





**Charter Hall Retail REIT is Australia’s leading owner and manager of property for convenience retailers.**

Our goal is to maintain our position as the leading owner and manager of property for convenience retailers and provide a secure and growing income stream for our investors.

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 properties each year.

We achieve this through our dedicated and highly skilled retail experts who provide end-to-end property services to our portfolio.

Charter Hall Retail REIT is managed by Charter Hall Group. With over 29 years’ experience in property investment and funds management, Charter Hall is one of Australia’s leading fully integrated property groups. Charter Hall uses its property expertise to access, deploy, manage and invest equity across the core sectors – office, industrial & logistics, retail and social infrastructure.

Cover images, clockwise from top:  
Brickworks Marketplace, Torrensville SA  
bp, Forestville NSW  
Rockdale Plaza, Rockdale NSW  
Pacific Square, Maroubra NSW

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To view our Corporate Governance Statement, go to [charterhall.com.au/about-us/corporate-governance](https://charterhall.com.au/about-us/corporate-governance)

# Strategy

The REIT's focus remains on providing a secure and growing income stream for our investors. We achieve this through maintaining our position as the leading owner and manager of property for convenience retailers.



Pacific Square,  
Maroubra NSW



## Enhance portfolio quality

- Active portfolio curation
- Partnering with major tenants to meet their property needs
- Extending WALE with quality major tenants



## Active asset management

- Maintain strong tenant relationships
- Enhance the customer experience
- Optimise the tenancy mix through proactive leasing



## Prudent capital management

- Strong and flexible balance sheet
- Sustainable gearing
- Extending capital partnerships

### Supermarket MAT growth<sup>1</sup>

**5.2%**

↑ from 4.0% at June 2019

### Supermarkets in turnover<sup>2</sup>

**61.0%**

↑ from 56.0% at June 2019

### Total MAT growth<sup>3</sup>

**3.9%**

↑ from 2.8% at June 2019

### Majors WALE

**11.5yrs**

↑ from 10.4yrs at June 2019

### Majors contribution to portfolio income

**51.4%**

↑ from 46.0% at June 2019

### Leasing spreads

**0.9%**

↑ from 0.8% at June 2019

1. Like-for-like sales for stores in turnover.  
2. Includes supermarkets with fixed rent reviews.  
3. Like-for-like sales.

# FY20 performance highlights

Operating earnings<sup>1</sup>

\$142.7<sub>m</sub>

↑ 11.5%

Operating earnings per unit

30.56<sub>c</sub>

↓ 1.8%

Distributions per unit

24.52<sub>c</sub>

↓ 14.7%

Property portfolio value

\$3,252<sub>m</sub>

↑ 9.1%



“Major tenants Woolworths, Coles, Wesfarmers, ALDI and bp combined represent 51% of rental income. We continue to diversify major tenant income through the introduction of bp representing 9.6% of tenant income.

**Christine Kelly**  
Head of Retail Finance and  
Deputy Fund Manager CQR

Left: Arana Hills Shopping Centre, Arana Hills QLD

Above: Lansell Square, Kangaroo Flat VIC

1. FY20 operating earnings includes \$10.7m of COVID-19 tenant support. Net cashflow from operating activities is \$132.9m.



“Our focus is to be the leading owner and manager of property for convenience retailers.

**Greg Chubb**  
Retail CEO

Left: Roger Davis  
Right: Greg Chubb

# Chair and Fund Manager's letter

## Dear Unitholder

Welcome to the Charter Hall Retail REIT (the REIT or CQR) 2020 Annual Report.

2020 has been a challenging year for the retail sector. The financial year began with a backdrop of sub-trend economic and wages growth. Against this backdrop, drought and a terrible bushfire season ravaged much of the country, providing significant hardship for many Australians. In isolation these events would have marked FY20 as a challenging year, but all this took place before the COVID-19 global pandemic.

## COVID-19

The impacts of COVID-19 have been significant and continue to be felt today. In late March, the Federal Government mandated store closures for many of our speciality tenants and restricted trading conditions for others. In April, the Federal Government introduced the National Cabinet Mandatory Code of Conduct (Commercial Code), which provided a framework for landlords to work with their small and medium enterprise (SME) tenants to provide rental relief. These moves were unprecedented and provided significant challenges for landlords and retailers. However, it has been this environment that has demonstrated the resilience of the CQR portfolio.

CQR's focus on being the leading owner and manager of property for convenience retailers saw our centres remain open during the crisis. This was due to being classified as essential services, thereby highlighting the important role our centres play in servicing local communities. This was evident with increased trading volumes and footfall for supermarkets, fresh food and service categories such as pharmacy. The non-discretionary nature of the majority of our retailers also meant that tenants representing approximately 87% of portfolio income were open and trading throughout the worst of the Government mandated shutdowns.

In partnership with our tenant customers CQR has proactively managed social distancing measures and government regulations with a priority on the health, safety and wellbeing of our communities and those who work in, and visit, our centres.

CQR recognised the importance of partnering with our tenants in these challenging times to ensure long-term sustainable outcomes for both our tenants and unitholders. CQR has also provided support to our most affected speciality tenants under the terms of the Commercial Code. This saw CQR provide \$10.7 million of COVID-19 rental support, equivalent to 4% of annual income, by way of rent free incentives and deferred rent. This also provided an opportunity to extend leases and look for mutually beneficial outcomes with our tenant customers. Importantly, our major tenants Coles, Woolworths, Wesfarmers, ALDI and bp, who collectively represent over 51% of portfolio income, continued to remain open for trade through the pandemic period and did not require any rental support.

The resilient nature of the CQR portfolio has seen this support progressively reduce from a peak in April to a more modest position in June as customer footfall and trading in our centres recovered. Reflecting this resilience, rental collections, after COVID-19 rental support adjustments for the period, had reached 97% for Q4FY20 by July. While we expect we will need to provide some retailers additional support in FY21, we forecast that this will progressively reduce, reflecting the high proportion of tenants across the CQR portfolio providing non-discretionary goods and services.

## Enhancing portfolio quality

Our transactional activity this year continued to enhance the portfolio quality by recycling out of lower growth properties into high growth properties and focusing on growing the resilience and defensiveness of CQR's income.

Over the year, we divested nine lower growth assets and acquired interests in Pacific Square, Maroubra and Bass Hill Plaza, Bass Hill. These two convenience-plus assets each have multiple supermarkets and are well located within metropolitan Sydney. They also benefit from being the dominant convenience centre in their respective catchments and present strong income growth prospects for CQR. These transactions align with our approach of curating a portfolio of centres in growth markets that are the leading convenience centres in their respective catchments.

**FY20 also saw CQR undertake a major new investment into the bp portfolio partnership to acquire a 47.5% interest in a portfolio of 225 long WALE convenience retail properties.**

The portfolio consists of the majority of bp's owned convenience retail properties in Australia. The portfolio is geographically diversified across seven Australian states and territories with 80% by value located on the eastern areas and 87% in major metropolitan locations.

This portfolio is a capital efficient investment for CQR unitholders with the leases being 'triple-net', meaning bp Australia is responsible for all outgoing, repairs, maintenance and capital expenditure associated with the properties. The lease terms for bp Australia range between 18-22 years, with an average initial lease term of 20 years and annual uncapped CPI-linked rental escalators with a zero floor. Importantly, bp Australia continue to own a 51% interest in the portfolio and are also responsible for all environmental remediation issues associated with these properties, limiting CQR unitholder exposure to any environmental risks. ▶

We see these long WALE convenience retail properties as highly complementary to the existing CQR portfolio of convenience and convenience-plus shopping centres. The bp portfolio provides CQR with exposure to the large and evolving fuel and convenience retail market. Convenience comes in many forms for consumers today, and this segment of the market continues to grow as a channel for essential goods and services. Globally, bp is also a leader in fuel alternative investments and in the provision of fast charging infrastructure for electric vehicles. We are excited to be partnering with them.

Partnering with our major tenants

CQR’s strategy is to provide investors with a resilient and growing income stream by being the leading owner and manager of property for convenience retailers. Central to this strategy is partnering with major convenience retailers to meet their property needs across their value chain.

Our major tenants include market leading businesses Woolworths, Coles, Wesfarmers, ALDI and bp.

We continue to actively manage the portfolio to increase the percentage of CQR’s earnings from our major tenants, improving the resilience and dependability of income for CQR unitholders. We’ve been active in re-shaping the portfolio to deliver this, increasing the percentage of major tenants’ income from 46.4% of portfolio income in FY19 to 51.4% in FY20.

During the year we completed six supermarket lease extensions and increased the number of ALDI stores in the portfolio from nine to eleven.

Post balance date, we further extended our partnership with Coles Group with the acquisition of a 52% interest in a \$215 million high quality, purpose-built distribution facility fully leased to Coles.

Coles has a remaining lease term of 14.5 years plus multiple options and the lease has fixed annual rental escalations of 2.75%, providing a resilient and growing income stream for CQR unitholders. The distribution facility is located in Adelaide’s prime industrial precinct of Edinburgh Park, South Australia, approximately 25km from Adelaide CBD. The facility plays a key role in Coles’ supply chain, servicing all of its retail stores in South Australia and the Northern Territory. This acquisition extends CQR’s relationship with Coles from supermarkets to providing the critical infrastructure that supports their supermarket network. This forms an important part of our strategy and provides significant opportunity to participate across the value chain of our major convenience retail tenant partners.

Strong operating performance

Supermarkets remain the foundation of our portfolio. While the total number of shopping centres owned by CQR reduced by seven this year, the number of supermarkets in the portfolio remained constant at 70, a reflection of our emphasis on acquiring centres with multiple supermarkets that dominate their catchment.

Our portfolio of supermarkets delivered strong MAT sales growth of 5.2% over the period. The total number of supermarkets paying turnover rent was 61%, a record high for the portfolio and a result of the ongoing portfolio curation. A further 17% of supermarkets are within 10% of their turnover threshold, indicating good potential for future rental growth.

Despite the challenging retail conditions, we completed 345 specialty tenant leases during the year and saw positive leasing spread of 0.9%, with new leases 0.5% higher than previous leases and renewing leases 1.1% higher than expiring leases. The sales productivity of our specialty tenants remains strong at \$9,557 per sqm while occupancy costs remain highly sustainable at 11.8% of sales. Portfolio occupancy has fallen from 98.1% to 97.3%, a reflection of the challenges stemming from COVID-19, but total like-for-like MAT sales growth of 3.9% is a strong outcome given the challenging retail environment.

Financial performance and prudent capital management

In FY20, CQR achieved a statutory profit of \$44.2 million primarily due to the impact of the negative valuation movements. Our operating earnings of \$142.7 million increased predominately as a result of our asset recycling strategy. Our distribution of 24.52cpu reflects an 80.2% payout ratio on operating earnings of 30.56cpu and takes into account the operational cashflow generated during the period of 28.45cpu.

Prudent capital management remains a core focus of CQR and ensures we can successfully execute our growth strategy and deliver a secure and growing income stream to unitholders. During FY20, CQR successfully raised equity twice. In February, CQR raised \$100 million of new equity via a fully underwritten institutional placement to increase our investment in the bp portfolio, growing its exposure to this important tenant and improving the defensiveness and resilience of CQR’s income stream.

In April, CQR raised additional equity of \$304.5 million with \$275 million via a fully underwritten institutional placement and \$29.5 million via a Unit Purchase Plan from retail investors. This equity raise was undertaken to ensure the balance sheet was in a sound position to weather any valuation or earnings impact from COVID-19 and position CQR for growth as the effects of COVID-19 diminish.

As at 30 June 2020, total portfolio gearing was 30.3% at the lower end of the 30%-40% target range. This strong balance sheet and available liquidity of \$470 million, means we are well placed to enhance portfolio quality and fund future activity.

Valuations remain resilient

During FY20, we revalued 99% of our portfolio externally by value with 67% revalued in the second half of FY20.

Focussing on the movements in the second half of FY20, the shopping centre portfolio valuation declined by \$70 million or 2.4%. Valuations have taken into account the impact of COVID-19 with valuers including forecast tenant support, reduction of renewal probability, decrease of market rents for existing or pending vacancies and increasing leasing incentives.

Over the second half of FY20, we also revalued the bp portfolio resulting in a \$26 million valuation increase or 6.2%.

Largely due to portfolio composition changes the portfolio cap rate firmed from 6.18% to 6.03% over the year. Despite a modest softening in cap rates on our shopping centre portfolio from 6.18% to 6.19%, the cap rate of the bp portfolio firmed from 5.5% to 5.0%. These revaluation outcomes for 30 June 2020 reflect the quality, defensive nature and the income growth attributes of our portfolio and reinforce the active asset management strategy undertaken by management.

Strong tenant customer partnerships

Our tenant customers are at the heart of our business. Our engagement, service levels and communication with them are critical to achieving our strategic objectives. Annually, we continue to undertake the industry recognised Net Promoter Score (NPS) survey with Monash University, providing us with key customer insights.

Over the past 12 months, the Charter Hall retail management team has continued to act on the feedback from our FY19 NPS survey and, pleasingly, it is our people and the way we communicate that continue to be our greatest strengths. This results in strong retention of tenant customers and assists with securing new partnerships.

Importantly, we maintain our focus on aligning our capital programs with our major tenant store renewals and this has seen us deliver 10 new or extended major tenant leases delivering an increased portfolio WALE of 7.2 years.

Sustainability and community

Sustainability remains a critical part of enhancing our portfolio quality and is central to Charter Hall’s approach to property management. Across our platform, we continue to explore opportunities to introduce sustainability initiatives to deliver long-term outcomes that are positive to our unitholders, tenants and the communities in which our assets are located.

During the period, we completed 8.5MW of solar installations at 11 assets. Under our Power Purchase Agreements (PPA) we have increased the solar roll-out program to 27 assets.

Pleasingly, the solar panels associated with the PPA program will deliver approximately 46% of CQR’s energy needs. The PPA will also provide our centres with a high level of cost certainty in a volatile energy market, thereby benefitting both the community and unitholders.

In addition, we have 8.6MWh batteries currently being constructed for installation at four assets initially, to increase on-site solar utilisation and reduce grid demand costs.

These initiatives form part of Charter Hall’s commitment to net zero carbon emissions by 2030.

Finally, our commitment to our local communities is predicated on our philosophy of mutual success as expressed through the Charter Hall Group’s membership of the Pledge 1% philanthropic movement. This has seen our teams actively partnering with charities and social organisations during the period, giving both time and resources.

To this end, we have continued our partnership with the Two Good Co. and their “In Good Hands” community campaign. This year, we distributed 6,800 cookbooks to shoppers across 23 centres increasing awareness of domestic violence. In addition, Charter Hall employees volunteered 2,000 hours as part of the Two Good Co. campaign. We also proudly partnered with Rural Aid on its Drought Relief efforts, raising \$196,000 across our centres which help fund 27 semi-trailer loads of large bales of hay and 50 truckloads of water across 20 drought affected farming and rural communities in which we operate.

Outlook

Our focus on owning and managing property for convenience retailers with a resilient, nationally diversified portfolio, will continue to deliver long-term sustainable growth in earnings for our unitholders. This growth is underpinned by the scale, scope and size of our supermarket activities, our ongoing partnerships with our major convenience retailers and the resilience in our core non-discretionary retail offerings.



Going forward, we maintain our commitment to shape the portfolio to deliver resilient and defensive earnings growth for our unitholders.

I would like to extend, on behalf of the Board, our thanks to the hard working team that manages our portfolio on a day to day basis. I am proud to see how the team has managed the challenges that COVID-19 has presented and the support that they have shown to our retailers and communities.

Finally, I would like to thank our unitholders for your continuing investment in CQR. Our dedicated team, along with the Board, understand that we are here to protect and enhance your investment by delivering long-term sustainable growth in earnings. We remain committed to this goal.

Roger Davis  
Independent Chair

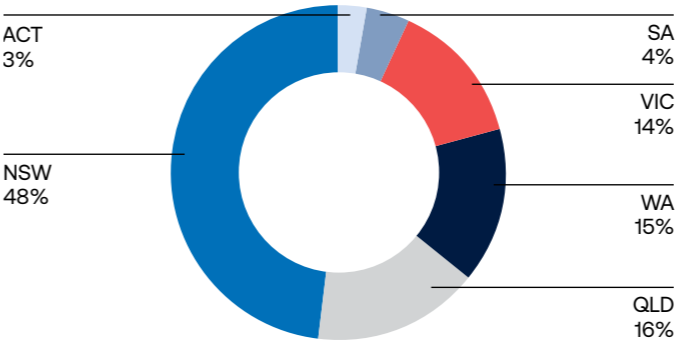
Greg Chubb  
Retail CEO, Charter Hall  
Executive Director and Fund Manager, CQR

# Portfolio performance

Shopping centres	Long WALE assets	Value (\$m)
51	225	3,252
Weighted average cap rate	GLA ('000sqm) <sup>1</sup>	Occupancy <sup>1</sup>
6.03%	629	97.3%
Total MAT growth <sup>2</sup>	WALE (total)	WALE (majors)
3.9%	7.2yrs	11.5yrs

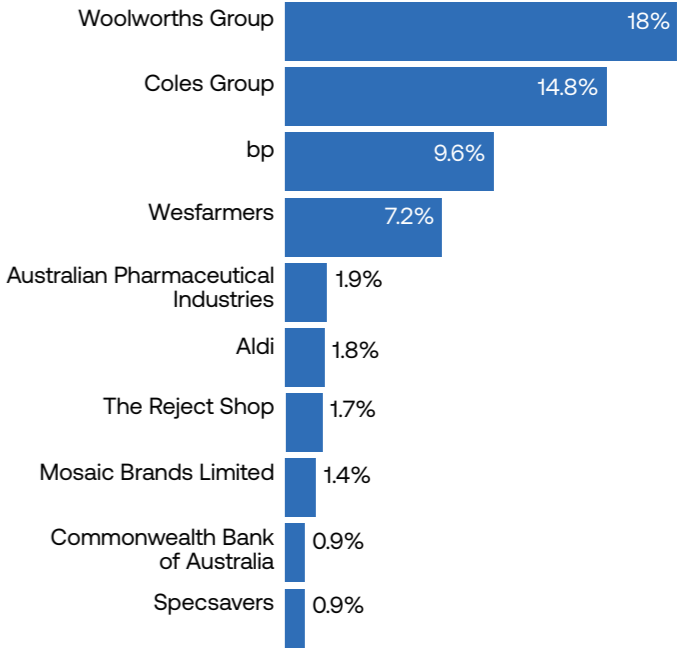


## Asset value by state



Clockwise from left:  
Brickworks Marketplace,  
Torrensville SA  
Campbelltown Square,  
Campbelltown NSW  
bp portfolio  
Salamander Bay Square,  
Salamander Bay NSW

## Top 10 tenant customer groups<sup>3</sup>



1. Shopping centre portfolio.  
2. Like-for-like sales.  
3. Calculated by rental income  
as at 30 June 2020.

# ACT and NSW portfolio



Property	Location	Ownership Interest %	Book Value (\$m)	Cap Rate %
<b>ACT</b>				
1. Dickson Woolworths	Dickson	100.0	18.7	6.00
2. Manuka Terrace	Manuka	100.0	58.5	6.00
<b>ACT Total</b>			<b>77.2</b>	
<b>NSW</b>				
3. Bass Hill Plaza	Bass Hill	20.0	20.0	6.00
4. Bateau Bay Square	Bateau Bay	49.9	107.8	6.25
5. Carnes Hill Marketplace	Horningsea Park	50.0	71.0	5.50
6. Cootamundra Woolworths	Cootamundra	100.0	17.0	5.75
7. Dubbo Square	Dubbo	100.0	46.0	7.00
8. Gordon Village Centre	Gordon	100.0	140.5	5.00
9. Goulburn Square	Goulburn	100.0	81.5	6.25
10. Highlands Marketplace	Mittagong	50.0	41.5	6.00
11. Jerrabomberra Village	Jerrabomberra	100.0	29.2	6.00
12. Kings Langley Shopping Centre	Kings Langley	100.0	46.0	6.00
13. Lake Macquarie Square	Mount Hutton	100.0	128.0	6.25
14. Morisset Shopping Centre	Morisset	100.0	41.9	6.75
15. Mudgee Metroplaza	Mudgee	100.0	28.2	6.25
16. Orange Central Square	Orange	100.0	52.0	6.50
17. Pacific Square	Maroubra	20.0	39.5	5.50
18. Parkes Metroplaza	Parkes	100.0	22.5	6.50
19. Rockdale Plaza	Rockdale	100.0	146.5	5.75
20. Rutherford Marketplace	Rutherford	50.0	20.6	6.13
21. Salamander Bay Square	Salamander Bay	50.5	82.6	6.25
22. Singleton Square	Singleton	100.0	119.4	6.63
23. Sunnyside Mall	Murwillumbah	100.0	47.8	6.50
24. Tamworth Square	Tamworth	100.0	53.5	6.75
25. Tumut Coles	Tumut	100.0	11.2	6.00
26. West Ryde Marketplace	West Ryde	50.0	28.3	5.25
<b>NSW Total</b>			<b>1,422.4</b>	

## bp portfolio

bp portfolio	Australia wide	47.5	439.0	5.00
<b>bp Total</b>			<b>439.0</b>	

Aerial view of  
Bateau Bay Square,  
Bateau Bay NSW

## WA, SA and VIC portfolio

Property	Location	Ownership Interest %	Book Value (\$m)	Cap Rate %
WA				
1. Albany Plaza	Albany	100.0	60.1	6.75
2. Esperance Boulevard	Esperance	100.0	35.0	6.50
3. Kalgoorlie Central	Kalgoorlie	100.0	44.8	6.75
4. Maylands Coles	Maylands	100.0	18.0	5.25
5. Narrogin Coles	Narrogin	100.0	13.8	5.75
6. Secret Harbour Square	Secret Harbour	100.0	92.0	6.50
7. South Hedland Square	South Hedland	100.0	76.5	7.25
8. Swan View Shopping Centre	Swan View	100.0	21.5	6.00
9. Wanneroo Central	Wanneroo	50.0	59.5	6.25
WA Total			421.2	
SA				
10. Brickworks Marketplace	Torrensville	50.0	34.3	6.50
11. Southgate Square	Morphett Vale	100.0	80.0	6.25
SA Total			114.3	
VIC				
12. Campbellfield Plaza	Campbellfield	100.0	77.3	6.00
13. Gateway Plaza	Leopold	50.0	67.5	6.00
14. Lansell Square	Bendigo	100.0	95.0	6.75
15. Rosebud Plaza	Rosebud	100.0	123.1	5.96
VIC Total			362.9	

Lansell Square,  
Kangaroo Flat VIC



QLD portfolio

Arana Hills  
Shopping Centre,  
Arana Hills QLD



Property	Location	Ownership Interest %	Book Value (\$m)	Cap Rate %
QLD				
1. Allentown Square	Rockhampton	100.0	50.4	7.00
2. Arana Hills Shopping Centre	Arana Hills	100.0	64.8	6.00
3. Atherton Square	Atherton	100.0	38.4	6.25
4. Bay Plaza	Hervey Bay	100.0	26.5	6.50
5. Bribie Island Shopping Centre	Bribie Island	100.0	65.0	6.00
6. Currimundi Markets	Currimundi	100.0	44.8	5.75
7. Gatton Square	Gatton	100.0	25.0	6.00
8. Highfields Village	Highfields	100.0	41.0	6.00
9. Mareeba Square	Mareeba	100.0	21.0	6.50
10. Sydney Street Markets	Mackay	100.0	37.9	6.75
QLD Total			414.8	

Board and management

Board of directors



Roger Davis  
Independent Chair



Sue Palmer  
Independent Director



Michael Gorman  
Independent Director



David Harrison  
Executive Director



Gregg Chubb  
Retail CEO  
See pages 35-37  
for Director bios.

Management team



Greg Chubb  
Retail CEO, Charter Hall and Executive Director and Fund Manager, Charter Hall Retail REIT  
Greg is Fund Manager of the Charter Hall Retail REIT and Charter Hall's Retail CEO, joining the Group in 2014 with 30 years' property market experience. Greg is responsible for all management aspects of the Retail Funds Management platform to deliver value creation within the retail portfolio and optimise returns for our investors.

Prior to joining Charter Hall, Greg was the 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 Lendlease.

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 is Joint Deputy Chair of the Shopping Centre Council of Australia.



Christine Kelly  
Head of Retail Finance, Charter Hall and Deputy Fund Manager, Charter Hall Retail REIT  
Christine is the Deputy Fund Manager and Head of Retail Finance for Charter Hall. She has overall responsibility for the financial operations of the Charter Hall Retail funds including CQR and the Property Management platform. This role assists the respective Fund Managers and Boards and works with the respective Fund Managers to set strategic direction and business planning initiatives for the retail business.

Prior to joining Charter Hall, Christine previously held the role as Treasurer for Sydney Airport Corporation for nine years, where she has had significant experience in funding, structuring, capital management, capital expenditure management and retail operations. Christine has an Engineering (Elec)/Commerce Degree (Hons) from the University of Sydney and is a graduate of the Australian Institute of Company Directors.

# Sustainability

FY20 has been a year of global challenges from climate-related impacts of droughts, bushfires and floods, to socio-economic impacts of a global pandemic. We remain committed to our sustainable framework and continue to engage regularly with stakeholders to maintain our operations and commitments.

Charter Hall Retail REIT aligns its policies and targets to those of the Charter Hall Group, for those properties within the fund's operational control. The Charter Hall Retail REIT delegates management of the properties to the Charter Hall Group and supports our sustainability and governance initiatives.



Bribie Island  
Shopping  
Centre,  
Bongaree QLD



## Environment: Climate resilience



### Carbon

#### FY20 Achievements

Alignment with the TCFD Framework and development of Charter Hall's climate resilience strategy, with adoption of climate scenarios including low carbon economy scenario (RCP2.6) to inform net zero pathway to carbon reduction.

Modelling Scope 1 and 2 net zero pathway by 2030, undertaken for retail sector.

10% reduction in emission intensity achieved compared to FY19.

#### FY25 Targets

Carbon neutral road map for operating assets and developments.

Work with tenant customers to understand Scope 3 footprint and approach.

Pilot carbon neutral developments.

#### FY30 Targets

100% reduction in Scope 1 and 2 emissions.

Implement tenant reduction pathway.

All new developments seeking to be carbon neutral from FY30.

### Energy

8.5MW solar installations completed at 11 assets and a further 3.9MW of installations at four assets are nearing completion. Solar installations complete and nearing completion represent 60% of CQR's contracted 27 asset solar PPA roll out program. Energy generated from the contracted PPA program equates to 46% of CQR's current energy needs.

3.94 Star NABERS Energy weighted average rating.

7th in NABERS Shopping Centre Energy Sustainable Portfolios Index.

Renewable energy strategy.

Operational portfolio electricity powered by renewable energy.

### Biodiversity

Pathway to net zero Scope 1 and 2 emissions identified need for carbon offsets. Development of carbon offset framework to align with social sustainability and community outcomes.

Carbon offset project strategy.

Operational and construction emissions offset through the carbon offset project.

### Physical adaptation

Alignment with the TCFD Framework and development of Charter Hall's climate resilience strategy. Adoption of climate scenarios including business-as-usual scenario (RCP8.5) to inform climate adaptation and resilience strategy.

Climate change adaptation plans prepared for 21 retail assets. COVID-19 impacted achievement of national completion for retail assets by FY20. Target has been extended to FY21.

Managing our environmental risk through development and adoption of environmental management system (EMS). Certification of Charter Hall sector based EMS will be undertaken in FY21.

All retail assets have climate change adaptation plans.

Capital improvements in portfolio that align with climate change adaptation plans.

### Waste

Working with our waste contractors, we reviewed our approach to waste due to international changes in the waste industry.

Commenced investigations into a circular economy.

Circular economy strategy.  
50% waste diversion in operational assets.

One waste stream in Australian circular economy.  
75% waste diversion in operational assets.

### Water

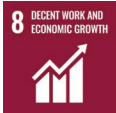
CQR retail centres over 15,000sqm achieved 3.06 Star NABERS Water weighted average rating, meeting FY25 targets.

3rd in NABERS Shopping Centre Water Sustainable Portfolios Index.

Sustainable water strategy.  
4.0 Star NABERS Water weighted average rating in retail.

Sustainable water commitments.  
4.5 Star NABERS Water weighted average rating in retail.


 **Social:  
Strong communities**

 <b>FY20 Achievements</b>	<b>FY25 Targets</b>
<b>Building better communities and generating employment opportunities</b>  Continued partnership with Two Good Co. as part of Two Good’s “In Good Hands”. Distributed 6,800 cookbooks to shoppers across 23 centres increasing awareness of domestic violence.  22 initiatives giving back to local communities.  Over \$1 million in space donated in community space across the portfolio.	<b>Pledge 1% targets:</b> <ul style="list-style-type: none"><li>– People: 6,000 hours of volunteering</li><li>– Place: up to 1% of underutilised space provided to community and/or health and wellbeing outcomes</li><li>– Partnerships: create 250 meaningful youth employment outcomes, tracking to 500 youth employment outcomes by 2030</li></ul> Create a national network of innovation enterprises.
<b>Creating engaging customer experiences</b>  Tenant customer engagement survey undertaken.  Ongoing support of tenant customers during COVID-19 to enable safe and continuous trading.  Stakeholder engagement plans prepared for 100% of developments and retail assets.	<b>Ongoing place experience initiatives across our portfolio.</b>  Enhanced customer satisfaction experience in our assets.  Retail developments and assets have stakeholder engagement plans.  Enhanced customer satisfaction and experience in our assets.
<b>Caring for our health and safety</b>  Workplace Health and Safety review completed, and implementation undertaken.	<b>Workplace Health and Safety framework embedded in the Charter Hall Group business.</b>

“ Our relationship with Two Good mirrors our philosophy that everyone has the right to go further. The organisation gives vulnerable women who have experienced domestic violence, life-changing employment opportunities.



 **Governance:  
Responsible business**

 <b>FY20 Achievements</b>	<b>FY25 Targets</b>
<b>Business ethics and compliance</b>  Maintained high ethical standards and our Risk Culture Index rating of 81%.  100% of Charter Hall Group participation in Risk and Compliance training, including integrity and compliance.	<b>Responsible and ethical investment framework.</b>  Build on our Risk Culture Index.
<b>Responsible and sustainable supply chain</b>  Implemented our Human Rights Framework across Charter Hall assets, developments and operations.  101 priority 1 suppliers invited to complete a modern slavery pre-qualification survey. <ul style="list-style-type: none"><li>– 64% of invited suppliers have completed or commenced the survey</li><li>– 84% of completed supplier surveys state they understand the basic facts around modern slavery and have a general awareness</li></ul> Ongoing participation in Property Council of Australia’s Modern Slavery Working Group and Cleaning Accountability Framework building certification scheme.  Published annual UN Global Compact and Modern Slavery Statement in sustainability report.	<b>Integrated sustainable and equitable supply chain management into assets and developments.</b>  Tier 1 supply chain screened for human rights and modern slavery considerations.
<b>Climate governance</b>  TCFD alignment underway.  Climate resilience strategy developed to prepare our business for a low carbon economy and/or business-as-usual climate scenarios.	<b>Ongoing alignment with TCFD.</b>
<b>Actively protecting the privacy of individuals and companies</b>  Continued Charter Hall Group training on privacy, information security and governance.  Ongoing Charter Hall Group management of our information security practices in alignment with the ISO 27001 framework and regulatory requirements.	<b>Information security and privacy practices fully embedded in our operations and continuously evolved to the changing threat landscape.</b>

# Directors’ report and financial report

For the year ended  
30 June 2020

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## Directors' report

The Directors of Charter Hall Retail Management Limited (Responsible Entity or CHRML), the Responsible Entity of Charter Hall Retail REIT, present their report together with the consolidated financial statements of Charter Hall Retail REIT and its controlled entities (together, the REIT, the Fund) for the year ended 30 June 2020.

### 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:

- Roger Davis – Chair and Non-Executive Independent Director
- Sue Palmer – Non-Executive Independent Director and Chair of Audit, Risk and Compliance Committee
- Michael Gorman – Non-Executive Independent Director
- David Harrison – Executive Director and Managing Director / Group CEO of Charter Hall
- Greg Chubb – Executive Director and Fund Manager / Retail CEO of Charter Hall

### Distributions

Distributions paid or declared by the REIT to unitholders:

	2020 \$'m	2019 \$'m
Final distribution for the six months ended 30 June 2020 of 10.00 cents per unit payable on 28 August 2020	57.1	-
Interim distribution for the six months ended 31 December 2019 of 14.52 cents per unit paid on 28 February 2020	64.3	-
Final distribution for the six months ended 30 June 2019 of 14.48 cents per unit paid on 30 August 2019	-	63.8
Interim distribution for the six months ended 31 December 2018 of 14.28 cents per unit paid on 28 February 2019	-	57.5
	121.4	121.3

A liability has been recognised in the consolidated financial statements as the final distribution had been estimated and announced to the market 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 \$12.2 million from the DRP for the 31 December 2019 distribution. The DRP is suspended for the 30 June 2020 distribution.

### Review and results of operations

The REIT recorded a statutory profit for the year of \$44.2 million (2019: \$53.1 million). Operating earnings amounted to \$142.7 million (2019: \$128.0 million). Net cash flow from operating activities for the year was \$132.9 million (2019: \$113.8 million).

The REIT's operating earnings increased predominantly as a result of the continued asset recycling strategy. Net income from wholly owned properties was stable despite the divestment of eight wholly owned assets totalling \$178.0 million. Net income from joint venture entities increased as a result of investments into two convenience plus shopping centres and a portfolio of long WALE retail properties leased to bp. Finance costs savings are a result of the low interest rate environment and repayment of debt due to equity raised over the period.

## Directors' report (continued)

During the period March to June 2020, the COVID-19 pandemic impacted our business with increased sales from our major and essential services tenants offset by reduced sales due to government mandated closure of some of our specialty retailers and voluntary closures of some of our non-discretionary retailers. As government restrictions eased, we saw improved sales and foot traffic through our centres.

The introduction of State Governments' legislation (Code of Conduct) created a framework to administer tenant support to those tenants whose operations were negatively impact by COVID-19. Tenant support for the period was only provided to our specialty tenants and equated to \$8.2 million in rental relief in the form of rent free incentives and deferrals (look-through including the REIT's share of convenience retail joint ventures: \$10.7 million).

In December 2019, and in line with the REIT's asset recycling strategy, proceeds from the sale of shopping centre assets were applied to the purchase of a 30% interest in a portfolio of bp service stations. The REIT raised \$100.0 million of equity in February 2020 to fund its increased interest in the bp portfolio to 47.5%.

Due to the uncertainty as to the impact of COVID-19 on our business, the REIT also raised \$304.2 million equity in April 2020. This has reduced gearing and provides stability to the REIT.

The uncertainty of the impact of COVID-19 has been considered in both our independent and director's valuations. Over the six months from 31 December 2019 to 30 June 2020 the REIT's portfolio valuation declined 1.3% due to shopping centre valuations declining by 2.4%, partially offset by a 6.2% increase in valuation of our bp investment. External valuations were conducted at 30 June 2020 for 67% of the REIT's portfolio, including joint ventures.

Operating earnings is a financial measure which represents profit under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straight lining of rental income and amortisations and other unrealised one-off items that are not in the ordinary course of business or are capital in nature. Operating earnings includes the rental revenue recognised in respect of tenants who have been (or will be) provided with rent free incentives as a result of COVID-19. This approach is consistent with the REIT's treatment of rent free incentives provided in the ordinary course of its operations which are amortised over the term of the lease.

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

The table below sets out income and expenses that comprise operating earnings and the adjustments to arrive at net cash flows from operating activities:

	2020 \$'m	2019 \$'m
Net property income from wholly owned properties	146.4	146.4
Net income from joint venture entities	27.4	23.5
<b>Total convenience retail segment income</b>	<b>173.8</b>	169.9
<b>Long WALE retail segment income</b>	<b>7.5</b>	-
Interest income	0.4	0.3
Management fees	(10.8)	(9.4)
Finance costs	(24.9)	(29.5)
Other expenses	(3.3)	(3.3)
<b>Operating earnings</b>	<b>142.7</b>	128.0
COVID-19 tenant support*	(10.0)	-
Other non-cash items	0.2	0.1
<b>Net cash flows from operating activities**</b>	<b>132.9</b>	128.1

\* Includes \$10.7 million of COVID-19 tenant support provided in the form of rent free incentives and deferrals less expected credit loss provisioning.

\*\* Includes capital distribution received from joint venture entity during the year ended 30 June 2019 of \$14.3 million.

## Directors' report (continued)

A reconciliation of net cash flows from operating activities and operating earnings to statutory profit is set out below:

	2020 \$'m	2019 \$'m
<b>Net cash flows from operating activities<sup>1</sup></b>	<b>132.9</b>	128.1
COVID-19 tenant support <sup>2</sup>	10.0	-
Other non-cash items	(0.2)	(0.1)
<b>Operating earnings</b>	<b>142.7</b>	128.0
Net revaluation decrement on investment properties	(41.5)	(17.8)
Net loss on derivative financial instruments <sup>3</sup>	(23.3)	(42.9)
Loss on sale of investment properties	(5.5)	(1.9)
Straight lining of rental income and amortisation of incentives	(9.6)	(7.6)
Impairment of joint venture acquisition costs <sup>4</sup>	(14.7)	-
Provision for rent relief <sup>5</sup>	(3.0)	-
Revaluation decrement on investment properties attributable to acquisition costs	-	(3.3)
Other	(0.9)	(1.4)
<b>Statutory profit for the year</b>	<b>44.2</b>	53.1
Basic weighted average number of units (millions)	467.1	411.4
Basic earnings per unit (cents)	9.46	12.92
Operating earnings per unit (cents)	30.56	31.12
Distribution per unit (cents)	24.52	28.76

1 Includes capital distribution received from joint venture entity during the year ended 30 June 2019 of \$14.3 million.

2 Includes \$10.7 million of COVID-19 tenant support provided in the form of rent free incentives and deferrals less expected credit loss provisioning.

3 Included in net loss on derivative financial instruments is a fixed liability of \$11.9 million associated with resetting the REIT's interest rate swaps (2019: \$19.9 million). The payment is due in September 2020. The balance relates to movements in the fair value of the REIT's interest rate swaps.

4 Acquisition costs, including stamp duty at joint venture level of \$10.4 million and the REIT's transaction costs of \$4.3 million, not recoverable on the basis of valuations as at 30 June 2020. Both impairments relate to the long WALE retail segment.

5 COVID-19 rent free incentives relating to rent amounts due at 30 June 2020 expected to be agreed post 30 June 2020.

The 30 June 2020 financial results are summarised as follows:

	2020	2019
Revenue (\$ millions)	206.1	202.0
Net profit after tax (\$ millions)	44.2	53.1
Basic earnings per unit (cents)	9.46	12.92
Operating earnings (\$ millions)	142.7	128.0
Operating earnings per unit (cents)	30.56	31.12
Distributions (\$ millions)	121.4	121.3
Distributions per unit (cents)	24.52	28.76
Total assets (\$ millions)	3,110.1	2,908.3
Total liabilities (\$ millions)	968.0	1,107.6
Net assets attributable to unitholders (\$ millions)	2,142.1	1,800.7
Units on issue (millions)	570.9	440.9
Net assets per unit (\$)	3.75	4.08
Balance sheet gearing - total debt (net of cash and derivatives) to total assets (net of cash and derivatives)	22.7%	32.9%
Look through gearing - total debt (net of cash and derivatives) to total assets (net of cash and derivatives)	30.3%	35.9%

## Directors' report (continued)

### Significant changes in the state of affairs

#### Joint Venture Arrangements

In September 2019, the REIT paid \$36.3 million to acquire 20% of the units in Charter Hall Retail Partnership No.6 Trust (CHRP6). CHRP6 consists of two Sydney metro shopping centres.

In December 2019, the REIT paid \$3.1 million to acquire an additional 2.4% interest in Charter Hall Retail Partnership No.2 Trust.

In December 2019, the REIT paid \$133.9 million to acquire 30% of the units in CH Dartmoor Wholesale Fund (CHDWF). In February 2020, the REIT paid \$78.1 million to acquire an additional 17.5% of the units in CHDWF. CHDWF has a 49% indirect interest in 225 long WALE convenience retail assets leased to bp Australia.

In June 2020, the REIT through its 50% interest in CHRP1 sold Pemulwuy Marketplace, NSW for \$35.0 million and contracted to sell West Ryde Marketplace, NSW for \$56.5 million.

#### Disposals

During the twelve months to 30 June 2020, the REIT sold the following properties:

Property	State	Settlement date	Gross settlement value \$'m
Katherine Central	NT	October 2019	28.9
Cooma Woolworths	NSW	December 2019	15.5
Bairnsdale Coles	Vic	December 2019	18.4
Moe Coles	Vic	December 2019	21.1
Kyneton Woolworths	Vic	December 2019	22.9
Erindale Shopping Centre & Grattan Court	ACT	January 2020	39.0
Carnarvon Shopping Centre	WA	January 2020	16.1
Balo Square	NSW	May 2020	15.5
			<b>177.4</b>

#### Capital raising

In February 2020, the REIT completed an institutional placement, raising \$100.0 million through the issue of 20,790,021 new units at an issue price of \$4.81 per unit.

In April 2020, the REIT completed an institutional placement, raising \$275.0 million through the issue of 94,827,587 new units at an issue price of \$2.90 per unit.

In May 2020, the REIT completed a Unit Purchase Plan (UPP), in connection with the institutional placement in April. A total of \$29.2 million was raised under the UPP, with 10,056,954 new units issued at an issue price of \$2.90 per unit.

## Directors' report (continued)

### Financing

In December 2019, as part of the investment in CHDWF, the REIT reset \$775.0 million of interest rate swaps to a lower weighted average hedged rate. A current liability of \$11.9 million recognised at 30 June 2020 reflects the cost of resetting the swaps and is payable in September 2020.

In December 2019, the REIT upsized an existing bilateral facility from \$40.0 million to \$90.0 million, with \$50.0 million to mature in December 2021 and \$40.0 million to mature in November 2022.

In June 2020, the REIT reduced its interest rate swap portfolio from \$775.0 million to \$575.0 million with extended maturity dates and a lower weighted average hedged rate. There was no payment associated with this transaction.

### COVID-19 rent relief

The REIT has been working with tenants impacted by COVID-19 to provide rental relief in line with State Governments' legislation. This has resulted in an increased number of rent incentives and deferrals. For the period up to 30 June 2020 the REIT provided \$8.2 million in rental relief (look-through including the REIT's share of convenience retail joint ventures: \$10.7 million). This rent relief was comprised of:

- Rent free incentives of \$3.6 million (look-through: \$4.6 million) agreed during the year;
- Rent free incentives of \$2.3 million (look-through: \$3.0 million) expected to be agreed as at 30 June 2020; and
- Rent deferrals of \$2.3 million (look-through: \$3.1 million), an expected credit loss provision is held against these receivables.

Rent free incentives agreed by 30 June 2020 have been treated as lease modifications and are therefore amortised over the life of the lease. If agreements were not finalised by 30 June 2020 the equivalent of the rent free incentive has been expensed as provision for rent relief.

### Business strategies and prospects

The REIT's strategy is to be the leading owner and manager of property for convenience retailers in Australia. This is through our convenience and convenience plus shopping centres and our long WALE retail properties with long leases to non-discretionary retailers. When acquiring these properties, the REIT's investment criteria includes 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;
- The resilience of the income to be generated from the property; and
- Potential future value adding opportunity.

The shopping centres in the portfolio typically range in area up to 25,000 sqm and have capital and income growth potential. The long WALE retail properties in the portfolio have long leases to major convenience retailers with contracted rental increases. The REIT aims to maintain and enhance the portfolio through active asset and property management and to proactively manage its equity and debt.

The REIT has a target look through portfolio gearing range of 30-40% and a target interest cover ratio of at least 2.5 times. The REIT maintains an investment grade credit rating of Baa1 with a stable outlook with Moody's.

The material business risks faced by the REIT that are likely to have an effect on its financial performance are set out below. A dedicated risk and compliance team are responsible for the ongoing review and monitoring of compliance and risk management systems. The Board regularly review material risks to ensure they remain within the REIT's agreed risk appetite.

## Directors' report (continued)

Risk		Description	Mitigation
<b>External Risks</b>	Property cycle risk and adverse market or economic conditions	Failure to insulate against property cycle downturns and slowing economic conditions may have an impact on asset values and investor returns.	We ensure we consistently deliver on strategy with a focus on non-discretionary convenience retail including investment in long WALE retail assets with contracted growth attributes. We undertake detailed annual strategic review for all assets to inform recycling of capital into new areas and formal exit strategies for investments. By undertaking ongoing due diligence including demographics, catchments, competitor threats, and by leveraging consultant expertise we ensure that we remain informed of market changes.
	Structural change in Retail	Disruptive competitors and changing retail spend behaviours may have an impact on key tenants and on marginal tenancies. This may impact space requirements from tenants. Changing technology is changing tenant and shoppers' expectations.	The senior management team is deeply connected to industry, tenants and key partners to inform ongoing planning to manage COVID-19 implications through the REIT. The focus on non-discretionary convenience retail places the portfolio in a resilient position as to the impacts of COVID-19.
	Strategic challenges posed by COVID-19	COVID-19 will have tactical and economic impacts in the short term and is expected to have portfolio consequences in the longer term.	
<b>Financial Risks</b>	Debt and equity capital management	Effective capital management is required to meet the REIT's ongoing liquidity and funding requirements. The inability to raise new capital to pursue growth opportunities or to raise replacement capital at challenging points in the debt or equity markets cycle is a key risk. A relationship breakdown or termination of joint venture partnership may result in reputational or financial damage.	We mitigate these risks by implementation of our debt diversity strategy combined with regular monitoring and reporting on debt covenants and stress testing of liquidity positions. We have demonstrated strong performance and equity raising track record and access to diversified equity partners across sources. We manage our relationships with our partners through investment agreements including investment committee oversight of all key decisions with structured and pre-agreed reporting.
<b>Operational Risks</b>	Work, Health & Safety (WHS) obligations, critical safety incident or significant crisis	We have a commitment to promote and protect the health, safety and wellbeing of its people, customers, contractors and all users of the REIT's assets.	Our Group WHS Manager collaborates closely with retail property management teams to ensure the roll-out of enhanced contractor registration / on-boarding platforms, incident notification platform, ongoing Risk Audits and training of centre teams regarding incident response and management.

## Directors' report (continued)

	Technology and cyber security	There is increasing sophistication of cyber-attacks, particularly denial of service impact on Building Management Security. A reportable data breach may result in adverse impact on reputation and / or financial penalty.	The cyber security strategy and program continues with external validation and yearly review of IT policies against best practice. We undertake annual penetration tests against critical systems and properties and have brought all critical systems under IT General Controls (ITGC) including regular user access reviews. Our internal audit includes risk identification and assessment for new platforms. We also have a formal cyber insurance policy which covers incident remediation costs.
	Organisational culture and conduct	Our ongoing success depends on our ability to attract, engage and retain a motivated and high-performing workforce to deliver our strategic objectives and an inclusive culture that supports our values.	We have a Code of Conduct in place with all employees and undertake consistent messaging and tone at the top regarding behaviour. We have a formal Whistleblower Policy in place and process to obtain regular employee feedback on culture and behaviours which is used to inform management decisions.
<b>Environmental</b>	Climate change	There is an increasing interest and expectation amongst investor groups on reporting against climate change risk. There has been the introduction of Task Force on Climate-related Financial Disclosures (TCFD) as a framework to address climate change through governance, risk management, metrics and targets.	We have aligned with the TCFD framework and developed our Climate Strategy for a Low Carbon Economy and Business as Usual Scenario. We have created a TCFD Working Group to inform climate resilience and reporting approach. We have set a pathway to net zero Scope 1 and Scope 2 emissions by 2030. We have undertaken physical climate change risk exposure assessments across assets and planning for climate change adaptation. Climate change adaptation due diligence is undertaken during our acquisition process.
<b>Regulatory</b>	AFSL compliance	We are required to comply with Australian Financial Services Licence requirements through our established policies and frameworks.	Regular compliance reporting is undertaken to Audit, Risk and Compliance Committee (ARCC) including mandatory annual compliance training requirements for all employees. In addition, we have formalised compliance committees with annual external audit of compliance plans.
	Management of conflicts of interest	Inadequate management of tenant and acquisition conflicts may arise between Charter Hall managed funds or related party transactions may be inappropriately managed. There is also a risk that the REIT fails to pay market rate for related party services.	Conflict of Interest protocols are embedded in the business including annual declarations from all employees and directors, board reporting / approval for all related party transactions. We have in place a Compliance Plan / function including oversight of Conflict of Interest / Related Party protocols and formalised asset allocation protocols.

## Directors' report (continued)

### Events occurring after balance date

In July 2020, the REIT increased its long WALE retail investments by acquiring a 52% interest in the Charter Hall Direct CDC Trust from a Charter Hall managed fund, for a gross price of \$60.1 million. The CDC Trust owns a \$215.0 million distribution facility in Edinburgh Park, SA fully leased to Coles Group Limited.

In July 2020, CHRP1 divested West Ryde Marketplace, NSW for a gross price of \$56.5 million. The REIT's share of proceeds was \$28.3 million.

In August 2020, the REIT extended two of its bilateral facilities that were due to mature in FY2022 with \$120.0 million to mature in August 2024 and \$75.0 million to mature in August 2025.

### Likely developments and expected results of operations

The consolidated financial statements have been prepared on the basis of current known market conditions which are influenced by the COVID-19 pandemic. 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 is 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.

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.

### 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 \$12,491,883 (2019: \$10,952,057) 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's constitution as disclosed in Note D1 to the consolidated financial statements.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2020 and fees paid to its associates during the year are disclosed in Note D1 to the consolidated financial statements.

### Interests in the REIT

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

	2020	2019
Units on issue at the beginning of the year	440,901,884	402,483,504
Units issued during the year		
- via Distribution Reinvestment Plan	4,368,544	1,891,076
- via Placement issue	115,617,608	33,259,424
- via Unit Purchase Plan	10,056,954	3,267,880
<b>Units on issue at the end of the year</b>	<b>570,944,990</b>	<b>440,901,884</b>

### Value of assets

	2020 \$'m	2019 \$'m
<b>Value of REIT assets</b>	<b>3,110.1</b>	<b>2,908.3</b>

The value of the REIT's assets is derived using the basis set out in the notes to the consolidated financial statements for the year ended 30 June 2020.

## Directors' report (continued)

### Environmental regulations

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

## Directors' report (continued)

### Information on current Directors

Director	Experience	Special responsibilities	Interest in units of the REIT
Roger Davis	<p>Appointed 7 June 2018</p> <p>Roger was appointed to the Board of the management company of the Charter Hall Retail REIT on 7 June 2018 as Independent Non-Executive Director and Chair Elect. Roger was appointed Chair of the Board on 13 November 2018.</p> <p>Roger brings over 35 years' experience in banking and investment banking in Australia, the US and Japan. He is currently a Consulting Director at Rothschild (Australia) Limited, a Director of Argo Investments Limited, as well as the Chairman of AIG Australia Limited. In his career as senior executive, Roger was a Managing Director at Citigroup, where he worked for over 20 years in Australia, Japan and the US. More recently, he was a Group Managing Director at ANZ Banking Group responsible for all the Commercial, Investment and Institutional Banking activities.</p> <p>Roger has a Bachelor of Economics (Hons) from the University of Sydney and a Master of Philosophy from Oxford. He is also a qualified CPA.</p> <p>Current listed directorships</p> <p>Argo Investments Limited (ASX: ARG)</p> <p>Former listed directorships in the last three years</p> <p>Aristocrat Leisure Limited (ASX: ALL)</p> <p>Ardent Leisure Management Limited (ASX: AAD)</p> <p>Bank of Queensland (ASX: BOQ)</p>	Chair of Board of Directors, Member of Audit, Risk and Compliance Committee	38,669
Sue Palmer	<p>Appointed 10 November 2015</p> <p>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.</p> <p>Sue is a Chartered Accountant and Fellow of the Australian Institute of Company Directors.</p> <p>Current listed directorships</p> <p>Qube Holdings Limited (ASX: QUB)</p> <p>Former listed directorships in last three years</p> <p>RCR Tomlinson Limited (ASX: RCR)</p> <p>New Hope Corporation Limited (ASX: NHC)</p>	Chair of Audit, Risk and Compliance Committee	Nil

## Directors' report (continued)

Director	Experience	Special responsibilities	Interest in units of the REIT
Michael Gorman	<p>Appointed 10 November 2016</p> <p>Michael joined the Board in 2016. He brings more than 30 years' extensive experience in both real estate and the public equity and debt markets.</p> <p>In his 11 years with Novion Property Group, an ASX top 50 entity, and its predecessors, Michael held a number of executive positions including Deputy Chief Executive Officer, Chief Investment Officer and Fund Manager. In these roles, Michael was directly responsible for raising several billion dollars in equity on the Australian Securities Exchange and corporate bonds in the domestic and US markets.</p> <p>Also in 2016, Michael was appointed Non-Executive Director of GPT Funds Management Limited, the Responsible Entity of the GPT wholesale unlisted funds platform. Michael is also a Non-Executive Director of Adelaide Airport Limited and a member of its Property Development Committee and the Aeronautical and Related Infrastructure Committee.</p> <p>Michael completed the Advanced Management Programme at INSEAD, France, holds an MBA from the Australian Graduate School of Management of UNSW, a Bachelor of Science (Architecture) UNSW and a Bachelor of Architecture (First Class Honours, University Medal) at UNSW.</p> <p>Michael is a Graduate Member of the Australian Institute of Company Directors, a Fellow of the Australian Property Institute and a Fellow of the Royal Society of Arts.</p> <p>Current listed directorships</p> <p>Nil</p> <p>Former listed directorships in last three years</p> <p>Nil</p>	Member of Audit, Risk and Compliance Committee	25,069
David Harrison	<p>Appointed 1 March 2010</p> <p>David has over 30 years' 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, and Chair of the Executive Property Valuation Committee and Executive Leadership Committee.</p> <p>David has overseen the growth of the Charter Hall Group from \$500 million to \$40 billion of assets under management in 15 years.</p> <p>David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.</p> <p>David is a Director and Vice-President of the Property Council of Australia and chair of the Audit and Risk Committee.</p> <p>David is also a member of the Property Male Champions of Change.</p> <p>Current listed directorships</p> <p>Charter Hall Group (ASX: CHC)</p> <p>Charter Hall Long WALE REIT (ASX: CLW)</p> <p>Former listed directorships in last three years</p> <p>Nil</p>	Nil	124,378

## Directors' report (continued)

Director	Experience	Special responsibilities	Interest in units of the REIT
Greg Chubb	<p>Appointed 5 February 2016</p> <p>Greg is Fund Manager of the Charter Hall Retail REIT and Charter Hall's Retail CEO, joining the Group in 2014 with 30 years property market experience. Greg is responsible for all management aspects of the Retail Funds Management platform to deliver value creation within the retail portfolio and optimise returns for our investors.</p> <p>Prior to joining Charter Hall, Greg was the 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.</p> <p>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 is Joint Deputy Chair of the Shopping Centre Council of Australia.</p> <p>Current listed directorships</p> <p>Nil</p> <p>Former listed directorships in last three years</p> <p>Nil</p>	Nil	Nil

### Meetings of Directors

Name	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
Roger Davis	9	9	4	4
Sue Palmer	9	9	4	4
Michael Gorman	9	9	4	4
David Harrison	9	9	-	-
Greg Chubb	9	9	-	-

### Company Secretary

Mark Bryant was appointed as Company Secretary for the REIT on 1 July 2015.

Mark holds a Bachelor of Business (Accounting), a Bachelor of Laws (Hons), a Graduate Certificate in Legal Practice, and is admitted as a lawyer of the Supreme Court of NSW. Mark has over 15 years' experience as a lawyer, including advising on listed company governance, securities law, funds management, real estate and general corporate law.

Mark is the Group General Counsel and Company Secretary for the Charter Hall Group.

### Non-audit services

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

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

The Board of Directors has considered the position and, in accordance with the advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compliant with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in Note D5 to the consolidated financial statements, did not compromise the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor; and

## Directors' report (continued)

- 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 39.

### Rounding of amounts to the nearest hundred thousand dollars

As permitted by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 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.

### Directors' authorisation

The Directors' report is made in accordance with a resolution of the Directors. The financial statements were authorised for issue by the Directors on 12 August 2020. The Directors have the power to amend and re-issue the financial statements.



Roger Davis  
Chair  
Sydney  
12 August 2020



## Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Retail REIT for the year ended 30 June 2020, 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.



R W McMahon  
Partner  
PricewaterhouseCoopers

Sydney  
12 August 2020

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## Consolidated statement of comprehensive income

	Notes	2020 \$'m	2019 \$'m
<b>Revenue</b>			
Property income	A1	205.7	201.7
Interest income		0.4	0.3
<b>Total revenue</b>		<b>206.1</b>	202.0
<b>Other income</b>			
Share of net profit from joint venture entities	B2	42.0	20.0
<b>Total revenue and other income</b>		<b>248.1</b>	222.0
<b>Expenses</b>			
Property expenses		(67.8)	(63.4)
Net loss on movement in fair value of investment properties		(67.9)	(21.5)
Net loss from derivative financial instruments		(14.9)	(37.0)
Net loss on disposal of investment properties		(5.3)	(1.9)
Management fees	D1	(10.8)	(9.4)
Finance costs	C2	(27.3)	(32.4)
Impairment of joint venture acquisition costs		(4.3)	-
Provision for rent relief*		(2.3)	-
Other expenses		(3.3)	(3.3)
<b>Total expenses</b>		<b>(203.9)</b>	(168.9)
<b>Profit for the year</b>		<b>44.2</b>	53.1
<b>Other comprehensive income**</b>			
Change in the fair value of cash flow hedges	C4	1.2	1.5
<b>Other comprehensive income</b>		<b>1.2</b>	1.5
<b>Total comprehensive income for the year</b>		<b>45.4</b>	54.6
<b>Basic and diluted earnings per ordinary unitholder of the REIT</b>			
Earnings per unit (cents)	A2	9.46	12.92

\* COVID-19 rent free incentives relating to rent amounts due at 30 June expected to be agreed post 30 June 2020.

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

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

## Consolidated balance sheet

	Notes	2020 \$'m	2019 \$'m
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		80.5	4.8
Receivables and other assets	D2	18.0	14.9
Derivative financial instruments	C3	5.2	4.9
Prepayments		1.0	1.5
Assets classified as held for sale	B	-	60.7
<b>Total current assets</b>		<b>104.7</b>	86.8
<b>Non-current assets</b>			
Investment properties	B	2,240.3	2,388.6
Investments in joint venture entities	B2	665.9	382.8
Derivative financial instruments	C3	99.2	50.1
<b>Total non-current assets</b>		<b>3,005.4</b>	2,821.5
<b>Total assets</b>		<b>3,110.1</b>	2,908.3
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables and other liabilities	D2	29.4	31.8
Distribution payable	A2	57.1	63.8
Derivative financial instruments	C3	11.9	-
<b>Total current liabilities</b>		<b>98.4</b>	95.6
<b>Non-current liabilities</b>			
Borrowings	C2	830.4	974.2
Derivative financial instruments	C3	39.2	37.8
<b>Total non-current liabilities</b>		<b>869.6</b>	1,012.0
<b>Total liabilities</b>		<b>968.0</b>	1,107.6
<b>Net assets</b>		<b>2,142.1</b>	1,800.7
<b>Equity</b>			
Contributed equity	C4	2,846.2	2,428.8
Reserves	C4	1.5	0.3
Accumulated losses		(705.6)	(628.4)
<b>Total equity</b>		<b>2,142.1</b>	1,800.7

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

## Consolidated statement of changes in equity

	Notes	Contributed equity \$'m	Reserves \$'m	Accumulated losses \$'m	Total \$'m
Total equity at 1 July 2018		2,257.9	(1.2)	(560.2)	1,696.5
Profit for the year		-	-	53.1	53.1
Other comprehensive income		-	1.5	-	1.5
Total comprehensive income for the year		-	1.5	53.1	54.6
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C4	170.9	-	-	170.9
- Distributions paid and payable	A2	-	-	(121.3)	(121.3)
Total equity at 30 June 2019		2,428.8	0.3	(628.4)	1,800.7
<b>Total equity at 1 July 2019</b>		<b>2,428.8</b>	<b>0.3</b>	<b>(628.4)</b>	<b>1,800.7</b>
Profit for the year		-	-	44.2	44.2
Other comprehensive loss		-	1.2	-	1.2
<b>Total comprehensive (loss)/income for the year</b>		<b>-</b>	<b>1.2</b>	<b>44.2</b>	<b>45.4</b>
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C4	417.4	-	-	417.4
- Distributions paid and payable	A2	-	-	(121.4)	(121.4)
<b>Total equity at 30 June 2020</b>		<b>2,846.2</b>	<b>1.5</b>	<b>(705.6)</b>	<b>2,142.1</b>

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

## Consolidated cash flow statement

	2020 \$'m	2019 \$'m
<b>Cash flows from operating activities</b>		
Property income received	233.5	222.9
Property expenses paid	(76.7)	(72.1)
Distributions received from investment in joint venture entities	27.9	19.7
Other operating expenses paid	(15.2)	(14.4)
Finance costs paid	(24.4)	(30.5)
Interest and other income	0.4	0.3
Net GST paid to ATO on operating activities	(12.8)	(12.6)
Net GST received from ATO on investing activities	0.2	0.5
<b>Net cash flows from operating activities</b>	<b>132.9</b>	<b>113.8</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment properties and units in a fixed trust	172.8	160.8
Deposit received for investment property	-	0.6
Payments for investment properties, joint ventures and capital expenditure	(322.9)	(367.8)
Capital distribution received from joint venture entity	-	14.3
<b>Net cash flows from investing activities</b>	<b>(150.1)</b>	<b>(192.1)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	297.0	410.9
Repayment of borrowings	(493.5)	(425.6)
Reset of derivative financial instruments	-	(19.9)
Proceeds from issue of units	398.0	162.4
Distributions paid to unitholders, net of DRP	(108.6)	(106.1)
<b>Net cash flows from financing activities</b>	<b>92.9</b>	<b>21.7</b>
Net increase/(decrease) in cash held	75.7	(56.6)
Cash and cash equivalents at the beginning of the year	4.8	61.4
<b>Cash and cash equivalents at the end of the year</b>	<b>80.5</b>	<b>4.8</b>

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

### Non-cash financing and investing activities

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

	Notes	2020 \$'m	2019 \$'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	A2, C4	19.5	8.5

## About this report

The notes to these consolidated financial statements include additional information which is required to understand the operations, performance and financial position of the REIT. They are organised in four key sections:

- **Fund performance** – provides key metrics used to define financial performance
- **Property portfolio assets** – explains the structure of the investment property portfolio and investments in joint ventures
- **Capital structure and financial risk management** – details of how the REIT manages its exposure to various financial risks
- **Further information** – provides additional disclosures not included in previous sections but relevant in understanding the financial statements

<b>Fund performance</b>	<b>45</b>	<b>Property portfolio assets</b>	<b>50</b>
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### 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 – B2 Investment in joint venture entities
- Fair value estimation – B1 Investment properties, C2 Borrowings and liquidity and C3 Derivative financial instruments
- Provision for Expected credit losses – C5 (iv) Credit risk

The estimation uncertainty arising from COVID-19 on the above areas has been disclosed in Note A and throughout the relevant notes to the financial report.

## A. Fund performance

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

Operating earnings is a financial measure which represents profit under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straight lining of rental income and amortisations and other unrealised one-off items that are not in the ordinary course of business or are capital in nature. Operating earnings includes the rental revenue recognised in respect of tenants who have been (or will be) provided with rent free incentives as a result of COVID-19. This approach is consistent with the REIT's treatment of rent free incentives provided in the ordinary course of its operations which are amortised over the term of the lease.

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

### Coronavirus (COVID-19) impact

In preparing its financial statements the REIT has considered the current and ongoing impact that the COVID-19 pandemic has had on its business operations and upon the business operations of its tenant customers. In assessing such impacts management have relied upon certain key estimates to evaluate current and future business conditions. Inherent in any estimate is a level of uncertainty. In particular, due to COVID-19, estimation uncertainty is heightened this year. Estimation uncertainty is associated with:

- the extent and duration of the disruption to the REIT's tenant customers arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, including:
  - the disruption to capital markets;
  - deteriorating credit and liquidity concerns, impacting the ability of the REIT's speciality tenants to meet their rental obligations; and
  - increasing unemployment and declines in consumer discretionary spending which the REIT will continue to monitor and adapt as new information is available;
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn; and
- judgements in property valuations such as letting up time, incentives provided and vacancy.

During the period March to June 2020, the COVID-19 pandemic impacted our business with increased sales from our major and essential services tenants offset by reduced sales due to government mandated closure of some of our specialty retailers and voluntary closures of some of our non-discretionary retailers. As government restrictions eased, we saw improved sales and foot traffic through our centres.

The introduction of State Governments' legislation (Code of Conduct) created a framework to administer tenant support to those tenants whose operations were negatively impact by COVID-19. Tenant support for the period was only provided to our specialty tenants and equated to \$8.2 million in rental relief in the form of rent free incentives and deferrals (look-through including the REIT's share of convenience retail joint ventures: \$10.7 million).

In December 2019, and in line with the REIT's asset recycling strategy, proceeds from the sale of shopping centre assets were applied to the purchase of a 30% interest in a portfolio of bp service stations. The REIT raised \$100.0 million of equity in February 2020 to fund its increased interest in the bp portfolio to 47.5%.

Due to the uncertainty as to the impact of COVID-19 on our business, the REIT also raised \$304.2 million of equity in April 2020. This has reduced gearing and provides stability to the REIT.

The uncertainty of the impact of COVID-19 has been considered in both our independent and director's valuations. Over the six months from 31 December 2019 to 30 June 2020 the REIT's portfolio valuation declined 1.3% due to shopping centre valuations declining by 2.4%, partially offset by a 6.2% increase in valuation of our bp investment. External valuations were conducted at 30 June 2020 for 67% of the REIT's portfolio, including joint ventures.

In response to the increased estimation uncertainty the REIT has assessed the carrying values of its assets and liabilities in light of COVID-19. Specific areas of assessment include impairment testing, refining methodologies and calculation of expect credit losses, fair value measurement of investment properties and associated disclosures within the financial statements.

The REIT has developed various accounting estimates in this report based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the REIT. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in this report.

## A1. Segment information

### (a) Description of segments

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The REIT has two operating segments:

#### Convenience Retail

This segment comprises convenience-based retail shopping centre investment properties held directly and through investments in joint venture entities.

#### Long WALE Retail Property

This segment comprises long WALE retail investment properties held through investments in joint venture entities.

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 B1. 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 and net cash flows from operating activities reported to the Board for the operating segments for the years ended 30 June 2020 and 30 June 2019 are as follows:

	2020 \$'m	2019 \$'m
<i>Convenience retail segment</i>		
Property rental income	162.8	160.8
Other income	42.9	40.9
Add back: non-cash adjustments	8.5	8.1
Property expenses	(67.8)	(63.4)
Net income from joint venture entities	27.4	23.5
<b>Total convenience retail segment income</b>	<b>173.8</b>	<b>169.9</b>
<b>Long WALE retail segment income</b>	<b>7.5</b>	<b>-</b>
<b>Total segment income</b>	<b>181.3</b>	<b>169.9</b>
Interest income	0.4	0.3
Management fees (refer to note D1)	(10.8)	(9.4)
Finance costs	(24.9)	(29.5)
Other expenses	(3.3)	(3.3)
<b>Operating earnings</b>	<b>142.7</b>	<b>128.0</b>
COVID-19 tenant support*	(10.0)	-
Other non-cash items	0.2	0.1
<b>Net cash flows from operating activities**</b>	<b>132.9</b>	<b>128.1</b>

\* Includes \$10.7 million of COVID-19 tenant support provided in the form of rent free incentives and deferrals less expected credit loss provisioning.

\*\* Includes capital distribution received from joint venture entity during the year ended 30 June 2019 of \$14.3 million.

#### Property rental income

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

Minimum lease payments to be received includes future amounts to be received on non-cancellable operating leases, not recognised in the financial statements at balance date. The remainder will be accounted for as property rental income as it is earned. Amounts receivable under non-cancellable operating leases where the REIT's right to consideration for a service directly corresponds with the value of the service provided to the customer have not been included (for example, variable amounts payable by tenants for their share of the operating costs of the asset).

## A. Fund performance (continued)

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements as receivable are as follows:

	0 to 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
<b>2020</b>	<b>177.5</b>	<b>507.9</b>	<b>403.1</b>	<b>1,088.5</b>
2019	195.1	569.0	482.7	1,246.8

#### Lease modification

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

#### Other income

Other income principally includes non-lease income derived under lease agreements with tenants. Non-lease income relates to the proportion of shopping centre operating costs which are recoverable from tenants in accordance lease agreements and relevant Retail Tenancy Acts. See note D8 for further details.

#### Property 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.

A reconciliation of net cash flows from operating activities and operating earnings to profit after tax is set out below:

	2020 \$'m	2019 \$'m
<b>Net cash flows from operating activities<sup>1</sup></b>	<b>132.9</b>	<b>128.1</b>
COVID-19 tenant support <sup>2</sup>	10.0	-
Other non-cash items	(0.2)	(0.1)
<b>Operating earnings</b>	<b>142.7</b>	<b>128.0</b>
Net revaluation decrement on investment properties	(41.5)	(17.8)
Revaluation decrement on investment properties attributable to acquisition costs	-	(3.3)
Net loss on derivative financial instruments <sup>3</sup>	(23.3)	(42.9)
Loss on sale of investment properties	(5.5)	(1.9)
Straight lining of rental income and amortisation of incentives	(9.6)	(7.6)
Impairment of joint venture acquisition costs <sup>4</sup>	(14.7)	-
Provision for rent relief <sup>5</sup>	(3.0)	-
Other	(0.9)	(1.4)
<b>Statutory profit for the year</b>	<b>44.2</b>	<b>53.1</b>
Basic weighted average number of units (millions)	467.1	411.4
Basic earnings per unit (cents)	9.46	12.92
Operating earnings per unit (cents)	30.56	31.12
Distribution per unit (cents)	24.5	28.8

1 Includes capital distribution received from joint venture entity during the year ended 30 June 2019 of \$14.3 million.

2 Includes \$10.7 million of COVID-19 tenant support provided in the form of rent free incentives and deferrals less expected credit loss provisioning.

3 Included in net loss on derivative financial instruments is a fixed liability of \$11.9 million associated with resetting the REIT's interest rate swaps (2019: \$19.9 million). The payment is due in September 2020.

4 Acquisition costs, including stamp duty at joint venture level \$10.4 million and the REIT's transaction costs \$4.3 million, not recoverable on the basis of valuations as at 30 June 2020. Both impairments relate to the long WALE retail segment.

5 COVID-19 rent free incentives relating to rent amounts due at 30 June 2020 expected to be agreed post 30 June 2020.

## A. Fund performance (continued)

### A2. Distributions and earnings per unit

#### (a) Distributions paid and payable

	Distribution Cents per unit	Total amount \$'m
<i>Ordinary unitholders</i>		
Distributions for the half year ended:		
31 December 2019 (paid 28 February 2020)	14.52	64.3
30 June 2020 (payable 28 August 2020)*	10.00	57.1
	<b>24.52</b>	<b>121.4</b>
<i>Ordinary unitholders</i>		
Distributions for the half year ended:		
31 December 2018 (paid 28 February 2019)	14.28	57.5
30 June 2019 (paid 30 August 2019)	14.48	63.8
	<b>28.76</b>	<b>121.3</b>

\* The distribution of 10.00 cents per unit for the six months period ended 30 June 2020 was declared prior to 30 June 2020 and will be paid on 28 August 2020.

Pursuant to the REIT's constitution, the amount distributed to unitholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings (refer to Note A1) as a guide to assessing an appropriate distribution to declare.

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

Under current Australian income tax legislation, the REIT is not liable to pay income tax provided the trustee has attributed all the taxable income of the REIT to unitholders.

#### (b) Earnings per unit

	2020	2019
<b>Basic earnings per ordinary unitholder of the REIT</b>		
Earnings per unit (cents)	9.46	12.92
Operating earnings per unit (cents)	30.56	31.12
<b>Earnings used in the calculation of basic earnings per unit</b>		
Net profit for the year (\$'m)	44.2	53.1
Operating earnings for the year (\$'m)	142.7	128.0
Weighted average number of units used in the calculation of basic earnings per unit (millions)*	467.1	411.4

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

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

Operating earnings per unit is determined by dividing the operating earnings by the weighted average number of 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. The REIT has no dilutive or convertible units on issue.

## A. Fund performance (continued)

### A3. Reconciliation of net profit to operating cash flow

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

	Notes	2020 \$'m	2019 \$'m
<b>Profit after tax</b>		<b>44.2</b>	53.1
<i>Non-cash items</i>			
Straight lining and amortisation of lease incentives		8.0	7.1
Share of unrealised net loss/(profit) on investment in joint venture entities		(8.8)	3.3
Property valuation loss		67.9	21.5
Loss on sale of investment properties		5.3	1.9
Net loss on derivative financial instruments	B2, C3	17.3	39.7
Write off of capitalised borrowing costs related to refinancing		-	0.3
Impairment of joint venture acquisition costs		4.3	-
Provision for rent relief		2.3	-
			-
<i>Change in assets and liabilities</i>			
(Increase)/decrease in assets			
Receivables and other assets		(2.4)	(3.3)
Accrued interest on cross currency and interest rate swap		(0.3)	(0.4)
Net income receivable from investment in joint venture entities		(8.1)	(3.8)
Prepayments		0.5	0.2
Unamortised borrowing costs		0.8	(0.2)
Increase/(decrease) in liabilities			
Payables and other liabilities		1.9	(5.6)
<b>Net cash flows from operating activities</b>		<b>132.9</b>	113.8

## B. Property portfolio assets

The REIT's property portfolio assets comprise directly held investment properties and indirectly held interests in investments held through joint ventures. Investment properties comprise investment interests in land and buildings held for long term rental yields, including properties that are under development for future use as investment properties. Investments in joint ventures comprise indirect interests in investment properties held by a separate legal entity to the REIT.

The following table summarises the property portfolio assets detailed in this section, including those directly owned and the REIT's ownership share of the properties indirectly held:

	Notes	2020 \$'m	2019 \$'m
<b>Non-current assets</b>			
Investment properties	B1	2,240.3	2,388.6
Joint venture investment property	B2	983.2	532.6
Joint venture adjustment*	B2	(317.3)	(149.8)
<b>Total non-current assets</b>		<b>2,906.2</b>	2,771.4
<b>Current assets</b>			
Assets held for sale**	B1	-	60.7
<b>Property portfolio assets, including interests in joint venture</b>		<b>2,906.2</b>	2,832.1

\* Joint venture adjustment includes non-investment property assets and liabilities of the REIT's joint ventures.

\*\* The REIT has nil assets held for sale in June 2020 (three in June 2019).

### B1. Investment properties

#### 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. Revaluation gains and losses are included in the consolidated statement of comprehensive income in the year in which they arise.

#### Assets held for sale

Assets which are classified as held for sale are classified as current assets as it is expected they will be divested within the coming reporting period. Each asset is for sale in its current condition and is subject to an active marketing campaign or has an executed sales contract.

#### Development properties

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

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

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

#### (a) Valuation process

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

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. For properties not under development or classified as held for sale, if the external valuation is more than 12 months old then the property is externally valued. For others, 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. Where an internal valuation differs from the most recent independent valuation by +/- 5%, a new independent valuation is obtained.

As at 30 June 2020, 67% of non-development investment properties, including joint ventures, (excluding assets held for sale) were externally valued. During the year ended 30 June 2020, 99% of these non-development investment properties, including joint ventures, (excluding assets held for sale) were externally valued (2019: 100%).

## B. Property portfolio assets (continued)

### (b) Valuation techniques and key judgements

In determining fair value of investment properties, management has considered the nature, characteristics and risks of its investment properties. Such risks include but are not limited to the property cycle, structural changes in retail and the current and future macro-economic environment. In particular, the impact of COVID-19 on underlying tenant businesses and markets has led to heightened estimation uncertainty in the key assumptions and inputs applied to the REIT's investment properties. The table below identifies the assumptions and inputs, which are not based on observable market data, used to measure the fair value (level 3) of the investment properties:

	Fair value \$'m	Gross market rent (\$ p.a./sqm)	Adopted capitalisation rate (%)	Adopted terminal yield (%)	Adopted discount rate (%)
<b>2020</b>	<b>2,240.3</b>	<b>159 - 673</b>	<b>4.8 - 8.3</b>	<b>4.9 - 8.5</b>	<b>6.0 - 9.3</b>
2019	2,449.3	136 - 673	4.9 - 8.3	5.3 - 8.8	6.3 - 9.3

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 a 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.

The movement in capitalisation rate is considered by the REIT as the most significant assumption to impact the fair value of investment properties. For CQR wholly owned investment properties if the capitalisation rate expanded by 25 basis points, fair value would reduce by \$86.4 million from the fair value as at 30 June 2020 (including the REIT's share of joint venture properties \$129.5 million). And if the capitalisation rate compressed by 25 basis points, fair value would increase by \$93.6 million from the fair value as at 30 June 2020 (including the REIT's share of joint venture properties \$140.7 million).

In addition to the above, all valuations have considered the impact of COVID-19 including an estimate of rent relief to be provided to tenants under the Commercial Leases Code of Conduct.

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

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

	2020 \$'m	2019 \$'m
Carrying amount at the beginning of the year	2,388.6	2,385.6
Add back prior period held for sale	60.7	33.6
Additions and capital improvements	44.1	295.3
Acquisition costs incurred	-	14.5
Revaluation decrement attributable to acquisition costs	-	(14.5)
Net revaluation decrement	(67.9)	(7.0)
Straight lining and amortisation of lease incentives	(7.9)	(7.1)
Disposals	(177.3)	(251.1)
Reclassification of investment properties as held for sale	-	(60.7)
<b>Carrying amount at the end of the year</b>	<b>2,240.3</b>	2,388.6

## B. Property portfolio assets (continued)

### B2. Investment in joint venture entities

The REIT accounts for investments in joint venture entities using the equity method. 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. The principal activity of all joint venture entities during the period was property investment.

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

At 30 June 2020, a fair value less cost to sell approach was applied to calculate the recoverable value for one of the REIT's joint venture investments. This calculation was based on the fair value of investment property held by the underlying joint venture. The valuation of the joint ventures investment property is considered to be level 3 and was calculated in accordance with the REIT's policy (refer to note B.1(b) above). The key assumption applied in the calculation was the capitalisation rate adopted.

Information relating to the joint venture entities is detailed below:

Joint venture entity	Country of establishment	Principal activity	Ownership interest	
			2020 %	2019 %
Charter Hall Retail Partnership No.1 Trust (CHRP1)	Australia	Property investment	50.0%	50.0%
Charter Hall Retail Partnership No.2 Trust (CHRP2)*	Australia	Property investment	49.9%	47.5%
Charter Hall Retail Partnership No.6 Trust (CHRP6)**	Australia	Property investment	20.0%	-
CH Dartmoor Wholesale Fund (CHDWF)***	Australia	Property investment	47.5%	-
CH Gateway Plaza Trust (CHGWT)	Australia	Property investment	50.0%	50.0%
CH Salamander Bay Square Trust (CHSBT)	Australia	Property investment	50.5%	50.5%

\* In December 2019, the REIT acquired an additional 2.4% of the units of CHRP2 for \$3.1 million from Charter Hall Property Trust (ASX: CHC), a related party.

\*\* In September 2019, the REIT acquired 20.0% of the units of CHRP6 for \$36.3 million from Charter Hall Property Trust (ASX: CHC), a related party. CHRP6 is classified as a Joint Venture.

\*\*\* In December 2019, the REIT acquired 30.0% of the units of CHDWF for \$133.9 million, which was classified as an associate. In February 2020, the REIT acquired an additional 17.5% units for \$77.0 million from Charter Hall Property Trust (ASX: CHC), a related party. In June 2020, CHDWF was reclassified as a Joint Venture after an amendment to the Unitholders Agreement.

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

	2020 \$'m	2019 \$'m
Balance at the beginning of the year	382.8	245.8
Acquisition of interest in joint ventures	251.7	62.1
Joint venture establishment through loss of control	-	88.9
Share of profits and net property valuation gains	42.0	20.0
Impairment of joint venture acquisition costs*	(4.3)	-
Distributions paid and payable	(31.5)	(36.2)
Distribution reinvested	4.7	2.1
Equity calls	22.0	-
Other	(1.5)	-
<b>Balance at the end of the year</b>	<b>665.9</b>	<b>382.8</b>

\* Acquisition costs not recoverable on the basis of valuations as at 30 June 2020.

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

The tables below provide summarised information about the financial performance of the joint venture entities as a whole as at 30 June 2020, not the REIT's proportionate share. Those investments that are not individually material to the REIT have been included in aggregate in the column 'Other Shopping Centre Investments' (Other SCI). Materiality is assessed on the investments' contribution to the REIT's income and net assets.

## B. Property portfolio assets (continued)

	CHRP1 100% interest \$'m	CHRP2 100% interest \$'m	Other SCI 100% interest* \$'m	CHDWF 100% interest** \$'m	Total 100% interest \$'m
<b>2020</b>					
<b>Income</b>					
Property income	47.5	19.1	43.7	24.5	134.8
Property expenses	(15.9)	(5.0)	(12.0)	-	(32.9)
<b>Net property income</b>	<b>31.6</b>	<b>14.1</b>	<b>31.7</b>	<b>24.5</b>	<b>101.9</b>
Finance costs	(6.7)	(3.5)	(2.9)	(6.3)	(19.4)
Other expenses	(2.4)	(1.0)	(1.0)	(0.1)	(4.5)
<b>Total expenses</b>	<b>(9.1)</b>	<b>(4.5)</b>	<b>(3.9)</b>	<b>(6.4)</b>	<b>(23.9)</b>
<b>Operating earnings</b>	<b>22.5</b>	<b>9.6</b>	<b>27.8</b>	<b>18.1</b>	<b>78.0</b>
Net revaluation increment/(decrement) on investment properties	(1.7)	(17.2)	(4.0)	61.9	39.0
Loss on disposal	(0.4)	-	-	-	(0.4)
Net unrealised loss on derivative financial instruments	(1.9)	(1.2)	(0.2)	(11.4)	(14.7)
Provision for rent relief	(0.5)	(0.3)	(0.7)	-	(1.5)
Other	(2.1)	(1.3)	(0.2)	-	(3.6)
<b>Statutory profit for the year</b>	<b>15.9</b>	<b>(10.4)</b>	<b>22.7</b>	<b>68.6</b>	<b>96.8</b>
<b>Total comprehensive income</b>	<b>15.9</b>	<b>(10.4)</b>	<b>22.7</b>	<b>68.6</b>	<b>96.8</b>
<b>REIT's interest in total comprehensive income</b>	<b>8.0</b>	<b>(5.3)</b>	<b>6.8</b>	<b>32.5</b>	<b>42.0</b>

\* In September 2019, the REIT acquired 20.0% of the units of CHRP6 from Charter Hall Property Trust (ASX: CHC), a related party. The above table shows the financial performance of CHRP6 from 18 September 2019 to 30 June 2020.

\*\* In December 2019, the REIT acquired 30.0% of the units of CHDWF and in February 2020, the REIT acquired an additional 17.5% units from Charter Hall Property Trust (ASX: CHC), a related party. The above table shows the financial performance of CHDWF from 19 December 2019 to 30 June 2020.

	CHRP1 100% interest \$'m	CHRP2 100% interest \$'m	Other SCI 100% interest \$'m	CHDWF 100% interest \$'m	Total 100% interest \$'m
<b>2019</b>					
<b>Income</b>					
Property income	46.7	18.2	23.3	-	88.2
Property expenses	(15.5)	(4.5)	(6.1)	-	(26.1)
<b>Net property income</b>	<b>31.2</b>	<b>13.7</b>	<b>17.2</b>	<b>-</b>	<b>62.1</b>
Finance costs	(7.2)	(4.2)	-	-	(11.4)
Other expenses	(2.4)	(1.0)	-	-	(3.4)
<b>Total expenses</b>	<b>(9.6)</b>	<b>(5.2)</b>	<b>-</b>	<b>-</b>	<b>(14.8)</b>
<b>Operating earnings</b>	<b>21.6</b>	<b>8.5</b>	<b>17.2</b>	<b>-</b>	<b>47.3</b>
Net revaluation increment/(decrement) on investment properties	6.4	(6.7)	0.9	-	0.6
Net unrealised loss on derivative financial instruments	(4.8)	(1.7)	-	-	(6.5)
Other	(1.2)	(0.9)	0.5	-	(1.6)
<b>Statutory profit for the year</b>	<b>22.0</b>	<b>(0.8)</b>	<b>18.6</b>	<b>-</b>	<b>39.8</b>
<b>Total comprehensive income</b>	<b>22.0</b>	<b>(0.8)</b>	<b>18.6</b>	<b>-</b>	<b>39.8</b>
<b>REIT's interest in total comprehensive income</b>	<b>11.0</b>	<b>(0.4)</b>	<b>9.4</b>	<b>-</b>	<b>20.0</b>

## B. Property portfolio assets (continued)

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

The tables below provide summarised information about the financial position of the joint venture entities as a whole as at 30 June 2020, not the REIT's proportionate share. Those investments that are not individually material to the REIT have been included in aggregate in the column 'Other SCI'. Materiality is assessed on the investments' contribution to the REIT's income and net assets.

2020	CHRP1 \$'m	CHRP2 \$'m	Other SCI \$'m	CHDWF \$'m	Total \$'m
<b>Summarised balance sheet:</b>					
Current assets*	105.3	27.8	16.0	12.0	161.1
Investment properties - non-current assets	453.7	216.0	596.0	-	1,265.7
Investment in units - non-current assets	-	-	-	924.1	924.1
Current liabilities	10.2	4.2	6.6	9.6	30.6
Derivative financial instruments - non-current liabilities	7.5	4.0	3.1	11.8	26.4
Borrowings - non-current liabilities	206.1	87.8	97.6	424.9	816.4
<b>Net assets</b>	<b>335.2</b>	<b>147.8</b>	<b>504.7</b>	<b>489.8</b>	<b>1,477.5</b>
<b>REIT's interest in %</b>	<b>50.0</b>	<b>49.9</b>	<b>Various</b>	<b>47.5</b>	
<b>REIT's interest in \$'m and carrying value</b>	<b>167.6</b>	<b>73.8</b>	<b>191.8</b>	<b>232.7</b>	<b>665.9</b>

\* In July 2020, CHRP1 divested West Ryde Marketplace, NSW for a gross price of \$56.5 million. The property was held for sale as at 30 June 2020.

2019	CHRP1 interest \$'m	CHRP2 interest \$'m	Other SCI interest \$'m	CHDWF interest \$'m	Total interest \$'m
<b>Summarised balance sheet:</b>					
Current assets	3.1	3.0	3.1	-	9.2
Investment properties - non-current assets	540.5	230.0	304.5	-	1,075.0
Current liabilities	10.7	5.0	2.4	-	18.1
Derivative financial instruments - non-current liabilities	5.6	2.8	-	-	8.4
Borrowings - non-current liabilities	185.5	102.2	-	-	287.7
<b>Net assets</b>	<b>341.8</b>	<b>123.0</b>	<b>305.2</b>	<b>-</b>	<b>770.0</b>
<b>REIT's interest in %</b>	<b>50.0</b>	<b>47.5</b>	<b>Various</b>	<b>-</b>	
<b>REIT's interest in \$'m and carrying value</b>	<b>170.9</b>	<b>58.4</b>	<b>153.5</b>	<b>-</b>	<b>382.8</b>

### B3. Expenditure commitments

The REIT and joint venture entities may enter into contracts for the acquisition, construction and development of properties in Australia. The commitments of the REIT in relation to such contracts are \$6.2 million (2019: \$nil). The REIT's share in the commitments of the joint venture entities is \$0.8 million (2019: \$nil). 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.

## C. Capital structure and financial risk management

The REIT's activities expose it to numerous external financial risks such as market risk, credit risk and liquidity risk. This section explains how the REIT utilises its risk management framework to reduce volatility from these external factors.

### C1. Capital risk management

Prudent capital management is one of the key strategies of the REIT, aligning with the REIT's resilient portfolio of non-discretionary Australian supermarket anchored shopping centres.

The REIT sources its capital through:

- debt sourced from a diverse mix of local and international banks and the US private placement bond market; and
- the listed Australian equity market.

The REIT is able to alter its capital mix by issuing new units, utilising 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.

Its capital management approach is regularly reviewed by management and the Board to ensure compliance with gearing, interest cover ratios and other covenants within approved limits and continuing to operate as a going concern.

The REIT has a target look-through portfolio gearing of 30% to 40% of debt to total assets.

The REIT's policy is to hedge 100% of the foreign currency risk of any gross asset or liability value, see note C3. The only foreign currency assets or liabilities are the US Private Placement notes (USPPs) on issue. The fair value of the hedge is reflected in the fair value of the USPPs.

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

### C2. Borrowings and liquidity

#### (a) Borrowings

Borrowings are initially recognised at fair value, estimated by comparing the margin on the facility to the pricing of a similar facility in the current market, and subsequently measured at amortised cost using the effective interest rate method 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. Refer to B2 (c) for borrowings within joint ventures.

	2020				2019			
	Current \$'m	Non-current \$'m	Total carrying amount \$'m	Fair value \$'m	Current \$'m	Non-current \$'m	Total carrying amount \$'m	Fair value \$'m
US Private Placement notes*	-	513.6	513.6	484.3	-	461.7	461.7	467.4
Bank loan - term debt**	-	316.8	316.8	316.9	-	512.5	512.5	517.5
Total unsecured borrowings	-	830.4	830.4	801.2	-	974.2	974.2	984.9
Undrawn bank facility			389.5				143.0	

\* Includes a fair value hedge adjustment of \$42.8 million (30 June 2019: \$(1.3) million).

\*\* Includes unamortised transaction costs of \$ 3.7 million (30 June 2019: \$ 4.5 million).

#### 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 30 Jun 2020 \$'m
USPP	3.55%	July 2015	July 2027	251.6	289.7
USPP	3.76%	May 2016	May 2026	177.4	181.1
<b>Total exposure</b>				429.0	470.8
Fair value hedge adjustment				-	42.8
<b>Total</b>				429.0	513.6

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

## C. Capital structure and financial risk management (continued)

### Bank loans – Bilateral revolving facility agreements

Maturity date	Facility limits	Drawn amount at 30 Jun 2020
	\$'m	\$'m
June 2022	175.0	40.0
July 2022	150.0	30.5
November 2022	90.0	50.0
July 2023	75.0	75.0
August 2023	50.0	50.0
November 2023	170.0	75.0
	710.0	320.5

In December 2019, the REIT upsized an existing bilateral facility from \$40.0 million to \$90.0 million, with \$40.0 million to mature in November 2022 and \$50.0 million in December 2021.

### Net debt reconciliation

	2019	Movement in derivatives and foreign exchange	Movement in transaction costs	Movement in cash	2020
	\$'m	\$'m	\$'m	\$'m	\$'m
Bank loans	517.0	-	-	(196.5)	320.5
Unamortised transaction costs	(4.5)	-	0.8	-	(3.7)
USPP	463.0	7.8	-	-	470.8
Fair value hedge adjustment	(1.3)	44.1	-	-	42.8
<b>Total unsecured borrowings</b>	<b>974.2</b>	<b>51.9</b>	<b>0.8</b>	<b>(196.5)</b>	<b>830.4</b>
Cash	(4.8)	-	-	(75.7)	(80.5)
<b>Net Debt</b>	<b>969.4</b>	<b>51.9</b>	<b>0.8</b>	<b>(272.2)</b>	<b>749.9</b>

	2018	Movement in derivatives and foreign exchange	Movement in transaction costs	Movement in cash	2019
	\$'m	\$'m	\$'m	\$'m	\$'m
Bank loans	531.7	-	-	(14.7)	517.0
Unamortised transaction costs	(4.2)	-	(0.3)	-	(4.5)
USPP	438.9	24.1	-	-	463.0
Fair value hedge adjustment	(36.3)	35.0	-	-	(1.3)
<b>Total unsecured borrowings</b>	<b>930.1</b>	<b>59.1</b>	<b>(0.3)</b>	<b>(14.7)</b>	<b>974.2</b>
Cash	(61.4)	-	-	56.6	(4.8)
<b>Net Debt</b>	<b>868.7</b>	<b>59.1</b>	<b>(0.3)</b>	<b>41.9</b>	<b>969.4</b>

### 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%; or
- unencumbered wholly owned assets of the REIT over total tangible assets falls below 85%.

None of the above occurred during the year ended 30 June 2020.

### Other significant contract terms

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:

## C. Capital structure and financial risk management (continued)

- 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 ASX.

### (b) Finance costs

	2020 \$'m	2019 \$'m
Finance costs paid or payable*	29.9	36.7
Less: Capitalised finance costs	(2.6)	(4.3)
	27.3	32.4

\* Included in finance costs is \$31.7 million of interest on financial liabilities measured at amortised cost (2019: \$35.4 million).

Borrowing costs associated with development properties are capitalised based on the weighted average interest rate as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use. The weighted average interest rate takes into consideration the REIT's interest rate hedging profile, term debt and liquidity costs.

### C3. Derivative financial instruments

#### (a) Derivative financial instruments

The REIT uses derivatives to hedge its exposure to interest rates and foreign currency on foreign denominated borrowings. Derivative financial instruments are measured and recognised at fair value on a recurring basis.

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

#### Fair value hedges

The gain or loss relating to interest payments on interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs. Changes in the fair value of derivative hedging instruments and the hedged fixed rate borrowings attributable to interest rate risk are recognised within 'Net gains/(losses) from derivative financial instruments'. The gain or loss relating to the ineffective portion is also recognised in profit or loss within 'Net gains/(losses) from derivative financial instruments'.

#### Cash flow hedges

The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income and accumulated in the cash flow hedge reserve 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).

Amounts reflected in the financial statements are as follows:

Consolidated balance sheet	2020		2019	
	Asset \$'m	Liability \$'m	Asset \$'m	Liability \$'m
<b>Current</b>				
Derivatives*	5.2	11.9	4.9	-
<b>Total current derivative financial instruments</b>	<b>5.2</b>	<b>11.9</b>	4.9	-
<b>Non-current</b>				
Derivatives	99.2	39.2	50.1	37.8
<b>Total non-current derivative financial instruments</b>	<b>99.2</b>	<b>39.2</b>	50.1	37.8
<b>Total derivative financial assets/liabilities</b>	<b>104.4</b>	<b>51.1</b>	55.0	37.8

\* The \$11.9 million liability represents the cost of resetting \$775.0 million in interest rate swaps in December 2019 and is payable in September 2020.

Cross currency interest rate swaps currently in place cover 100% (2019: 100%) of the foreign denominated debt outstanding.

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

## C. Capital structure and financial risk management (continued)

Cross currency interest rate swaps	2020 \$'m	2019 \$'m
Carrying amount	91.2	35.9
Notional amount	429.0	429.0
Maturity date	22 July 2027	22 July 2027
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 July	55.3	58.9
Change in value of hedged item used to determine hedge effectiveness	(50.5)	(57.5)

### Summary of cross currency interest rate swap movements

	2019 \$'m	Foreign exchange and fair value movement \$'m	2020 \$'m
USPP	(463.0)	(7.8)	(470.8)
Fair value hedge adjustment	1.3	(44.1)	(42.8)
Total USPP exposure	(461.7)	(51.9)	(513.6)
Cross currency interest rate swaps	35.9	55.3	91.2
Accrued interest on swaps	(4.9)	(0.3)	(5.2)
Total cross currency interest rate swaps	31.0	55.0	86.0
<b>Net USPP exposure</b>	<b>(430.7)</b>	<b>3.1</b>	<b>(427.6)</b>

	2018 \$'m	Foreign exchange and fair value movement \$'m	2019 \$'m
USPP	(438.9)	(24.1)	(463.0)
Fair value hedge adjustment	36.3	(35.0)	1.3
Total USPP exposure	(402.6)	(59.1)	(461.7)
Cross currency interest rate swaps	(23.0)	58.9	35.9
Accrued interest on swaps	(4.5)	(0.4)	(4.9)
Total cross currency interest rate swaps	(27.5)	58.5	31.0
<b>Net USPP exposure</b>	<b>(430.1)</b>	<b>(0.6)</b>	<b>(430.7)</b>

## C. Capital structure and financial risk management (continued)

### (b) Interest rate swaps

At 30 June 2020, the weighted average fixed rate is 1.15% per annum (2019: 1.52% 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:

	1 year or less \$'m	2 - 3 years \$'m	3 - 4 years \$'m	4 - 5 years \$'m	More than 5 years \$'m	Net position - REIT pays fixed rate and receives floating rate \$'m
2020	-	-	155.0	420.0	177.3	752.3
2019	-	-	200.0	100.0	652.3	952.3

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

Derivatives are classified as level 2 on the fair value hierarchy as the inputs used to determine fair value are observable market data but not quoted prices.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of cross currency 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.

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

## C4. Contributed equity and reserves

### (a) Contributed equity

No. of units	Details	Date of income entitlement	2020 \$'m	2019 \$'m
402,483,504	Units on issue	30 June 2018		2,257.9
1,891,076	DRP issue	28 February 2019		8.5
33,259,424	Placement issue	5 April 2019		147.7
3,267,880	Unit purchase plan	9 May 2019		14.7
440,901,884	Units on issue	30 June 2019	2,428.8	2,428.8
1,639,572	DRP issue	30 August 2019	7.3	
20,790,021	Placement issue*	25 February 2020	98.3	
2,728,972	DRP issue	28 February 2020	12.2	
94,827,587	Placement issue*	30 April 2020	270.5	
10,056,954	Unit purchase plan*	28 May 2020	29.1	
<b>570,944,990</b>	<b>Units on issue</b>	<b>30 June 2020</b>	<b>2,846.2</b>	<b>2,428.8</b>

\* \$6.2 million in underwriting and legal costs associated with the placement issue and unit purchase plan were capitalised in equity during the year.

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 ASX Listing Rules. Units on issue are classified as equity and are 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.

### Distribution Reinvestment Plan (DRP)

The REIT has established a 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 DRP was suspended for the 30 June 2020 distribution.

## C. Capital structure and financial risk management (continued)

### Placement issue

In February 2020, the REIT issued 20,790,021 units, on market, for a total consideration of \$100.0 million (\$4.81 per unit).

In April 2020, the REIT issued 94,827,587 units, on market, for a total consideration of \$275.0 million (\$2.90 per unit).

### Unit Purchase Plan (UPP)

For the year ended 30 June 2020, the REIT issued 10,056,954 units, on market, for a total consideration of \$29.2 million (\$2.90 per unit).

### (b) Reserves

	Cash flow hedge reserve \$'m	Foreign currency basis reserve \$'m	Total reserves \$'m
Opening balance 1 July 2019	(0.6)	0.9	0.3
Changes in the fair value of reserves	2.5	(1.3)	1.2
<b>Balance 30 June 2020</b>	<b>1.9</b>	<b>(0.4)</b>	<b>1.5</b>
Opening balance 1 July 2018	(1.2)	-	(1.2)
Changes in the fair value of reserves	3.1	(1.6)	1.5
Balance 30 June 2019	(0.6)	0.9	0.3

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

When cross currency interest rate swaps are used to hedge the market risks of borrowings denominated in foreign currencies, the REIT does not designate the currency basis spread as part of the hedging instrument within the hedge relationship. Currency basis spread is a liquidity premium that is charged for exchanging different currencies, and changes over time impacting the fair value of cross currency swaps. The changes in the fair value of currency basis spread is recognised in other comprehensive income in the hedging reserve in equity. Prior to 1 July 2018, the REIT recognised these changes in the cash flow hedge reserve.

### C5. Financial risk management

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

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

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

## C. Capital structure and financial risk management (continued)

Risk	Definition	Exposure	Exposure management
Market risk – Foreign exchange risk	The risk that changes in foreign exchange rates will change the Australian dollar value of the REIT's foreign denominated net assets or earnings.	US Private Placement issuances denominated in US dollars.	– Cross currency swaps are used to convert US dollar borrowings into Australian dollar exposures.
Market risk – Interest rate risk	The risk that changes in interest rates will change the fair value or cash flows of the REIT's monetary assets and liabilities.	Cash and borrowings at fixed and floating rates.	– Interest rate swaps are used to hedge any movement in interest rates.
Liquidity risk	The risk that the REIT has insufficient liquid assets to meet its obligations as they become due and payable.	Payables, borrowings and other liabilities.	– Maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.
Credit risk	The risk a contracting counterparty will not complete its obligations under a contract and will cause the REIT to make a financial loss.	All financial assets including tenant receivables, financial instruments and derivatives.	– Performing credit reviews on prospective tenants, obtaining tenant collateral and detailed review of tenant arrears. – Reviewing the aggregate exposure of receivables and tenancies across the portfolio. – Limiting the credit exposure to any one financial institution and limiting to investment grade counterparties. – Monitoring the public credit rating of counterparties.

## C. Capital structure and financial risk management (continued)

### (i) Market risk – Foreign exchange risk

The REIT has hedged 100% of its material foreign exchange risk exposure.

### (ii) Market risk – Interest rate risk

The table below shows the REIT's exposure to interest rate risk. At balance date, the REIT fixed 77.5% (2019: 74.9%) of its direct and joint venture interest rate exposure.

	Australian dollars		US dollars <sup>1</sup>		Total	
	2020	2019	2020	2019	2020	2019
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
<b>Fixed rate</b>						
USPP <sup>2</sup>	-	-	(470.8)	(463.0)	(470.8)	(463.0)
<b>Net fixed rate exposure</b>	-	-	(470.8)	(463.0)	(470.8)	(463.0)
<b>Floating rate</b>						
Cash	80.5	4.8	-	-	80.5	4.8
Cash - joint venture entities <sup>3</sup>	39.2	1.7	-	-	39.2	1.7
Borrowings <sup>2</sup>	(320.5)	(517.0)	-	-	(320.5)	(517.0)
Borrowings - joint venture entities <sup>3</sup>	(369.7)	(141.9)	-	-	(369.7)	(141.9)
	(570.5)	(652.4)	-	-	(570.5)	(652.4)
<b>Derivative financial instruments</b>						
Cross currency interest rate swaps - fixed to floating <sup>4</sup>	(429.0)	(429.0)	470.8	463.0	41.8	34.0
Interest rate swaps - floating to fixed <sup>5</sup>	752.3	952.3	-	-	752.3	952.3
Interest rate swaps - floating to fixed - joint venture entities <sup>6</sup>	291.9	73.8	-	-	291.9	73.8
	615.2	597.1	470.8	463.0	1,086.0	1,060.1
<b>Net floating rate exposure</b>	44.7	(55.3)	-	-	44.7	(55.3)

1 Australian dollar equivalents of foreign denominated balances.

2 Represents the notional principal of the borrowings. 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 entities.

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).

6 The REIT's share of the notional principal payable under the derivative contracts (excluding derivatives where cash flows have not commenced at balance sheet date) within its net investment in joint venture entities.

#### Sensitivity analysis

The table below reflects the potential net increase/(decrease) in the REIT's profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2020, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2019.

	2020		2019	
	Profit and loss	Reserves	Profit and loss	Reserves
	\$'m	\$'m	\$'m	\$'m
<b>Australian interest rates</b>				
+ 1.00% (2019: + 1.00%)	21.1	-	21.5	-
- 1.00% (2019: - 1.00%)	(22.3)	-	(22.7)	-

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.

## C. Capital structure and financial risk management (continued)

### (iii) Liquidity risk

The following table provides the contractual maturity of the REIT's fixed and floating rate financial liabilities and derivatives as at 30 June 2020. 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.

	Carrying value	Less than 1 year	1 to 5 years	Over 5 years	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
<b>2020</b>					
<b>Financial liabilities</b>					
Payables	(29.4)	(29.4)	-	-	(29.4)
Distribution payable	(57.1)	(57.1)	-	-	(57.1)
Borrowings	(791.3)	(24.1)	(401.0)	(503.3)	(928.4)
Derivative financial instruments	(51.1)	(8.2)	18.0	32.1	41.9
<b>Total financial liabilities</b>	<b>(928.9)</b>	<b>(118.8)</b>	<b>(383.0)</b>	<b>(471.2)</b>	<b>(973.0)</b>
<b>2019</b>					

Financial liabilities					
Payables	(31.8)	(31.8)	-	-	(31.8)
Distribution payable	(63.8)	(63.8)	-	-	(63.8)
Borrowings	(980.0)	(30.8)	(620.2)	(511.7)	(1,162.7)
Derivative financial instruments	(37.8)	(4.3)	(15.8)	(197.2)	(217.3)
<b>Total financial liabilities</b>	<b>(1,113.4)</b>	<b>(130.7)</b>	<b>(636.0)</b>	<b>(708.9)</b>	<b>(1,475.6)</b>

The amount of credit facilities unused by the REIT at 30 June 2020 is \$389.5 million (2019: \$143.0 million).

### (iv) Credit risk

The maximum exposure to credit risk at the end of each reporting period is equivalent to the carrying value of the financial assets. The REIT has policies to review the aggregate exposures of receivables and tenancies across its portfolio. As at 30 June 2020 the REIT has no significant concentrations of credit risk on its receivables other than exposure to the Woolworths, Coles, Wesfarmers and bp Australia businesses which contribute 49.7% (2019: 44.5%) of the total portfolio property 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 shows the ageing analysis of rent receivables of the REIT.

	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
<b>2020</b>					
Rent receivables	1.8	3.3	1.5	0.8	7.4
Provision for expected credit losses					(3.4)
<b>2019</b>					
Rent receivables	2.8	0.2	0.1	0.4	3.5
Provision for expected credit losses					(0.2)

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

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

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

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

## C. Capital structure and financial risk management (continued)

- the effect of rental deferral options as at the reporting date.

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

The deferral of lease payments offered to tenants have affected the REIT's and its Joint Ventures' normal levels of cash inflows from operations.

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

### C6. Offsetting financial assets and liabilities

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

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

	Gross amounts of financial instruments \$'m	Amounts subject to set-off \$'m	Net amount post set-off \$'m
<b>2020</b>			
Derivative assets	104.4	(35.7)	68.7
Derivative liabilities	(51.1)	35.7	(15.4)
Borrowings	(830.4)	-	(830.4)
	(777.1)	-	(777.1)
<b>2019</b>			
Derivative assets	55.0	(34.9)	20.1
Derivative liabilities	(37.8)	34.9	(2.9)
Borrowings	(974.2)	-	(974.2)
	(957.0)	-	(957.0)

## D. Further information

This section provides additional disclosures which are not covered in the previous sections.

### D1. Related party information

The REIT is provided investment management and property management related services by Charter Hall Retail Management Limited and Charter Hall Holdings Pty Ltd (the manager). In providing these services, the manager is entitled to fees as outlined in the REIT's constitution. These fees are regularly benchmarked to market to ensure that the REIT receives the highest quality service from the manager under the fee arrangements.

#### (a) Responsible Entity

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

#### (b) Directors

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 \$370,600 (2019: \$379,327) were paid or payable by the REIT to the Independent Directors, being Roger Davis, Sue Palmer and Michael Gorman, for the year, refer to Note D1(g) for a 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) Management fees

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

##### Base fee

The base fee is calculated as:

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

Total assets are adjusted in the fee calculation to deduct the carrying value of investment in joint venture entities.

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. In accordance with the REIT's constitution the Responsible Entity may accept lower fees or defer fees.

##### Performance fee

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

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

- 5% of the total Increased Unitholder Value from outperformance; plus
- 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 CHRP1

Under the terms of its Investment Management Agreement, Charter Hall Holdings Pty Ltd as the Fund Manager of CHRP1 is entitled to a base fee calculated quarterly as 0.40% of the investment property value of CHRP1 and paid within 14 days of quarter end.

## D. Further information (continued)

### Management fee expenses in CHRP2

Under the terms of its Investment Management Agreement, Charter Hall Holdings Pty Ltd as the Fund Manager of CHRP2 is entitled to a base fee calculated monthly as 0.40% of the total assets of CHRP2 and paid within 14 days of month end.

### Management fee expenses in CHRP6

Under the terms of its Investment Management Agreement, Charter Hall Holdings Pty Ltd as the Fund Manager of CHRP6 is entitled to a base fee calculated monthly as 0.40% of the total assets of CHRP6 and paid within 14 days of month end.

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

	2020 \$'000	2019 \$'000
Base fees	10,780	9,431
Management fees paid by the REIT	10,780	9,431
REIT's share of management fees paid by CHRP1	1,073	1,071
REIT's share of management fees paid by CHRP2	457	450
REIT's share of management fees paid by CHRP6	181	-
<b>Total management fees paid</b>	<b>12,491</b>	<b>10,952</b>
<b>Total management fees paid (%)</b>	<b>0.41</b>	<b>0.41</b>

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 2019 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 2020, the Index increased in value by 86.1% compared to the REIT's cumulative performance which increased by 71.6% (difference of 14.5%).

### (d) Transactions with the Responsible Entity and its related parties

The Responsible Entity and its related parties held 56,494,117 units in the REIT as at 30 June 2020 (2019: 71,321,744).

Following is a summary of related party transactions for the year ended 30 June 2020:

Type of fee	Method of fee calculation	Fee amount 2020 \$'000	2019 \$'000
Management fees – wholly owned	Refer note D1(c)	10,780	9,431
Management fees – joint ventures	Refer note D1(c)	1,711	1,521
Acquisition	0.75% of sale price	2,952	2,059
Disposal	0.25% of sale price less amounts paid to external agents	984	190
Due diligence	0.25% of sale price	890	878
Development management (including cost recovery)	3% of development cost if > \$1m 5% of development cost if < \$1m	217	422
Project management	6% of project cost	976	1,192
Majors leasing	7.5% - 15.0% of year one gross rent	523	1,540
Property management and specialty leasing costs	Cost recovery	12,277	11,742
Other related party costs*	Cost recovery	13,555	12,833
		<b>44,865</b>	<b>41,808</b>

\* Charter Hall Holdings Pty Limited was also reimbursed \$13.6 million (2019: \$12.8 million) for centre, IT, occupation health & safety, environmental, finance and accounting services expenses incurred. These expenses include salaries and related finance management and IT costs.

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

## D. Further information (continued)

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

	2020 \$	2019 \$
Charter Hall Holdings Pty Limited	4,665,776	7,878,328
	<b>4,665,776</b>	<b>7,878,328</b>

### (f) Key management personnel

Key management personnel (KMP) powers have not been delegated by the Responsible Entity to any other person.

Details of management fees charged to the REIT by the Responsible Entity and its related parties are included in Note D1(c).

### (g) Directors' fees

Independent Directors' fees are as follows:

Total director fees	John Harkness	Sue Palmer	Michael Gorman	Roger Davis	Total
2020	-	110,255	105,244	155,101	370,600
2019	52,725	102,500	97,375	126,727	379,327

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.

### (h) 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 2020 is as follows:

	Units held 2020	Units held 2019
Roger Davis	38,669	28,325
Michael Gorman	25,069	14,725
David Harrison	124,378	124,378

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 2020	Units 2019
Roger Davis	10,344	28,325
Michael Gorman	10,344	14,725

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.

### D2. Working capital

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 no net current asset deficiency as of 30 June 2020.

The entity has readily accessible credit facilities with \$389.5 million of undrawn non-current debt facilities at 30 June 2020 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.

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

## D. Further information (continued)

### (a) Receivables and other assets

	2020 \$'m	2019 \$'m
Trade receivables*	7.4	3.5
Provision for expected credit losses	(3.4)	(0.2)
<b>Net rent receivable</b>	<b>4.0</b>	<b>3.3</b>
Turnover rent receivable	3.5	3.4
Accrued income	2.1	3.6
Distribution receivables	8.4	4.6
	<b>18.0</b>	<b>14.9</b>

\* Includes \$2.3 million of rent deferrals provided as COVID-19 tenant support.

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

The REIT's receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for expected credit losses. The REIT applies the AASB 9 simplified approach to measuring expected credit losses which involves a lifetime expected loss allowance for all trade and other financial assets. The REIT uses judgement in making these assumptions, refer to note C5.4 (iv).

### (b) Payables and other liabilities

	2020 \$'m	2019 \$'m
<b>Current</b>		
Accrued capital expenditure	5.1	8.7
Accrued property expenses	8.9	9.9
Income received in advance	4.8	3.4
Deposit received for divestment	-	0.6
Interest payable on interest bearing liabilities	5.5	5.6
Other	5.1	3.6
	<b>29.4</b>	<b>31.8</b>

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.

## D3. Parent entity information

The financial information for the parent entity, Charter Hall Retail REIT, 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 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 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 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.

## D. Further information (continued)

### (a) Summary financial information

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

	Parent 2020 \$'m	Parent 2019 \$'m
<b>Balance sheet</b>		
Current assets	91.4	148.0
Non-current assets	2,930.7	2,747.2
<b>Total assets</b>	<b>3,022.1</b>	<b>2,895.2</b>
Current liabilities	77.5	123.4
Non-current liabilities	869.7	1,012.0
<b>Total liabilities</b>	<b>947.2</b>	<b>1,135.4</b>
<b>Equity</b>		
Contributed equity	2,846.2	2,428.8
Reserves	(153.8)	(155.0)
Accumulated losses	(617.5)	(514.0)
<b>Total equity</b>	<b>2,074.9</b>	<b>1,759.8</b>
<b>Statement of comprehensive income</b>		
Profit after tax	17.8	39.6
<b>Total comprehensive income</b>	<b>17.8</b>	<b>39.6</b>

### (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 2020 (2019: nil).

### (c) Commitments

The parent entity may enter into contracts for the acquisition, construction and development of properties in Australia. The commitments of the parent entity in relation to such contracts are \$2.8 million (2019: \$nil). 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.

## D4. 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 for fair value in respect of CHRP1, 98% of fair value in respect of CHRP2, 98% of fair value in respect of CHGWT, 98% of fair value in respect of CHSBT, 98% of fair value in respect of CHRP6, and fair value in respect of CHDWF.

## D5. Remuneration of the auditor

	2020 \$'000	2019 \$'000
<b>Amounts paid or payable to PricewaterhouseCoopers Australian firm for:</b>		
Audit services	278	265
<b>Total amount paid or payable to PricewaterhouseCoopers Australian firm</b>	<b>278</b>	<b>265</b>

## D6. Interest in other entities

### Material subsidiaries

The REIT's principal subsidiaries at 30 June 2020 are 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.

## D. Further information (continued)

Name of entity	Country of incorporation	Place of business	Ownership interest held by the REIT		Principal activities
			2020	2019	
Charter Hall Retail JV Trust	Australia	Australia	100%	100%	Property investment
CH SC Trust	Australia	Australia	100%	100%	Property investment
CH Campbellfield Trust	Australia	Australia	100%	100%	Property investment
CH Rockdale Plaza Trust	Australia	Australia	100%	100%	Property investment
CH Dartmoor Trust	Australia	Australia	100%	-	Property investment

### D7. Events occurring after balance date

In July 2020, the REIT increased its long WALE retail investments and acquired a 52% interest in the Charter Hall Direct CDC Trust from a Charter Hall managed fund, for a gross price of \$60.1 million. The CDC Trust owns a \$215.0 million distribution facility in Edinburgh Park, SA fully leased to Coles Group Limited.

In July 2020, CHRP1 divested West Ryde Marketplace, NSW for a gross price of \$56.5 million. The REIT's share of proceeds was \$28.3 million.

In August 2020, the REIT extended two of its bilateral facilities that were due to mature in FY2022 with \$120.0 million to mature in August 2024 and \$75.0 million to mature in August 2025.

### D8. Other significant accounting policies

#### (a) Basis of preparation

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

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 derivative financial instruments, investments in financial assets held at fair value and investment properties, which have been measured at fair value.

#### (b) Principles of consolidation

##### 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.

#### (c) Foreign currency translation

##### (i) Functional and presentation currencies

Items included in the financial statements of each of the REIT's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars, which is the REIT's functional and presentation currency.

## D. Further information (continued)

#### (ii) Transactions and balances

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

#### (d) Comparative information

Where necessary, comparative information has been adjusted to conform to changes in presentation in the current year. No material adjustments have been made to comparative information in this report.

#### (e) Rounding of amounts

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

#### (f) Changes in accounting standards

The REIT adopted AASB 16 Leases from 1 July 2019. The REIT has elected to utilise the retrospective transitional concessions. There is no material impact on the REIT's financial statements upon adopting the new standard.

## Directors' declaration to unitholders

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

- a the consolidated financial statements and notes set out on pages 40 to 71 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 2020 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.

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.



Roger Davis  
Chair  
Sydney

12 August 2020



## Independent auditor's report

To the unitholders of Charter Hall Retail REIT

### Report on the audit of the financial report

#### Our opinion

In our opinion:

The accompanying financial report of Charter Hall Retail REIT (the REIT) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the notes to the consolidated financial statements, as contained in the "About this report" section, which include a summary of significant accounting policies
- the directors' declaration to unitholders.

#### Basis for opinion

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

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

#### Independence

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

**PricewaterhouseCoopers, ABN 52 780 433 757**

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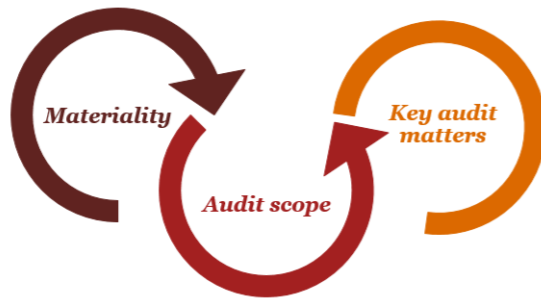
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### Our audit approach

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

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



#### Materiality

- For the purpose of our audit we used overall materiality of \$7.0 million, which represents approximately 5% of the Group's operating earnings.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose operating earnings (which is an adjusted profit metric) as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We selected a 5% threshold based on our professional judgement, noting it is within the range of commonly accepted profit related materiality thresholds.

#### Audit Scope

Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

### Key audit matters

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



#### Key audit matter

##### **Valuation of investment properties, including investment properties held in joint ventures accounted for under the equity method - (Refer to About this report section, Note A and B)**

The Group's investment property portfolio is predominately comprised of retail shopping centres generally anchored with non-discretionary major supermarket tenants. At 30 June 2020 the carrying value of the Group's investment property portfolio (excluding investment properties held in equity accounted investments) was \$2,240.3 million (2019: \$2,388.6 million). The carrying value of the Group's joint venture vehicles that also hold investment properties was \$665.9 million (2019: \$382.8 million), refer to Note B2.

In measuring the carrying value of investment properties, the Group applied the principles of accounting for investment properties at fair value under Australian Accounting Standards and applied the valuation methodology described in Note B of the financial report. Properties of the REIT are generally valued by external valuation experts at least once every 12 months. If a property is not externally valued at balance date, the REIT performs an internal valuation.

We considered this a key audit matter because of the:

- Financial significance of the investment property balance in the consolidated balance sheet.
- The financial significance of revaluations that directly impact the consolidated statement of comprehensive income through the net loss on movement in fair value of investment properties.
- Inherently subjective nature of investment property valuations such as prevailing market conditions, the individual nature and location, comparable sales evidence and the expected future income for each property. At 30 June 2020, COVID 19 heightened the forward-looking judgement and assumptions required by the REIT, including the:
  - extent and duration of the pandemic and its impact on the ability of tenants to pay rent

#### How our audit addressed the key audit matter

We assessed the Group's process for valuing investment properties. This included discussing, with management, the key drivers affecting the value of the investment property portfolio such as, significant new leases entered into and expiries during the year, capital expenditure and vacancy rates. We also enquired about the impact of COVID-19 on investment property valuations and how this has been considered by the Group in determining fair value at 30 June 2020.

We inspected recent independent property market reports and articles detailing market conditions relevant to the Group. This included assessing the impact of COVID-19 on the tenant profile of the Group and the impact of rent relief measures.

We assessed the design and tested the operating effectiveness of certain controls supporting the Group's investment property valuation process, including controls relating to the review and approval of valuations adopted.

We assessed the Group's methodologies used in the valuation of investment properties for consistency with Australian Accounting Standards and Group policies.

We assessed the scope, competence and objectivity of external valuation experts engaged by the Group and also internal valuers. Where external valuations were obtained by the Group, we:

- read the relevant valuation reports and agreed the fair values to the Group's accounting records
- compared the tenancy schedules used in the external valuation to the tenancy schedule per the Group's accounting records to assess reasonableness.

We selected a risk-based sample of investment property valuations as at 30 June 2020 for detailed testing. This included:

- assessing the reasonableness of certain key assumptions, including comparing the capitalisation rates and discount rates to market data, including comparable transactions, where possible.
- comparing other key assumptions that were not market observable and those that were



Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"><li>tenants' credit quality</li><li>effect of rental deferral options.</li><li>Significant estimation uncertainty exists with respect to the key inputs and assumptions used by the Group in developing fair value estimates including capitalisation rates, terminal yield, gross market rent and discount rates. This uncertainty was heightened in the current year by the COVID-19 impact on the economic outlook.</li><li>The importance of the valuation uncertainty to users' understanding of the financial report.</li></ul>	<p>subject to judgement due to COVID-19 including vacancies, rent relief incentives, and let up time, to corresponding tenant data at 30 June 2020 where relevant to assess reasonableness.</p> <p>We assessed the appropriateness of the Group's disclosures in the financial report in light of the requirements of Australian Accounting Standards. In particular, we considered the disclosures made in Note A and B to the financial statements which explains that there is estimation uncertainty in relation to the valuation of investment properties.</p>

### Other information

The directors of the responsible entity of the REIT (the directors) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

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

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

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

### Responsibilities of the directors for the financial report

The directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.



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

### Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our auditor's report.

PricewaterhouseCoopers

R W McMahon  
Partner

Sydney  
12 August 2020

# Unitholder analysis

## Range of units summary as at 4 September 2020

Range	Securities	%	No. of Holders
100,001 and Over	524,748,008	91.91	51
50,001 to 100,000	3,398,621	0.60	52
10,001 to 50,000	22,115,573	3.87	1,178
5,001 to 10,000	10,657,837	1.87	1,480
1,001 to 5,000	9,286,189	1.63	3,459
1 to 1,000	738,762	0.13	1,740
<b>Total</b>	<b>570,944,990</b>	<b>100.00</b>	<b>7,960</b>
Unmarketable parcels	10,754	0.00	498

## Top 20 registered unitholders as at 4 September 2020

Rank	Name	A/C designation	Units	%IC
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		213,228,395	37.35
2	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED		87,679,822	15.36
3	CITICORP NOMINEES PTY LIMITED		61,762,051	10.82
4	TRUST COMPANY LIMITED	<CHARTER HALL CO-INVEST A/C>	56,494,117	9.89
5	NATIONAL NOMINEES LIMITED		55,569,583	9.73
6	BNP PARIBAS NOMINEES PTY LTD	<AGENCY LENDING DRP A/C>	13,302,790	2.33
7	CITICORP NOMINEES PTY LIMITED	<COLONIAL FIRST STATE INV A/C>	7,191,004	1.26
8	BNP PARIBAS NOMS PTY LTD	<DRP>	6,894,067	1.21
9	PERPETUAL CORPORATE TRUST LTD	<TTCAL>	3,469,900	0.61
10	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP RE LIMITED	<SCA PROPERTY RETAIL A/C>	3,308,759	0.58
11	UBS NOMINEES PTY LTD		1,077,151	0.19
12	THE TRUST COMPANY (AUSTRALIA) LIMITED	<A/C 4>	1,040,287	0.18
13	NATIONAL NOMINEES LIMITED	<DB A/C>	908,759	0.16
14	BNP PARIBAS NOMS(NZ) LTD	<DRP>	901,725	0.16
15	ONE MANAGED INVESTMENT FUNDS LIMITED	<CHARTER HALL MAXIM PROPERTY SECURITIES A/C>	900,000	0.16
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		898,485	0.16
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	<NT-COMNWLTH SUPER CORP A/C>	872,302	0.15
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA		834,431	0.15
19	AMP LIFE LIMITED		803,957	0.14
20	AKAT INVESTMENTS PTY LIMITED	<TAG FAMILY - CORE A/C>	800,000	0.14
<b>Total</b>			<b>517,937,585</b>	<b>90.72</b>
<b>Balance of register</b>			<b>53,007,405</b>	<b>9.28</b>
<b>Grand total</b>			<b>570,944,990</b>	<b>100.00</b>

## Substantial unitholder notices as at 4 September 2020

Company	Date of change	Units	Ownership %
Pendal Group Limited (PDL)	28 Aug 2020	49,014,929	8.58%
Franklin Resources, Inc.	5 Aug 2020	41,175,783	8.44%
Legg Mason Asset Management Australia Limited	11 Jun 2020	46,562,536	8.15%
BlackRock Group	7 May 2020	28,515,796	5.08%
Charter Hall Limited	5 May 2020	57,494,117	10.25%
Mondrian Investment Partners Limited (in capacity of fund manager)	12 Feb 2020	29,850,699	6.75%

# Fund manager remuneration

## Greg Chubb, Fund Manager CQR

Fund Manager’s Total Target Remuneration is structured as a mixture of fixed and variable ‘at-risk’ STI and LTI components. While Fixed Annual Remuneration is designed to provide a base level of remuneration, the ‘at-risk’ STI and LTI components align the employee’s performance with Fund objectives and long-term securityholder interests.

### STI

Individual STI outcomes are determined on the basis of Group and individual performance through a Balanced Scorecard. The Scorecard is split into three elements: Financial; Customer; and Leadership/Culture/Collaboration with a 50% financial and 50% non-financial split.

Greg Chubb in addition to his role of Fund Manager CQR, is also the Chief Executive Officer of Charter Hall’s Retail division. The table below outlines the split of Greg’s current KPIs.

Role	Financial	Customer	Leadership, Culture and Collaboration
Overall Weighting	50%	25%	25%
KPIs	<div><div>– Achieving and exceeding CQR OEPS growth as approved by the Board</div><div>– Ongoing repositioning of CQR portfolio via active management (including adjacent uses) and WALE enhancing activities to ensure resilience against competition and structural change</div><div>– Delivery of CQR portfolio budgets and business plans</div></div>	<div><div>– Maintaining or improving listed investor survey result for CQR and wholesale investor survey for CQR partnerships</div><div>– Maintaining direct dialogue with top listed investor customers in CQR and wholesale investor customers in CQR partnerships</div><div>– Maintaining direct dialogue with top tenant customers to facilitate retention and growth</div></div>	<div><div>– Industry leadership and participation via active roles at SCCA, PCA and API</div><div>– Driving an engaged, inclusive and performance-oriented culture that reflects the organisation’s priorities and ethics</div><div>– Actively foster an effective safety culture across the portfolio</div></div>

Two-third’s of the STI award is delivered in cash and one-third deferred into CQR service rights.

Service rights are deferred over two years, with 50% vesting at the end of year one and 50% at the end of year two. The number of rights granted to the Fund Manager is determined based on an independent fair value calculation reviewed by Deloitte using the Black-Scholes-Merton valuation method.

### LTI

The LTI is governed by the Performance Rights and Options Plan (PROP), under which rights to stapled securities are granted to participants. Each performance right entitles the participant to one stapled security in the Charter Hall Group for nil consideration at the time of vesting, subject to meeting the performance hurdles outlined below:

- Charter Hall Group’s OEPS Growth (excluding CHOT) – 50% of LTI allocation
- Charter Hall Group’s Relative TSR – 50% of LTI allocation

More details are provided under section 3.5 of the Charter Hall Group’s Remuneration Report within the 2020 Annual Report.

# Investor information

## How do I invest in Charter Hall Retail REIT?

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

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

Charter Hall Retail REIT's website, [www.charterhall.com.au/cqr](http://www.charterhall.com.au/cqr) contains extensive information on our Board, corporate governance (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 [www.charterhall.com.au](http://www.charterhall.com.au).

## Can I receive my Annual Report electronically?

Charter Hall Retail REIT provides its annual report as a PDF, accessible on its website. You can elect to receive notification that this report is available online via your Investor Centre login.

## 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?

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

## Do I need to supply my Tax File Number?

You are not required by law to supply your Tax File Number (TFN), Australian Business Number (ABN) or exemption. However, if you do not provide these details, withholding tax may be deducted at the highest marginal rate from your distributions. If you wish to provide your TFN, ABN or exemption, please contact Link Market Services on 1300 303 063 or your sponsoring broker. You can also update your details directly online at [www.charterhall.com.au](http://www.charterhall.com.au) and click on 'investor centre' to use 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 Attribution Managed Investment Trust Member (AMMA) Annual 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 2020 should be included in your 2020 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 Australian Financial Complaints Authority (AFCA), an external complaints resolution service that has been approved by ASIC. AFCA's contact details are below:

**Australian Financial Complaints Authority**  
GPO Box 3  
Melbourne VIC 3001  
**Tel** 1800 931 678  
**E-mail** [info@afca.org.au](mailto:info@afca.org.au)  
**Web** [www.afca.org.au](http://www.afca.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 Aus)  
+61 2 8280 7134 (outside Aus)

**E-mail** [charterhall.reits@linkmarketservices.com.au](mailto:charterhall.reits@linkmarketservices.com.au)

**Web** [linkmarketservices.com.au](http://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 (within Aus)  
+61 2 8651 9000 (outside Aus)

**E-mail** [reits@charterhall.com.au](mailto:reits@charterhall.com.au)

**Web** [charterhall.com.au](http://charterhall.com.au)

## Important information

Charter Hall Retail Management Limited ABN 46 069 709 468; AFSL 246996 (CHRML) is the responsible entity of Charter Hall Retail REIT ARSN 093 143 965 (REIT). CHRML is a controlled entity of Charter Hall Limited ABN 57 113 531 150 (Charter Hall).

This report is not intended to be and does not constitute an offer or a recommendation to acquire any securities in the REIT. This report does not take into account the personal objectives, financial situation or needs of any investor. Before investing in REIT securities, you should consider your own objectives, financial situation and needs and seek independent financial, legal and/or taxation advice. Historical performance is not a reliable indicator of future performance. Due care and attention has been exercised in the preparation of forward looking statements. However, any forward looking statements contained in this report are not guarantees or predictions of future performance and, by their very nature, are subject to uncertainties and contingencies, many of which are outside the control of CHRML and its entities.

Actual results may vary materially from any forward looking statements contained in this report. Readers are cautioned not to place undue reliance on any forward looking statements. Except as required by applicable law, CHRML and its related entities do not undertake any obligation to publicly update or review any forward looking statements, whether as a result of new information or future events.

The receipt of this report by any person and any information contained herein or subsequently communicated to any person in connection with the REIT is not to be taken as constituting the giving of investment, legal or tax advice by the REIT nor any of its related bodies corporate, directors or employees to any such person. Neither the REIT, its related bodies corporate, directors, employees nor any other person who may be taken to have been involved in the preparation of this report represents or warrants that the information contained in this report, provided either orally or in writing to a recipient in the course of its evaluation of the REIT or the matters contained in this report, is accurate or complete.

CHRML does not receive fees in respect of the general financial product advice it may provide; however, it will receive fees for operating the REIT which, in accordance with the REIT's constitutions, are calculated by reference to the value of the assets. Controlled entities of Charter Hall may also receive fees for managing the assets of, and providing resources to, the REIT. Charter Hall and its related entities, together with their officers and directors, may hold securities in the REIT from time to time. All information herein is current as at 30 June 2020 unless otherwise stated. All references to dollars (\$) or A\$ are to Australian Dollars unless otherwise stated.

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# 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**  
Roger Davis (Chair), Greg Chubb,  
Michael Gorman, David Harrison, Sue Palmer

**Fund Manager**  
Greg Chubb

**Company Secretary**  
Mark Bryant/Charisse Nortje

**Responsible Entity's office**  
Level 20, No.1 Martin Place  
Sydney NSW 2000

GPO Box 2704 Sydney NSW 2001

**Tel** 1300 365 585 (within Aus)  
+61 2 8651 9000 (outside Aus)

**E-mail** [reits@charterhall.com.au](mailto:reits@charterhall.com.au)

**Web** [charterhall.com.au/cqr](http://charterhall.com.au/cqr)

**ASX Code** CQR

**Auditor**  
**PricewaterhouseCoopers**  
One International Towers Sydney  
Watermans Quay, Barangaroo  
Sydney NSW 2000

