Cost recovery			**1,126,564**	1,093,750
Other	Various			**–**	32,300
				18,003,659	17,968,560

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

	2016 $	2015 $
Charter Hall Holdings Pty Limited	**18,003,659**	17,968,560
	18,003,659	17,968,560

Charter Hall Holdings Pty Limited was also reimbursed $11,438,021 (2015: $9,918,242) for centre and property management expenses incurred. These expenses include salaries, finance and IT costs and other overhead charges, of which approximately 40% (2015: 38%) were recovered in outgoings from tenants.

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

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

	2016 $	2015 $
Charter Hall Retail Management Limited	**392,540**	2,297,083
Charter Hall Holdings Pty Limited	**1,736,404**	1,990,588
	2,128,944	4,287,671

(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 23(d).

(h) Directors' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

	John Harkness $	Sue Palmer $	Alan Rattray-Wood $	Maurice Koop $	Total $
2016					
Director fee	**74,420**	**54,325**	**49,614**	**37,211**	**215,570**
Compliance fee	**52,621**	**–**	**35,080**	**26,310**	**114,011**
Audit committee fee	**8,018**	**7,770**	**8,018**	**9,020**	**32,826**
Total director fees	**135,059**	**62,095**	**92,712**	**72,541**	**362,407**
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	–	8,018	12,027	28,063
Total director fees	135,059	–	92,712	96,721	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.

Scott Dundas, Fund Manager of the REIT, received, on a cash basis, remuneration of $655,200 from 1 July 2015 to 30 June 2016 ($635,116 from 1 July 2014 to 30 June 2015). In addition, deferred rights to CQR units were granted to the Fund Manager to the value of $100,880 from 1 July 2015 to 30 June 2016 ($91,758 from 1 July 2014 to 30 June 2015) 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.

(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 2016	Units held 2015
John Harkness	**–**	–
David Harrison	**–**	–
Greg Chubb	**–**	–
Maurice Koop	**n/a**	48,404
Sue Palmer	**–**	n/a
Alan Rattray-Wood	**10,867**	10,867
David Southon	**–**	–
Scott Dundas (alternate)	**62,349**	35,923

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 2016	Units 2015
Scott Dundas	**26,426**	12,148

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.

24 Remuneration of the auditor

	2016 $'000	2015 $'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	**286**	396
	286	396
Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for:		
Audit services		–
Taxation compliance services	**109**	44
	109	44
	395	440

In addition to the above fees, PricewaterhouseCoopers was remunerated with $14,542 (2015: $10,000) in connection with the audit of the REIT's joint venture entities. This amount represents the REIT's share of the fees and is recorded within share of profits from investment in joint venture entities.

25 Commitments and contingent liabilities

The REIT has entered into contracts for the acquisition, construction and development of properties in Australia. The commitments of the REIT total $28.0 million (2015: $8.0 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.

26 Significant contract terms and conditions

Pre-emptive rights

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

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.

27 Parent entity financial information

(a) Summary financial information

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

	Parent 2016 $'m	Parent 2015 $'m
Balance sheet		
Current assets	**54.9**	17.6
Non-current assets	**2,388.4**	2,097.5
Total assets	**2,443.3**	2,115.1
Current liabilities	**101.4**	300.7
Non-current liabilities	**824.1**	465.1
Total liabilities	**925.5**	765.8
Equity		
Contributed equity	**2,269.6**	2,153.3
Reserves	**(156.5)**	(155.4)
Accumulated losses	**(595.3)**	(648.6)
Total equity	**1,517.8**	1,349.3
Statement of comprehensive income		
Profit after tax	**156.0**	121.7
Total comprehensive income	**156.0**	121.7

(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 2016 (2015: $nil).

(c) Commitments

The parent entity has entered into contracts for the construction and development of properties in Australia. The commitments of the parent entity total $28.0 million (2015: $8.0 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.

28 Interest in other entities

Material subsidiaries

The REIT's principal subsidiary at 30 June 2016 is set out below. Unless otherwise stated, it has contributed equity consisting solely of ordinary units that are held directly by the REIT, and the proportion of ownership interests held equals the voting rights held by the REIT.

Name of entity	Country of incorporation	Place of business	Ownership interest held by the REIT 2016	Ownership interest held by the REIT 2015	Principal activities
Charter Hall Retail JV Trust	Australia	Australia	**100%**	100%	Property investment

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

29 Events occurring after balance date

Since the end of the year, the Directors of the Responsible Entity are not aware of any matter or circumstance not otherwise dealt with in this report or the annual consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT, the results of those operations or the state of affairs of the REIT in the financial years subsequent to 30 June 2016.

DIRECTORS' DECLARATION TO UNITHOLDERS

FOR THE YEAR ENDED 30 JUNE 2016

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 30 to 63 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 2016 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 International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

John Harkness
Chairman

Sydney

17 August 2016

Independent auditor's report to the members 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 2016, 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

pwc

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 2016 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

b. the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

JReilly

Jane Reilly
Partner

Sydney
17 August 2016

REMUNERATION REPORT

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

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

Management fees

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

Base fees

The base fee is currently calculated as:

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

(ii) 0.40% per annum of the value of the total assets of the REIT over $700 million.

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

The base fee is calculated six monthly and paid quarterly. The March and September payments are interim payments based on valuations as at the end of the previous half year. The June and December payments are based on valuations at that time. They are in effect adjusting payments in that the entire half year period fee is calculated and the March or September amount that has been paid on account is deducted to arrive at the balance of the fee payable for the current June or December half year period.

CHRML has agreed to waive the 0.40% base fee on any derivative mark-to-market asset value included in total assets of the REIT. In addition, assets pertaining to CHRP2 were excluded from the value of total assets of the REIT. The base fees paid or payable by the REIT to CHRML for the financial year ended 30 June 2016 were $10.2 million.

Performance fees

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

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

(i) 5% of the total Increased Unitholder Value from outperformance; plus

(ii) 15% of the Increased Unitholder Value above 2% nominal outperformance per annum (1% per half year).

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

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

Any unpaid fees will continue to be paid up to 80 basis points of the value of the assets in any future year. There were no performance fees paid or payable for the financial year ended 30 June 2016. In the calculation of the performance fee, outperformance will be assessed on a cumulative basis and, accordingly, any underperformance will need to be recovered before CHRML is entitled to any future performance fees.

Management fee expenses in CHRP2

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

Base fee

The base fee is calculated as 0.40% of the total assets of CHRP2. The base fee is calculated monthly and paid within 14 days of month end. The base fees paid or payable by the REIT to CHH in respect of CHRP2 for the financial year ended 30 June 2016 were $0.2 million.

Oversight of fee payments

There is independent oversight in respect of the calculation and payment of management fees as follows:

(i) the calculation and payment of management fees (both base and performance fees) are audited as part of the Annual Financial Statement audit and through audit of the REIT's compliance plan;

(ii) the calculation of every performance fee to be paid is checked by an independent firm; and

(iii) the REIT's independent directors review the external certifications and authorise payment of the performance fee.

Changes to management fees

The fee arrangements were fully disclosed to investors on the REIT's inception (and have been amended from time to time with unitholder approval) and continue to be disclosed on the REIT website and in Annual Reports. Investors originally invested and continue to invest with this knowledge. Any changes to the structure of the fee provisions that would have the effect of increasing the fees would need to be approved by unitholders.

CHRML may accept lower fees or defer fees.

Expense reimbursement

CHRML is also entitled to be reimbursed for expenses incurred by it in relation to the proper performance of its duties, out of the assets of the REIT. This includes routine ongoing expenses such as the third party costs of acquiring assets and the use of specialist technical advice from time to time, as well as capital raising costs, registry, audit, accounting, marketing, tax, insurance, compliance costs and other expenses as set out in the REIT's constitution.

Directors

Non-Executive Directors' actual remuneration received for the financial year ended 30 June 2016 (inclusive of superannuation) is as follows:

2016	John Harkness[1] $	Sue Palmer[1] $	Maurice Koop[2] $	Alan Rattray-Wood $	Total $
Director fee	74,420	54,325	37,211	49,614	215,570
Compliance fee	52,621	–	26,310	35,080	114,011
Audit, Risk and Compliance Committee (ARCC) fee	8,018	7,770	9,020	8,018	32,826
Total Director fees	135,059	62,095	72,541	92,712	362,407

1 Sue Palmer was appointed on 10 November 2015 and replaced Maurice Koop as chair of the ARCC.

2 Maurice Koop resigned on 31 March 2016.

The level of fees is not related to the performance of the REIT. The Board of CHRML will consider remuneration payable to its Non-Executive Directors from time to time. Remuneration for Non-Executive Directors is approved by the CHC Board and any increases are benchmarked to market rates. None of the Non-Executive Directors are entitled to options or securities issued by the REIT or to retirement benefits as part of their remuneration package.

Executive Directors of CHRML are employees of Charter Hall and are remunerated by Charter Hall.

Executives

Executives and senior managers who have responsibility for the business activities of the REIT are employees of Charter Hall. Their remuneration is paid by Charter Hall and is not recharged to the REIT.

While the REIT's management are Charter Hall employees, there is a strong alignment of interest between those employees and the REIT's unitholders. Charter Hall's remuneration framework ensures that a meaningful amount of remuneration is 'at risk' and solely dependent on performance. The total remuneration package of all Charter Hall executives consists of fixed remuneration, a short term incentive (STI) (consisting of cash (67%) and deferred equity (33%) delivered equally over two years) and a long term incentive (LTI).

Fixed remuneration is targeted at the median of the market and reviewed annually taking into account individual performance and the competitive market environment for each individual's skills and capabilities. Scott Dundas, Fund Manager of the REIT, received, on a cash basis (inclusive of superannuation), $655,200 remuneration for the year ended 30 June 2016 (2015: $635,116).

STI is an 'at risk' incentive awarded annually designed to reward executives subject to performance against agreed financial and non-financial key performance indicators (KPIs). From FY14, Scott Dundas has deferred STI allocated in Charter Hall Retail REIT (CQR) units rather than Charter Hall Group (CHC) units to align with fund investor expectations. These service rights amounted to $100,880 for the year ended 30 June 2016 (2015: $91,758). 50% of these service rights will vest at the end of year one and 50% at the end of year two. For executives involved in the management of the REIT, a substantial component of their STI through KPIs is directly dependent on the performance of the REIT.

The REIT's management may also receive LTI through participation in the Charter Hall Performance Rights and Options Plan, as part of their remuneration package. The LTI is in the form of performance rights with two performance hurdles that apply to the performance rights for vesting over a three year period subject to performance measures of absolute and relative total securityholder return. From FY16 grant onwards the performance rights are subject to a further one year holding lock.

Alignment of interests

Alignment between Charter Hall and the REIT's unitholders is also demonstrated through the interest Charter Hall holds in the REIT. At 30 June 2016, Charter Hall held a relevant interest of approximately 14.3% (2015: 10.7%) of REIT units.

UNITHOLDER ANALYSIS

Top 20 registered unitholders as at 1 August 2016

Rank	Name	Units	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	86,887,560	21.49
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	63,410,334	15.68
3	TRUST COMPANY LIMITED	57,662,876	14.26
4	NATIONAL NOMINEES LIMITED	46,780,124	11.57
5	CITICORP NOMINEES PTY LIMITED	39,050,340	9.66
6	BNP PARIBAS NOMS PTY LTD	12,556,879	3.11
7	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	8,969,268	2.22
8	GALAXY NOMINEES NO 3 PTY LTD	5,734,534	1.42
9	GALAXY NOMINEES NO 2 PTY LTD	5,734,533	1.42
9	GALAXY NOMINEES NO 1 PTY LTD	5,734,533	1.42
9	GALAXY NOMINEES NO 4 PTY LTD	5,734,533	1.42
10	CITICORP NOMINEES PTY LIMITED	2,798,756	0.69
11	BNP PARIBAS NOMINEES PTY LTD	2,586,956	0.64
12	AMP LIFE LIMITED	2,259,824	0.56
13	BOND STREET CUSTODIANS LIMITED	800,588	0.20
14	AVANTEOS INVESTMENTS LIMITED	801,179	0.20
15	BRISPOT NOMINEES PTY LTD		
16	NATIONAL NOMINEES LIMITED	319,616	0.08
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	534,632	0.13
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	418,400	0.10
19	SHARE DIRECT NOMINEES PTY LTD	421,588	0.10
20	AKAT INVESTMENTS PTY LIMITED	400,000	0.10
Total		**349,597,053**	**86.47**
Balance of register		**54,710,799**	**13.53**
Grand total		**404,307,852**	**100.00**

Range of units summary as at 1 August 2016

Range	Securities	%	No. of holders
100,001 and Over	359,883,500	89.1	56
50,001 to 100,000	2,533,048	0.63	38
10,001 to 50,000	16,595,290	4.10	899
5,001 to 10,000	11,193,119	2.77	1,587
1,001 to 5,000	13,003,906	3.22	5,097
1 to 1,000	1,098,989	0.27	2,238
Total	**404,307,852**	**100.00**	**9,915**
Unmarketable Parcels	4,516	0.00	397

Voting rights

On a poll, each unitholder has one vote for each dollar of the value of their total interest in the REIT.

On a show of hands, each unitholder has one vote.

Substantial unitholder notices as at 18 August 2016

Company	Date of change	Units	Ownership (%)
State Street Global Advisors	29/06/2016	20,216,397	5.00
Legg Mason Asset Management Australia Limited	16/06/2016	32,609,341	8.07
APN Property Group Limited	16/05/2016	20,501,038	5.07
Mondrian Investment Partners	06/05/2016	39,787,939	9.84
Trust Company Limited (TCL as custodian for Bieson Pty Ltd (Bieson) as trustee of the Charter Hall Co-Investment Trust (CHCT)	30/11/2015	57,662,876	14.34
BlackRock Group	13/10/2015	20,135,567	5.14
The Vanguard Group	18/08/2015	18,583,612	4.75

INVESTOR INFORMATION

How do I invest in Charter Hall Retail REIT?

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

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

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

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

Can I receive my Annual Report electronically?

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

How do I receive my distribution?

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

The REIT no longer pays distributions by cheque.

Can I reinvest my distribution?

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

Do I need to supply my Tax File Number?

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

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

At the end of each financial year, we issue unitholders with an Annual Taxation Statement. This statement includes information required to complete your tax return. The distributions paid in February and August are required to be included in your tax return for the financial year the income was earned, that is, the distribution income paid in August 2014 should be included in your 2014 financial year tax return.

How do I make a complaint?

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

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

Financial Ombudsman Service

GPO Box 3
Melbourne VIC 3001

Tel: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au
Web: www.fos.org.au

Contact details

Registry

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

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

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

Fax: +61 2 9287 0303

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

Investor Relations

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

Charter Hall Retail Management Limited
GPO Box 2704
Sydney NSW 2001

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

Fax: +61 2 9221 4655

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

CORPORATE DIRECTORY

Responsible Entity (and Manager)
Charter Hall Retail Management Limited
ABN 46 069 709 468
AFSL 246996

Registered office
Level 20, No.1 Martin Place
Sydney NSW 2000

Directors of the Responsible Entity
John Harkness (Chairman)
David Harrison
Sue Palmer
Greg Chubb
Alan Rattray-Wood

Fund Manager
Scott Dundas

Company Secretary
Mark Bryant

Responsible Entity's office
Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704
Sydney NSW 2001

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

Fax: +61 2 9221 4655
Email: reits@charterhall.com.au
Web: www.charterhall.com.au/cqr

ASX code: CQR

Custodian
Perpetual Limited
Level 12, Angel Place
123 Pitt Street
Sydney NSW 2000

Auditor
PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171

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

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

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

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

Gordon Village Centre, Gordon, NSW

From left to right
Victoria Lockely (Executive Assistant), Scott Dundas (Fund Manager), Ben Weston (Fund Analyst), Christine Kelly (Head of Retail Finance), Mark Bryant (Deputy General Counsel and Company Secretary), Yvette Keatings (National Retail Development Manager) and Lisa Ettore (Financial Analyst).

“We are proud to have delivered these results for our unitholders, tenant customers and the communities in which we operate around Australia.”

THE CQR TEAM

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