For personal use only

Charter Hall Group

Annual Report 2017

Charter Hall

RESILIENT GROWTH

OUR STRATEGY

We use our property expertise to access, deploy, manage and invest equity in our core real estate sectors – office, retail and industrial – to create value and generate superior returns for our customers.

ACCESS
Accessing equity from listed, wholesale and retail investors

DEPLOY
Creating value through attractive investment opportunities

MANAGE
Funds management, asset management, leasing and development services

INVEST
Investing alongside our capital partners

FY17

$2.3b gross equity raised

$5.2b gross transactions

$3.0b acquisitions

$2.3b divestments

$2.4b FUM growth

329 assets

7.7 years Weighted Average Lease Expiry (WALE)

$430m increase in PI[1] to $1.5b

↑39%

19.8% Total Property Investment Return[2]

5 YEAR

$8.1b gross equity raised

$17.3b transactions

$11.7b acquisitions

$5.6b divestments

$11.4b FUM growth

144 additional properties

$1,050m increase in PI

↑220%

14.7 p.a. Total Property Investment Return[2]

1. PI refers to the Property Investment Portfolio
2. Total Property Investment Return calculated as distributions received from funds plus the growth in investment value divided by the opening investment value of the Property Investment Portfolio. This excludes any investments held for less than a year.

For personal use only

OUR VISION
To be the smart property choice.

OUR GOAL
To be Australia's best and most highly regarded property investment and funds management business.

RESILIENT GROWTH

WHAT SETS US APART
As a property funds and investment manager we own and manage a commercial property portfolio valued at $19.8 billion comprising 329 office, retail and industrial and logistics properties on behalf of our institutional and retail investors.

COVER IMAGE
333 George St,
Sydney NSW

INSIDE FRONT COVER IMAGE
1 Martin Place,
Sydney NSW

STRATEGIC RESILIENCE

Charter Hall

Our integrated business model, coupled with our highly skilled team across investment management, asset management, property management and project delivery provides a differentiated experience that delivers sustainable returns for our investors and positive outcomes for our tenant customers, people and the community.

Charter Hall Group (ASX:CHC) is a stapled security comprising a share in Charter Hall Limited (CHL), the operating funds management business, and a unit in Charter Hall Property Trust (CHPT), which predominantly co-invests in the funds and partnerships managed by the Group.

For personal use only



02 2017 HIGHLIGHTS

04 CHAIR'S REPORT

06 MD & GROUP CEO LETTER

08 PROPERTY FUNDS MANAGEMENT PERFORMANCE

12 INDUSTRIAL & LOGISTICS

10 OFFICE

14 RETAIL

16 CASE STUDIES

18 INTEGRATED SUSTAINABILITY

23 BOARD OF DIRECTORS

24 FINANCIAL REPORT

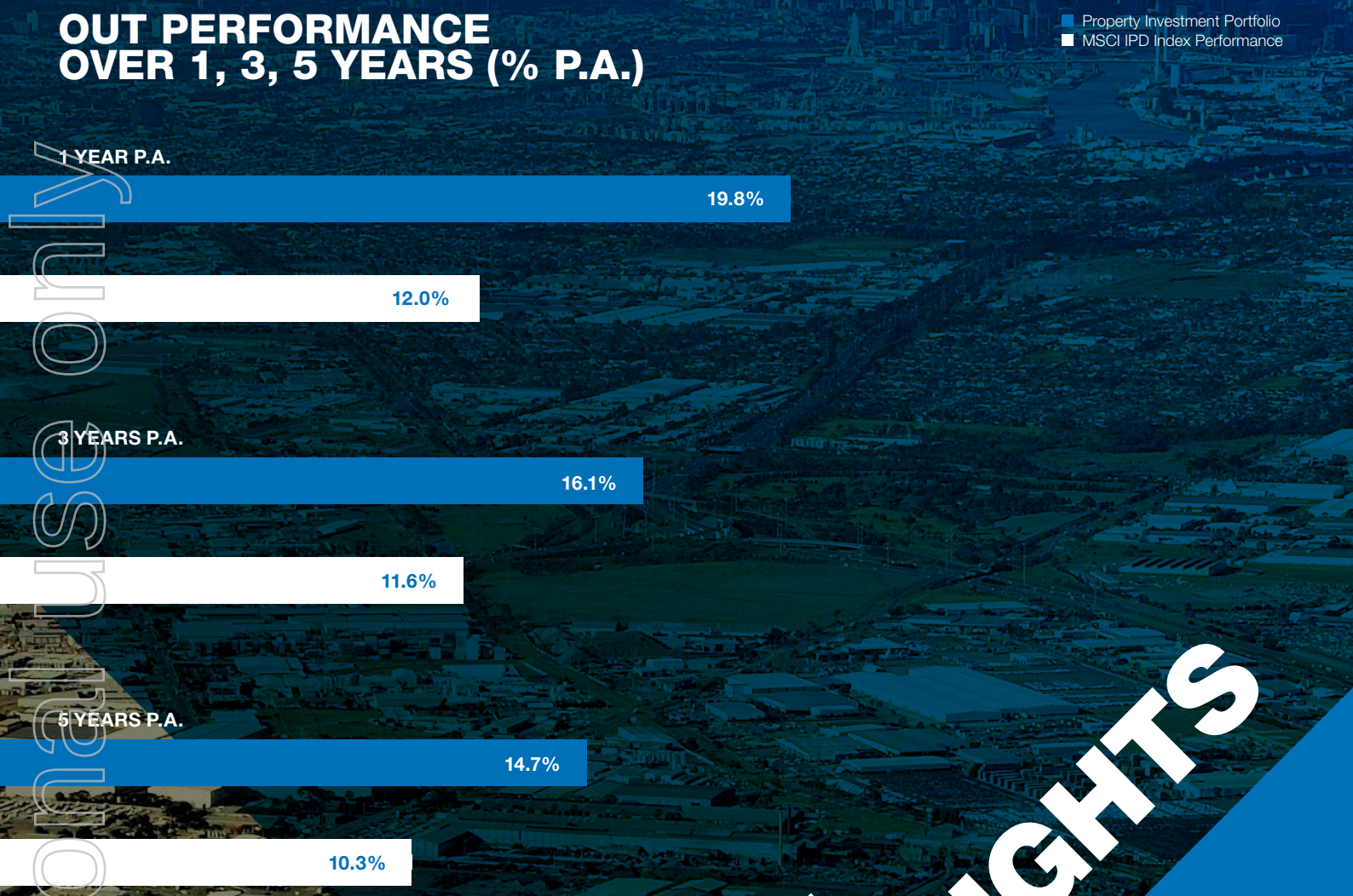
22 EXECUTIVE COMMITTEE

112 INVESTOR INFORMATION

113 CORPORATE DIRECTORY

GROUP HIGHLIGHTS

OUT PERFORMANCE OVER 1, 3, 5 YEARS (% P.A.)



2017 HIGHLIGHTS



Drystone Industrial Estate, VIC

For personal use only

For personal use only

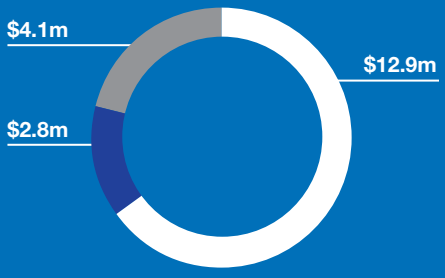


SECTOR HIGHLIGHTS

	FUM	PORTFOLIO	OCCUPANCY	WALE YRS
OFFICE	$9.1b	50	98.5%	6.5
INDUSTRIAL	$5.2b	111	97.4%	9.2
RETAIL	$5.5b	168	97.5%	8.5

DIVERSIFICATION BY EQUITY SOURCE

- Wholesale Equity **65%**
- Retail Equity **14%**
- Listed Fund **21%**



1. Total Platform Return is calculated as the distribution per security plus the growth in NTA per security divided by the opening NTA per security adjusted for contributed equity.

TOTAL PLATFORM RETURN[1]

27.6%

FUNDS UNDER MANAGEMENT (FUM)

$19.8b

↑ **13.7%**

OPERATING EARNINGS

35.9cps

↑ **18.1%**

PROPERTY INVESTMENT PORTFOLIO

$1.5b

STATUTORY PROFIT AFTER TAX

$257.6m

↑ **19.7%**

BALANCE SHEET GEARING

0%



DAVID CLARKE
Chair

For personal use only

WELCOME TO THE CHARTER HALL GROUP 2017 ANNUAL REPORT

Dear Securityholders,

Charter Hall Group has produced another solid full year financial result, delivering growth in the 2017 financial year across all key metrics to provide shared value to our securityholders and investors, our tenants, our people and the communities we operate in.

The Group continues to perform strongly, driven by a purposeful strategy that has been judiciously executed to deliver a record result.

This continues our solid growth trajectory which, in the past five years, has resulted in the Group delivering compound average growth of 11.6% in operating earnings per security and compound average growth of 10.5% in distributions per security.

Our ranking as one of the highest performing A-REITs in the ASX 200 Property Accumulation Index endures. In the 2017 financial year, we continued to focus on our strategy to access, deploy, manage and invest equity alongside our investment partners in our core real estate sectors to deliver a total property investment return of 19.8%.

Sustainable balance sheet

Your Board has purposefully engaged the management team to focus on maintaining a best in class approach to capital management. As a result, the Group continues to have no net debt on balance sheet, and look-through gearing has fallen to a conservative 20.1%.

This places the Group in an excellent position to capitalise on opportunities across its investment portfolio, with some $3 billion in available investment capacity across our platform.

A high performing, diverse and engaged culture

As a business, we have a clear vision to deliver innovation supported by inclusion and diversity. An inclusive and diverse culture delivers greater equality, and better ideas. The achievement of such a culture requires practical action and unrelenting focus.

The question we considered at a Board and Executive level was *'What do we need to do to make a real difference and how will diversity and inclusion support our business strategy?'*

In response, we have a very clear policy that sets gender targets for leadership levels and further commits to gender-balanced shortlists and hiring panels for all leadership positions.

Another important aspect to achieving a high performing, diverse and engaged culture is a focus on internal talent. Charter Hall's unique operating model, as well as the level and type of activity across the Group

For personal use only

"The Group continues to perform strongly, driven by a purposeful strategy that has been judiciously executed to deliver a record result."

means that we are able to provide a wide variety of opportunities for our people to develop and grow their career with us.

To ensure that we are building our talent pipeline and that our people see clear career pathways for themselves in the business we look at transferrable skills and provide employees the opportunity to work anywhere in the business.

Our commitment also extends to attracting young talent to grow our talent pipeline and facilitate greater innovation. Our partnership with Western Sydney University and the University of Technology Sydney as part of the Charter Hall Scholarship Program is testament to this.

A strong board with a diverse skill set

The Charter Hall Board continues to comprise a majority of independent directors, in line with best practice.

During the period, Mr Peter Kahan resigned from the Charter Hall Group board effective 20 December 2016. We thank him for the significant contribution he made during his seven-year tenure as a non-executive director.

Mr David Ross was appointed as an Independent Director of the Charter Hall Group with effect from 20th December 2016. Mr Ross has 30 years' experience in the property industry in Australia and overseas, including a total of 8 years as Chief Executive Officer of GPT and Global Chief Executive Officer, Real Estate Investments for Lend Lease.

I encourage all our securityholders to familiarise themselves with your directors – our biographies can be found on page 30 of the Directors Report.

Sustainability and community

We are committed to creating shared value outcomes in our business through the key pillars of environment, workplace and community, and are proud to be collaborating with our industry partners, GBCA, NABERS, GRESB and WELL Building Institute to expand our Green Star footprint.

During the period, Charter Hall became the largest Green Star rated portfolio in Australia with 178 performance ratings across assets we manage. We've also improved our NABERS energy rating in our office portfolio to 4.5 and had our retail portfolio rated 3.77. We will continue to look to further improve upon these positions and lift our portfolio ratings.

We are also proud to partner with the international movement, Pledge 1%, which integrates our business commitment with investment in our communities, through our people, our places and our partnerships.

Outlook

The strong financial position of Charter Hall Group, and the quality and diversity of its underlying investments, which it holds through direct property, partnerships and funds are well positioned for resilient performance.

The focus of your Board is in providing clear governance and oversight to assist management in continuing to create sustainable, long-term investment returns through diligent value creation and prudent capital management.

As we continue to build on the Group's solid foundations, I take this opportunity to thank our customers, investors and securityholders and our highly skilled people for their continued support.◆



DAVID
HARRISON
Managing Director
& Group Chief
Executive Officer

Charter Hall Group has delivered a record result in the 2017 financial year as we continued to focus on accessing, deploying, managing and investing capital to deliver secure and growing income for our capital partners and investors.

RESILIENT GROWTH

Performance highlights

In a period of intense activity, the 2017 financial year was marked by a record $5.2 billion of gross property transactions as our teams worked collaboratively to drive value for our funds, partnership investors and securityholders.

At the property level, we executed 646 leases – covering 729,000 square metres of space – with a healthy weighted average rent review of 3.5% across the portfolio.

The strength of the Group's financial performance can be seen across all our key financial metrics:

- Statutory profit after tax grew 19.7% to $257.6 million
- Operating earnings per security pre-tax grew by 33.3% to 40.5 cents per security
- Operating earnings per security post-tax grew by 18.1% to 35.9 cents per security
- Net tangible assets grew 56 cents per security to $3.60, up 18.1%, and
- Distributions grew 11.5%, to 30.0 cents per security.

Following another active 12 months of securing equity flows, deployment via development and acquisitions, together with the successful IPO of the Charter Hall Long WALE REIT (ASX:CLW), we have achieved Funds Under Management growth of 13.7% to $19.8 billion.

Our balance sheet Property Investment portfolio has also grown, rising to $1.5 billion in value and generating an attractive 6.9% property investment yield during FY17.

Delivering sustainable returns

We continue to curate our portfolios with a risk-adjusted focus on optimising returns, and delivering resilience and durable cash flows by enhancing tenant quality, extending WALE and driving income growth.

The Group successfully raised and deployed additional equity over the year into a range of new fund initiatives as well as investing alongside our capital partners into our existing vehicles.

Our Property Investments have continued to outperform their respective benchmarks, with the Group's Property Investments delivering 14.7% per annum return over the 5 years to 30 June 2017. As a result, our Property Investments, outperformed the MSCI/IPD Unlisted Wholesale Pooled Property Funds Index which returned 10.3% over the same period.

Delivering on strategy

Performance and new fund innovation continue to reap significant rewards for the Group, delivering strong equity flows across our diversified equity sources.

We raised a record $2.3 billion of gross equity over the year, taking gross equity flows to $8.1 billion over the past five years.

Notably, all equity sources contributed to this growth during FY17.

Across our investment portfolios, the $5.2 billion of record gross transactions included $2.3 billion of divestments as we sought to crystallise gains for our investors and enhance portfolios.

We have now made over $5.6 billion of divestments over a five-year period, successfully repositioning our funds to drive sustainable returns and lock in realised returns. Preservation of capital and driving resilient income remain core strategies.

The 13.7% growth in our overall funds under management has been driven by net acquisitions, development capex and net revaluations, with completed office developments contributing strongly to valuation growth.

Maintaining a strong balance sheet

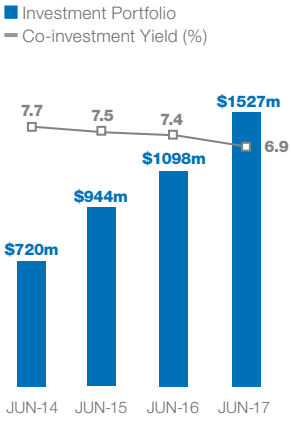
The Group's balance sheet remains ungeared with $174 million of cash on hand as at June 30, providing us with sufficient scope to capitalise on current market conditions, with $3 billion of available investment capacity across the platform.

We continue to extend and deepen our relationships across both the banking and debt capital markets and, during the year, we completed three US private placements, raising $548 million and delivering increased debt tenor, enhanced Fund liquidity and diversification of lending sources.

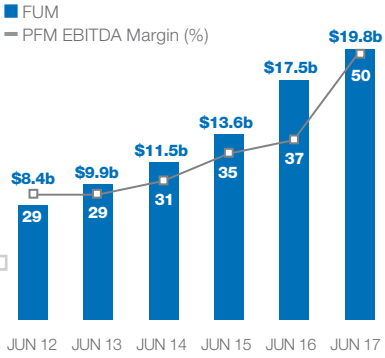
For personal use only

For personal use only

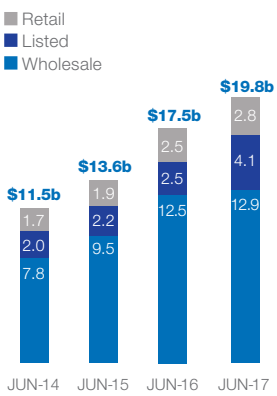
GROUP PROPERTY INVESTMENTS



PROPERTY FUNDS MANAGEMENT EARNINGS DRIVER



FUNDS UNDER MANAGEMENT GROWTH



Growth in property investment earnings

Our Property Investment Portfolio represents the 'Invest' part of our strategy which provides a strong alignment of interest with our investor customers. This alignment of interest ensures our investors and securityholders prosper together, collectively benefitting from our property and investment expertise.

The Group's investments are well diversified across sectors and funds. During the period, our Property Investment Portfolio grew significantly by 39% and is now over $1.5 billion in value. This was a result of $304 million of net investments and $118 million of positive net revaluations, aided by our recent successful equity raising.

Property Investment Portfolio earnings grew 8.2%, primarily driven by weighted average rent review growth of 3.6 %, complemented by strong market rental revision in the Office sector and the $304 million increase of net investments in the Property Investment Portfolio during the year.

The Group property investments chart shows the growth of our total Property Investment Portfolio to $1.5 billion and our co-investment yield, which was relatively stable over the past year, at 6.9%.

High quality, diversified property portfolio

The weighted average lease expiry (WALE) of the Property Investment Portfolio is high relative to our peers at 7.4 years, but did decline year on year, reflecting a strategic change in the portfolio composition.

The Group swapped most of its stake in the Long WALE Investment Partnership into an equity position in the listed Charter Hall Long WALE REIT, moving a portion of our investments from a WALE of 17.2 years to a WALE of 11.8 years. We still maintain our exposure to these assets, but now in a more diversified portfolio.

Our tenant retention remains high, at 76.2%, albeit our team has capitalised on some vacancy opportunities in Sydney to capture rental upside through tenant movement, taking advantage of the strength in the Sydney office leasing market. This contributed positively to an uplift in our weighted average rent review from 3.4% to 3.6%.

Growth in funds management

Our Property Funds Management portfolio is well-diversified, having grown to 329 properties, leased to 2,658 tenants and delivering nearly $1.5 billion dollars of gross rental income.

We have continued to diversify our equity sources, which now comprises:

- 65% Wholesale equity
- 21% listed equity (comprising Charter Hall Retail REIT (CQR) and the successful IPO of Charter Hall Long WALE REIT (CLW)), and
- 14% equity in our market-leading Charter Hall Direct delivering a significant earnings contribution.

We also continue to focus on delivering a sustainable and resilient return through property sector diversity, with 46% of our investments in Office; 26% in Industrial, and 28% in Retail.

That resilience exists across all our assets. In the Retail sector, for instance, more than 35% of the portfolio is in Long WALE assets leased to the market leader Bunnings in Hardware, and ALH and Dan Murphy's in pubs and big box retail liquor stores.

Investment Management revenue increased 41% year on year, contributing nearly 75% to FY17's Property Funds Management revenue, while funds management fees grew nearly 20% – a result of new fund creation, property acquisitions by existing funds, and valuation gains.

Development skills a core competency

The Group currently has $1.9 billion of committed development projects with a forward pipeline of identified projects of $2.8 billion.

All development activity takes place in our managed funds, which have mandates that permit development, refurbishment and repositioning of assets to enhance value and expand their core investment holdings.

These developments will generate high quality, long leased commercial property for our funds, at yields in excess of current transaction pricing. This also provides attractive incremental FUM growth for Charter Hall and enhances our credentials to attract capital.

Outlook and guidance

Looking forward, we remain confident in the underlying strength of our Australian portfolio, which is well diversified to position us strongly through market cycles.

We believe the investment landscape will continue to accommodate growth based on; the relative attractiveness of real assets, continued forecast equity flows into real asset fund managers with strong track records, and asset values remaining well supported.

As a result, we expect to see continued support for our business model, which benefits from multiple sources of equity flows towards high quality real estate.

With another active year ahead of us, we will be as focused as ever on delivering our strategy to access, deploy, manage and invest alongside our listed, retail and wholesale investors.

Based on no material change in current market conditions and having regard to the 18% earnings growth achieved in FY17 over FY16, our FY18 guidance is for operating earnings per security post-tax to be no less than FY17 of 35.9 cents per security.

The distribution payout ratio is expected to normalise and fall within our longer-term target range, being 85% to 95% of Operating Earnings Per Security post-tax on a full-year basis.

Finally, I would like to thank our people based around Australia for their continued hard work and dedication toward achieving these results. And on behalf of our senior executive management team, I thank you, our securityholders, for your continued trust in us as we deliver for you.◆

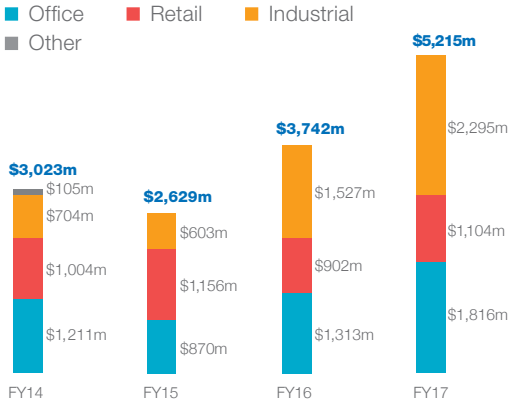
PROPERTY FUNDS MANAGEMENT PERFORMANCE



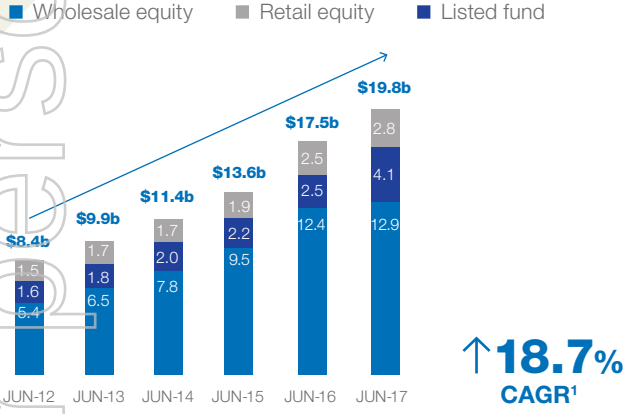
"FY17 has been a record year for transactions as we continue to focus on delivering a sustainable and resilient return to our investors through property sector diversity."

SEAN MCMAHON, CHIEF INVESTMENT OFFICER

GROSS TRANSACTIONS

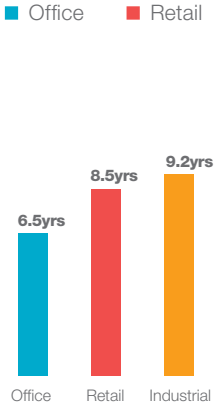


FUM BY EQUITY SOURCE

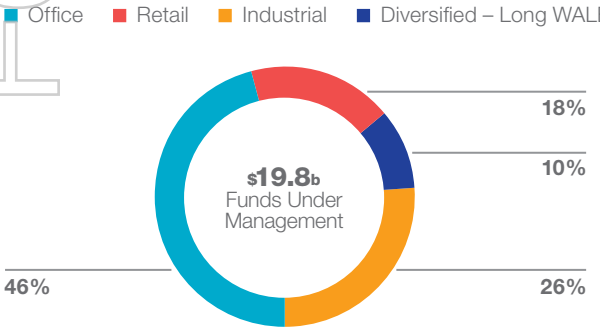


↑18.7%
CAGR[1]

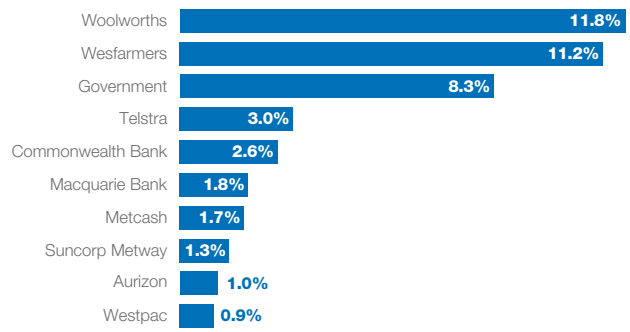
WALE BY SECTOR



ASSET TYPE DIVERSIFICATION

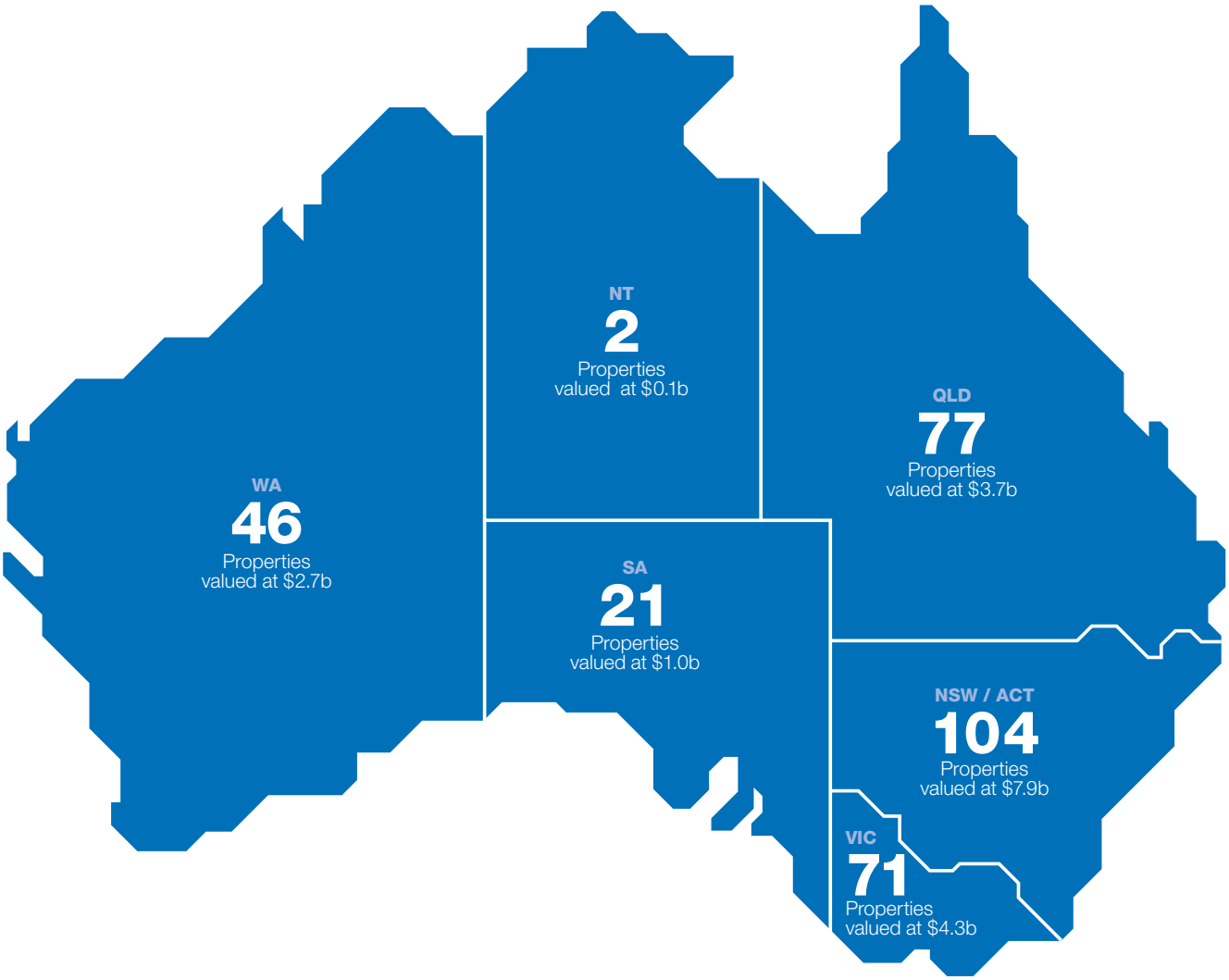


TOP TEN TENANTS



For personal use only

For personal use only



PORTFOLIO OVERVIEW[2]

NT

Office	0
Retail	1
Industrial	1

WA

Office	9
Retail	22
Industrial	15

SA

Office	4
Retail	10
Industrial	7

NSW / ACT

Office	15
Retail	54
Industrial	35

QLD

Office	10
Retail	48
Industrial	19

VIC

Office	11
Retail	28
Industrial	32

TAS

Office	1
Retail	5
Industrial	1

1. Compound Annual Growth Rate (CAGR) from 30 June 2012 to 30 June 2017
2. Excludes one New Zealand asset acquired June 2017

OFFICE

For personal use only

"As one of the largest managers of CBD office properties in Australia, our proactive asset management strategy means we are focused on portfolio composition, through selectively disposing of non-core assets and acquiring, re-developing or repositioning existing assets to ensure they remain attractive to our tenant customers and deliver enhanced value for our investors."

ADRIAN TAYLOR,
GROUP EXECUTIVE – OFFICE

$2.09b
TOTAL DEVELOPMENT PIPELINE

$9.1b
FUM

6.5yrs
WALE

50
PROPERTIES

5.87%
CAP RATE

98.5%
OCCUPANCY

$594m
CHC INVESTMENT

For case studies, please visit **charterhallFY17.reportonline.com.au/chc/#our-sector**

Members of the Charter Hall Office Team (Clockwise from left): Adrian Taylor, Dawn Wilson, Margaret Liu, Andrew Borger and Lorraine Lee.

For personal use only

What are your strategy and key areas of focus for Charter Hall's office sector?

Our strategy remains to proactively manage our portfolio to create enhanced value for our investors and tenant customers.

We manage 50 properties that supply one million sqm of CBD office space nationally with a strong focus on the length of leases and on continually improving the quality and composition of our portfolio.

FY17 has seen our $9.1 billion national office portfolio deliver strong returns to our capital partners across wholesale, institutional and retail equity sources.

Our ability to attract equity reflects investor confidence in our performance and how, through our strong relationships, we can optimise our portfolio composition via continually improving our existing assets, acquiring suitable assets or disposing non-core assets and originating organic development opportunities. We are not asset accumulators; we are asset managers concerned with the quality, diversity and performance of our portfolio. Our competitive advantage is the skill base and relationships possessed by our team and active management of our portfolio.

What are the performance highlights for office in FY17?

The performance of our portfolio in the past year has been very strong with occupancy of our assets at 98.5%. Funds under management have increased to $9.1billion and our WALE is very healthy at 6.5 years. The underlying performance of the funds is top quartile and sector leading. For example; our largest wholesale office fund, the Charter Hall Prime Office Fund (CPOF), provided investors with a 19.2% return in fiscal 2017, the highest return of all funds in the Mercer/IPD Australia Unlisted Wholesale Index. CPOF also formed several new domestic and international investor relationships during an oversubscribed equity raising of $541 million.

CPOF's $3.4 billion Prime-Grade portfolio of 21 office properties is well positioned with over 80% located in the strong performing eastern seaboard states with an occupancy level of 98% and an average WALE of 6.4 years. With a young portfolio reflecting a weighted average asset age of just nine years, CPOF acquired 50% of the NSW government leased 105 Philip St, Parramatta, and post balance date acquired Melbourne Waters Docklands Head Quarters, providing a combined 11 year WALE.

Post balance date, we announced the appointment of Matthew Brown as Fund Manager of CPOF. Mr Brown joins the Fund from GIC where he held the position of Senior Vice President – Deputy Head Asia, Real Estate and has twenty years of Australian and international commercial property investment experience.

Together with a significant development pipeline, CPOF is well placed to grow its portfolio and continue its outperformance.

Similarly, the $2.6 billion wholesale Charter Hall Office Trust (CHOT) has also delivered exceptional returns: more than 45% in FY17 with an average return of 18% over five years.

The Group's market leading unlisted Direct Office Fund (DOF) has also accepted a further $250 million in equity from investors since September 2016 and in total has raised $500 million since reopening in 2015 and continues to see further equity inflow in the new financial year.

The combined impact from both equity raisings and prudent capital management initiatives will see the Group continue to access a pipeline of high quality geographically diverse assets across the office sector.

How have your customer relationships developed in the past year?

We partner in different ways with our customers depending on their needs and relationships with Charter Hall. Over the past year, we have received positive responses to customer feedback from both investor and tenant customers. Our investor client feedback is very positive with four years of continual improvement. On the tenant side, our ratings also improved and level of engagement the highest we have recorded.

A significant development in the past year is the work we have done to turn our business further out to face the customer. We work with our sector colleagues in retail and industrial to map our customers' future needs and provide a whole of property requirement service.

In office asset management in particular, we are putting a customer lens over how we operate. We appointed a new head of office asset management who has 20 years' experience as a tenant customer. A significant change is to our lease documentation, which is more tenant-friendly, bringing a more considered approach to negotiations and cutting time and expense for tenants. We also created a new role, Innovation Lead – Office, that is dedicated to bringing innovative solutions to our business and our tenancies.

What innovative solutions are you providing your tenant customers?

One innovation is Flexispace, a meeting and workspace solution for Charter Hall customers at our No.1 Martin Place building, who may have a short term need for meeting, workspace or event areas. Flexispace recognises the dynamic nature of business and the need for organisations to be able to easily expand and contract their space requirements.

Within our own tenancy at No.1 Martin Place, we also trialled an Australian first technology called Comfy. One of the challenges that we have been trying to solve is how we provide a superior tenant occupant experience. Comfy helps us achieve part of this by using machine learning, to understand the comfort requirements of individuals and adjusts the temperature to suit.

We will aim to introduce this technology and others across our portfolio as part of our effort to offer an integral suite of services that will assist the Group to provide a new level of customer experience.

What are the main challenges and opportunities in the near future?

Our team is focussed on sustainable, long-term returns for investors and we are confident we will continue to be top performers in the office space market.

As we take a through the cycle view on investing, our office portfolios are well positioned to continue to deliver a balanced income stream, underpinned by the quality of our tenants' profile and the strength and length of our leases, which typically have annual fixed rental increases of over 3.5%.

Placing energy in our innovative customer initiatives is an investment in our future and we will continue to deliver more for our tenant customers, and as always, we will focus on the quality, strength and resilience of our portfolios.◆

INDUSTRIAL & LOGISTICS

For personal use only

"As one of Australia's leading managers and developers of industrial and logistics real estate, our focus is on owning and managing a geographically diverse portfolio of high quality properties with strong tenant covenants, whilst harnessing and growing relationships with our tenant customers across all sectors of our business."

SEAN MCMAHON,
CHIEF INVESTMENT OFFICER

$1.655m
TOTAL DEVELOPMENT PIPELINE

$5.2b
FUM

9.2yrs
WALE

111
PROPERTIES

6.4%
CAP RATE

97.4%
OCCUPANCY

$409m
CHC INVESTMENT

For more information, please visit **charterhallFY17.reportonline.com.au/chc/#our-sector**

Members of the Charter Hall Industrial Team (From left): Richard Mason, Simon Greig and Kerri Leech.



For personal use only

What are the key areas of focus for Charter Hall's Industrial sector?

We are one of Australia's leading managers and developers of industrial and logistics real estate, and we are focused on sustainable and stable growth to provide our investors with resilient and attractive returns. We achieve this by securing strategic industrial investments that will add to the quality of the portfolio, and by developing a deep understanding of our customers' logistics requirements.

This year, we grew our funds under management to $5.2 billion, up from $4.5 billion last year. Through acquisitions, divestment of non-core assets and organic development opportunities we continue to enhance existing tenant relationships and attract new tenants to our national portfolio. Our integrated business model provides end to end solutions for our tenant customers and is a scalable platform that benefits from economies of scale generated by our continued growth.

What are the performance highlights for FY17?

We have increased our number of properties from 87 in FY16 to 111 properties in FY17, with a robust occupancy of 97.4% and Weighted Average Lease Expiry (WALE) of 9.2 years. Our focus on portfolio quality in the industrial sector resulted in the divestment of $941 million of non-core properties and the acquisition of $1.354 million of properties.

Our industrial and logistics funds remain among the strongest performing wholesale and unlisted funds in Australia, according to the MSCI/IPD Unlisted Wholesale Property Fund Index.

Over a five-year period (30 June 2012 to 30 June 2017), our largest industrial fund, the Charter Hall Prime Industrial Fund (CPIF), has delivered a 12.0% investment return and our Core Logistics Partnership (CLP) fund has delivered 13.1% investment return.

During the year, CPIF closed a $300 million equity raising oversubscribed, with the raising following the $450 million raised in FY16. In addition, in March 2017, the fund enhanced and increased the tenor of its debt-funding platform, raising AUD$350 million (equivalent) through a US Private Placement (USPP) transaction.

The industrial sector has been a key growth sector for Charter Hall during the past five years, with the portfolio now representing 27% of the Group's $19.8 billion funds under management.

How are you strengthening your partnerships?

Our portfolio enjoys a strong 60% repeat business rate and high tenant retention of 74%, enabling us to take a holistic view of our customers' needs, right throughout the supply chain from warehousing to the consumer.

During the past year, we made several strategic acquisitions and divestments of assets to strengthen both the quality of our funds and our client relationships.

Notably, the acquisition by Charter Hall Prime Industrial Fund (CPIF) of a high quality, strategically located facility at 220-260 Orchard Road, Richlands, Queensland from Coca Cola Amatil on a 20-year sale and lease back arrangement strengthens our relationship with Coca Cola Amatil and demonstrates our ability to partner with customers across our industrial platform. The acquisition, subject to subdivision, improves CPIF's WALE from 7.8 years to 8.5 years and increases the fund's weighting to another high-quality tenant in the east coast industrial market.

Leveraging the Group's sector expertise and relationships, we also acquired, on behalf of the ASX listed Charter Hall Long WALE REIT, a portfolio of ten properties from Recycling & Recovery Pty Limited (SUEZ) for a total consideration of $65.9 million. The triple net portfolio lease to SUEZ, a high calibre tenant that has a leading position in the waste recycling sector, has a portfolio WALE of 15 years and is consistent with the REIT's investment strategy of acquiring assets with long leases to high quality tenants with leading market positions.

We strengthened our customer partnerships across our sectors, particularly with tenant customers Wesfarmers and Woolworths, who occupy space across our industrial, office and retail sectors. During the period, we acquired the purpose-designed Woolworths South Dandenong facility, which comprises a state of the art logistics distribution centre, currently under construction.

We also completed 45,000sqm of industrial lease transactions in Canning Vale in Perth including deals with Automotive Holdings Group and Visy Logistics who are also tenant customers in our retail sector.

Where are the opportunities for innovative solutions?

Our ability to harvest innovative ideas and processes across our three sectors gives our industrial customers access to property solutions across office and retail. This applies to systems, technology, sustainability, leasing, financing and resource management.

We are at the forefront of new technology and automation, with the Woolworths South Dandenong facility incorporating the latest design standards. It features leading material handling, and sortation and distribution systems with high clearance warehousing. Access and loading is provided via 63 loading docks, with the site accommodating up to B-Triple heavy vehicle movements.

What are the challenges and opportunities in the near future?

We will remain focused on securing strategic industrial investments that will add to the quality of the portfolio and deliver earnings per unit growth for our capital partners.

Our in-house development team has a $657 million active pipeline of committed industrial projects that will enhance income yield and returns to our investor customers.

Our focus on building a portfolio of well-located, high quality assets that have quality tenants with long leases provides us both resilience and strength to succeed in the markets we operate in.

We seek to optimise value in growth markets and, in less active markets such as Perth, we are completing leasing deals well ahead of our forecasts, and ensuring that our portfolio of assets is fit for purpose and situated in strategic locations.

The logistics sector is expected to be a beneficiary of ecommerce and we forecast this megatrend to increase net demand for space in the logistics market and are positioning our platform to service these requirements.

Sustainability continues to be at the forefront of our strategy and as rising power costs and automation grows, we will continue to innovate to reduce operating overheads for our tenant customers and future proof our asset base.

Cross sector relationships with high quality tenants offer opportunities that increase in quality and value each year. Our commitment to working with our sector teams on improved solutions for our cross-sector tenant customers will strengthen further.◆

RETAIL

For personal use only

"As the leading owner and manager of Australian convenience based supermarket anchored shopping centres and with a portfolio of hardware, automotive showroom and hospitality assets, we are providing a secure and growing income stream for our investors, building positive partnerships with our tenant customers and creating great places to work for our people."

GREG CHUBB,
GROUP EXECUTIVE – RETAIL

$5.5b
FUM

8.5yrs
WALE

168
PROPERTIES

6.08%
CAP RATE

97.5%
OCCUPANCY

For more information, please visit **charterhallFY17.reportonline.com.au/chc/#our-sector**

Members of the Charter Hall Retail Team (From left): Greg Chubb, Ben Ellis and Yvette Keatings.

For personal use only

What are your strategy and key areas of focus for Charter Hall's retail sector?

Our strategy in the retail sector is to continue to provide a secure and growing income stream for our investors. We do this in two ways; one is through non-discretionary convenience based shopping centres and the other is through single-tenant long-leased assets with tenant customers including Bunnings and ALH Group.

We have 168 properties in our portfolio valued at $5.5 billion, an increase in value of 11.5% since June 2016. Those properties are mostly non-discretionary supermarket-anchored shopping centres, plus Bunnings Warehouse properties, ALH Hospitality venues, and Automotive Holdings Group automotive showrooms.

Another key part of our growth strategy is our exposure to Australia's leading retail companies; Woolworths and Wesfarmers. We are harnessing an understanding of their property needs across our Retail, Office and Industrial and Logistics sectors to provide total solutions for their property requirements.

What are the performance highlights for retail in FY17?

We've grown our funds in non-discretionary supermarket-anchored shopping centres and long leased product. Funds under management have increased to $5.5 billion and we have a healthy WALE of 8.5 years.

Our focus on retention of our tenant customers and our team of property specialists, has paid off with occupancy at 97.5%. We have renewed 90% of our leases during the period and expect our high occupancy and strong WALE to continue.

During the past year, we have been actively divesting smaller assets with limited prospects for growth and reinvesting those funds into higher growth potential assets via both development opportunities and acquisition.

How have your investor and tenant partnerships developed in the past year?

During the year we created a new wholesale property partnership for retail shopping centre assets, by co-investing with one of Australia's largest super funds MTAA Super, to acquire Campbelltown Mall in an off market transaction for a total purchase price of $197 million, reflecting a market capitalisation rate of 6.00%.

We have also been strengthening partnerships with our tenant customers completing 450 specialty leasing transactions along with delivering brand new centre facilities and major redevelopments like Secret Harbour Shopping Centre in Perth, a $60 million project for our CQR fund.

Furthermore, our team of retail specialists continue to focus on gaining insights into both current and future tenant customer requirements and are dedicated to ensuring that we build and maintain positive partnerships across our entire tenant customer base.

We recently collaborated with Monash University to develop and measure an annual Net Promoter Score and Relationship Satisfaction Matrix. Insights from this survey showed our customers advised overall positive satisfaction with our relationship management and pleasingly, 7 out of 10 tenant customers strongly believe they will renew leases within the portfolio and consider further opportunities for growth with Charter Hall as a preferred Retail property partner.

We continue to deepen our valuable partnership with both Westfarmers and Woolworths and have expanded our relationship with ALDI. In the past year we opened two new ALDI stores and acquired an additional two due to acquisitions.

Building strong partnerships with both our investor and tenant customers through active management of our funds and centres reflects our strength, resilience and growth mindset.

How are you engaging with your communities?

Understanding our communities is key to our performance. We are accessing real time, high quality customer data, which enables us to manage our tenancy mix by better understanding shopper preferences such as brands, stores, experience and centre functionality. Free, fast wifi is now available in a number of our centres, which, along with benefitting shoppers, provides further insights into how and where they are engaging with our tenant customers.

We have contributed more than 3,500 square metres of space (valued at $500,000) to community groups and we support initiatives in the regional communities served by our shopping centres. For example, our Secret Harbour team members swam to Rottnest Island to raise funds for the local Surf Life Saving Club. This type of deep level of community engagement is encouraged and supported by the Charter Hall Group through its shared values framework.

Community engagement extends to our sustainable approach to designing, developing and enhancing efficiencies in our assets. In 2017, we met our sustainability target for the Charter Hall Retail REIT by achieving a Green Star portfolio rating on our existing portfolio and Green Star ratings on all new developments.

What are the main challenges and opportunities in the near future?

Retail is a competitive environment, and much has been written about the threat of online to traditional retail stores. Our non-discretionary convenience and community based retail presence is focused on consumers' every-day needs ensuring our resilience and relevance in an ever evolving retail landscape. Our 150 retail professionals operate in more than 100 communities across Australia. This plays a strong part in our success due to a deep understanding of those communities and the ability of our people in our centres, to respond quickly to our tenants and their customers' needs.

We appreciate that our shoppers have a choice and we are retaining their long-term loyalty by providing an enjoyable and safe in centre experience, convenient retail choices and high quality amenity.◆

CASE STUDY
DIVERSIFIED EQUITY SOURCES



"As an investment and fund manager, we understand that performance is everything. Over the past five years we have accessed $8.1 billion in gross equity from wholesale, retail and listed investors and deployed this into $11.7 billion of acquisitions across our core real estate sectors."

RICHARD STACKER, GROUP EXECUTIVE – GLOBAL INVESTOR RELATIONS

Charter Hall Group has continued to attract investors to our real estate funds management platform with $2.3 billion of gross equity raised from domestic and international investors across all equity sources in the past year. We deployed this equity into $3 billion of acquisitions in our core real estate sectors – office, industrial and logistics and retail – to create value and generate superior returns for our customers.

"The Group is in an excellent position to capitalise on opportunities across its investment portfolio, with some $3 billion of equity and undrawn debt available as investment capacity."

The addition of 18 new local and offshore wholesale investors supporting capital raisings validates our high performance as does the fact that 10% of those funds raised came from international high net worth investors, a reflection of the quality of our real estate portfolio and the strength of the Australian commercial real estate market.

Investors have been attracted to our investment management platform based on a focus on real assets and in the global context, Australian funds rank highly among other countries in Asia Pacific.

During the period, the Group's $3.4 billion flagship office fund, the Charter Hall Prime Office Fund (CPOF) completed an equity raising of over $500m, oversubscribed. CPOF, which provided investors with a 19.2% return in fiscal 2017, the highest return of all funds in the Mercer/IPD Australia Unlisted Wholesale Index, was accepted into the core series index from July 2017 based on a gearing level of less than 30%.

The Group's largest industrial fund, the $2.4 billion wholesale Charter Hall Prime Industrial Fund (CPIF), closed its $300 million equity raising, also oversubscribed and was on top of the $450 million raised in FY16. The fund also enhanced and increased the tenor of its debt-funding platform in March 2017, raising AUD$350 million (equivalent) through a US Private Placement (USPP) transaction.

Both CPOF and CPIF are expected to open for further equity in FY18. CPOF continues to focus on the office markets in the strong eastern seaboard states, where it has a strong pipeline of build to hold opportunities. CPIF will continue to leverage its strong relationships with tenant customers in delivering new purpose built industrial facilities and when strategically acquiring assets.

The Group's market leading unlisted Direct Office Fund (DOF) has also accepted a further $250 million in equity from investors during the period and in total has raised $500 million since reopening in 2015 and continues to see further equity inflow in the new financial year.

The Charter Hall Direct business was acknowledged during the year for its high performance awarded the "Property Fund of the Year" at Money Management /Lonsec's 2017 Fund Manager of the Year Awards along with the "Commercial Property – SMSF Member" award at the CoreData Self Managed Super Fund Awards 2017.

The equity raisings have strengthened the funds' balance sheets, provided capital for new build-to-hold assets, enhanced current assets and given us further capacity for acquisitions. Providing solutions for our tenant customers across office, industrial and retail also helps us to deliver results for our investors and capital partners.

Equity flows includes equity raised or returned only and excludes undrawn equity commitments

1. Listed Funds include equity raised in CHC, CQR and CLW
2. Funds and syndicates for retail, SMSF and high net worth investors

	FY14 $m	FY15 $m	FY16 $m	FY17 $m
Wholesale Pooled Funds	651	653	606	776
Wholesale Partnerships	261	598	467	217
Listed Funds[1]	260	274	76	988
Direct Funds[2]	277	180	318	355
Gross equity raised	**1,449**	**1,705**	**1,467**	**2,336**

For personal use only

CASE STUDY
CREATING SHARED VALUE WITH PLEDGE 1%



"We are proud to be the first Australian property company to commit to Pledge 1%. Our Pledge initiative aligns with our Shared Value Framework and demonstrates our approach to investing in our people, customers and the communities in which we operate."

NATALIE DEVLIN, GROUP EXECUTIVE – PEOPLE, BRAND & COMMUNITY

Charter Hall has joined Pledge 1% – the first property company in Australia to do so. Pledge 1% is a philanthropic movement that encourages organisations to create a culture of giving.

We are joining an impressive network of companies across the globe, including Atlassian and Salesforce, who have spearheaded their own philanthropic efforts through the Pledge 1% movement.

"We are thrilled that Charter Hall has joined the Pledge 1% movement and is committed to sharing its success with the community. Employees, shareholders, customers, and the community all benefit when a company builds giving back into its DNA. It's one of the best decisions we ever made."

SCOTT FARQUHAR, CO-FOUNDER AND CO-CEO, ATLASSIAN

Pledge 1% enables part of our Shared Value Framework, where we focus on three key themes; eco-innovation, place creation and wellbeing extended through how we engage with our people, in our assets, and the communities in which we operate.

By pledging 1% of our people's time, use of our places and support to our community partners, we are creating a difference that delivers a positive impact for our investors, our people and the communities in which we work and operate.

Charter Hall has always had a strong commitment to giving back to its people and the communities in which it operates and during the period Charter Hall's people and teams:

- Supported 24 charities through workplace giving including preparing meals for the homeless, sorting clothes for domestic violence shelters, care for animals, planting trees and building playgrounds for sick children
- Supported our three national community partners which comprise the Property Industry Foundation (PIF), Foundation for Young Australians, and Australian Red Cross through training, mentoring and donations
- Developed a new partnership with WithYouWithMe that solves the problem of effectively transitioning personnel from the Australian Defence Force to the Australian private sector. As part of the program we have taken on our first ex veteran, who is working across our Retail Operations in Western Australia.
- Provided more than $1 million 'in kind' contribution of retail and office space across more than 100 communities around Australia; and
- Contributed $500,000 to community partners either directly or through matching employees' donations.

The exciting aspect about Pledge 1% is that it formally recognises the great work our people, our customers and the Group already contribute. As we strive to become Australia's best and most highly regarded property investment and funds management business, we acknowledge that our focus on creating a Shared Value Framework requires a cohesive, Group-wide approach to sustainability and corporate responsibility.

"Salesforce is dedicated to changing the way companies think about corporate philanthropy. Today, we're excited that Charter Hall is joining us in giving their resources back to the community. This is another great example of the power that business has to create change in our communities."

SUZANNE DIBIANCA, EVP OF CORPORATE RELATIONS AND CHIEF PHILANTHROPY OFFICER, SALESFORCE

For personal use only



At Charter Hall, we have integrated sustainability and community into our business to create a shared value framework.

To become Australia's best and most highly recognised property investment and funds management business, we acknowledge that this requires a cohesive, Group-wide approach to sustainability and corporate responsibility that addresses all aspects of the property value chain.

Charter Hall's Shared Value Framework recognises the UN Sustainable Development Goals and is aligned with the four pillars that underpin our corporate strategy: product, performance, people and partner. Our framework focusses on three key themes that will create Eco-Innovation, Place Creation and Wellbeing, with our people, in our assets and the communities in which we operate.

SUSTAINABILITY

For personal use only

ECO INNOVATION

UN Sustainable Development Goal	2017 Commitments	2017 Performance	FY20 Targets	FY25 Targets	Aspirational Targets
13 CLIMATE ACTION	**Resilience**				
	Implementation of climate change framework.	✓ Climate Change Adaptation Plan prepared for retail and industrial development.	All assets have climate change adaptation plans.	Capital improvements in portfolio in line with Climate Change Adaptation plans.	Resilient communities and future proofed assets.
	Create environmental management framework.	✓ Environmental Management Framework commenced.	All assets have environmental management plans to AS 14001.	Maintain certified EMS to ISO 14001.	
	Implement emergency management framework.	✓ Emergency management framework commenced in office portfolio.	Emergency management framework extended across portfolio.	Fully integrated emergency management framework.	
	Partner with Australian Red Cross to provide resilience programs and resources.	✓ 5 Australian Red Cross Resilience programs in 4 states with 60 employees participating to build their resilience and preparedness.	Expanded employee and community resilience programs.		
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**Enhancing Environmental Performance**				
	Green Star Performance ratings for office, retail and industrial portfolios. 5 Star Green Star ratings sought on all new large developments.	✓ 178 Green Star Performance Ratings across Office, Retail and Industrial assets. ✓ 18 Green Star Design and As Built Ratings across our Office Developments.	Pathway to 2 degree reduction in emissions. 3 Star average Green Star Performance Rating across the Group. 5 Star Green Star Design and As Built ratings sought on all new large developments.	Achieve 2 Degree reduction in emissions.	Achieving net zero.
	NABERS ratings in retail centres over 15,000sqm.	✓ 4.5 Star Average NABERS Weighted Rating for Office Assets. 3.5 Star Average NABERS Weighted Rating for Retail Assets.	4.75 Star Average NABERS Weighted Rating for Office Assets. 3.75 Star Average NABERS Weighted Rating for Retail Assets.	5 Star Average NABERS Weighted Rating for Office Assets. 4 Star Average NABERS Weighted Rating for Retail Assets.	
	Renewable energy on all new large retail and industrial developments.	✓ Renewable energy approved and construction commenced on all new large retail and industrial developments. Eight assets currently have 475kW of solar PV installed, generating 698MWh per annum.	Implementation of solar projects across Retail portfolio. Renewable energy on all new large retail and industrial developments.	Renewable energy creation in portfolio.	
	Development and implementation of Waste Management Strategy. Pilot recycling de-fit projects in retail, office and industrial assets.	✓ Waste management strategy in Office and Retail. Green lease provisions in office, retail and industrial with Office leases achieving a BBP Gold Standard rating. Tenant and Community Environmental Programs underway.	50% Waste Diversion in Retail and Office Assets. Ongoing implementation of tenant and community sustainability programs.	70% Waste Diversion in Retail and Office Assets.	

For personal use only

PLACE CREATION

Fit for the Future

UN Sustainable Development Goal	2017 Commitments	2017 Performance	FY20 Targets	FY25 Targets	Aspirational Targets
8 DECENT WORK AND ECONOMIC GROWTH	Expansion of RISE talent development program. TED Tuesdays bringing global thinking into the business.	✓ Innovation through inclusion commenced. ✓ TED Tuesdays continued with the addition of live speakers aligned to our business themes.	Connect employee and customer value propositions to enhance the customer experience.	Shape the way we acquire and develop talent to align with a future of work.	Creation of the largest community hub network in Australia.
	Stakeholder engagement plans for all new developments.	✓ Stakeholder engagement plans implemented in office and retail developments.	Stakeholder engagement plans prepared for 100% developments.	100% of developments and assets have stakeholder engagement plans.	
	Pilot an employment project in a new development.	✓ Employment approach developed to be incorporated into office developments, to commence in FY18.	Employment strategy developed for all developments.	Employment projects in all new developments.	

Culture of Innovation

UN Sustainable Development Goal	2017 Commitments	2017 Performance	FY20 Targets	FY25 Targets	Aspirational Targets
11 SUSTAINABLE CITIES AND COMMUNITIES	Develop a place impact index which measures our success in place and collective impact.	✓ Place Index developed and piloted in retail and industrial assets.	Place Index implemented across the portfolio. Provision of a menu of benefits and programs for our buildings and our communities.	Ongoing place experience ratings across our portfolio.	Leader in innovative place creation in our communities.
	Pilot community hub concepts in retail properties. Create innovative spaces in partnership with network of innovative enterprises. Engage with our tenants and our supply chain to create innovation in place.	✓ Community innovation implemented through our Pledge 1% use of our Places, including art galleries, co-working with childcare, pop up community event space and social enterprise.	Community hubs in all large retail assets. National programs with communities and partners to curate creative and community programs in all large assets.	Create a national network of innovation enterprises.	
	Community Investment Approach Pledge 1%. Our People: Our Places: Our Partnerships.	✓ Our Pledge made a difference in our communities through • Our People: 34% of Our People undertook 161 Volunteer Days. • Our Places: contributed 17,798 sqm of space, valued at $1.4 million for use by community groups. • Our Partnerships donated $500,000 towards services and programs through our community partners.	Continued Pledge 1% Our People: Our Places: Our Partnerships.	Continued Pledge 1% Our People: Our Places: Our Partnerships.	
	Partner with Foundation for Young Australians Innovation Nation program.	✓ 10 young Social entrepreneurs mentored by Charter Hall employees through the Foundation for Young Australians Innovation Nation Program.	Continued youth and enterprise mentoring.		

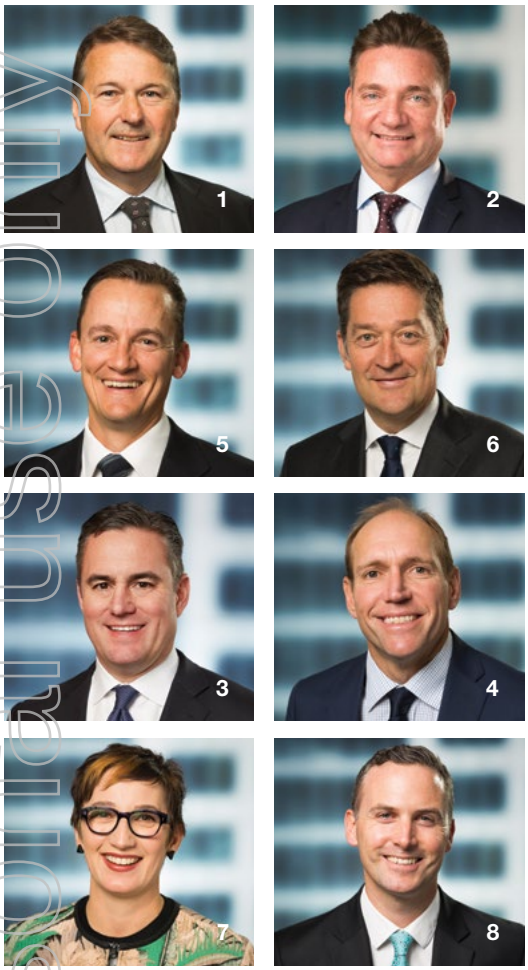
For personal use only

WELLBEING

Creating Healthy Minds, Spaces and Environments

UN Sustainable Development Goal	2017 Commitments	2017 Performance	FY20 Targets	FY25 Targets	Aspirational Targets
3 GOOD HEALTH AND WELL-BEING 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Pilot WELL building standard in a Charter Hall tenancy.	Charter Hall Melbourne and Perth Offices registered for WELL Building Interiors Certification. Three office development projects, in Melbourne, Brisbane and Adelaide registered for WELL Building Core and Shell Certification.	WELL building accreditation sought for all large Charter Hall state offices and in new office developments.		Leader in health and wellbeing in our communities.
	Pilot new technologies in environmental quality monitors in key office tenancies.	Pilots undertaken on indoor environmental wellbeing technologies, include trialling SAMBA and Comfy in Charter Hall tenancies.	Expansion of new technologies across the portfolio.	Enhanced Customer satisfaction experience in our assets.	
	Investigate a Human Rights Framework.	Human Rights Framework commenced and an ethical review undertaken on one development project.	Human Rights Framework commenced and an ethical review undertaken on one development project.	Integrated sustainable and equitable supply chain into assets and developments.	
	Engage with our tenants and our supply chain to create innovation in place.	Major suppliers engaged on social procurement and the social procurement approach integrated into national contracts executed in FY17.	Development of social procurement strategy and expansion across our supply chain.	Green, social and indigenous enterprises in the Charter Hall supply chain.	
	Partner with community and social enterprises, to promote physical and mental health outcomes Partner community group to deliver healthy lifestyles.	Charter Hall partnered with community and social enterprises to hold yoga and wellbeing programs, for our people as well as school holiday programs for the children of our employees.			
	Procure Social Enterprises that deliver fresh and healthy food products.	Social enterprises procured to deliver healthy food options.			
	With our stakeholders develop Healthy Lifestyles Strategy for our assets and our communities.	Wellbeing Survey undertaken for Charter Hall Employees by our Employee Assistance Provider.	Wellbeing Strategy for our people and our places developed and implemented. Our people, our tenants and our communities have access to fresh and healthy food.	Wellbeing programs / facilities available to all large assets and employees.	

EXECUTIVE COMMITTEE



1. DAVID HARRISON

Managing Director and Group CEO

B.Bus (Land Economy); FAPI; GDipAppFin

David has more than 30 years of property market experience across office, retail and industrial sectors in multiple geographies globally. As Charter Hall Managing Director and Group CEO, David is responsible for all aspects of the Charter Hall business, with specific focus on strategy. He continues to build the momentum of a $19.8 billion investment portfolio and is recognised as a multi-core sector market leader. David is an executive member of various Fund Boards and Partnership Investment Committees, Chair of the Executive Property Valuation Committee and Executive Leadership Group.

David has overseen the growth of the Charter Hall Group from $500 million to $19.8 billion of assets under management. David has been principally responsible for transactions exceeding $30 billion of commercial, retail and industrial property assets.

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.

2. SEAN MCMAHON

Chief Investment Officer

Sean has 30 years of property and investment banking experience in the real estate sector and has been active in the listed, wholesale and direct capital markets. Sean is responsible for the Group's strategy and balance sheet investments, mergers and acquisitions, with oversight for multi sector disciplines including property transactions, together with corporate development.

He brings a wealth of experience across investment markets, diversified across office, industrial and retail sectors, and has been responsible for driving the development of corporate strategies, capital allocation and reinvestment programs.

Prior to joining Charter Hall, Sean worked at national diversified property group Australand (now known as Frasers) as Chief Investment Officer and was previously responsible for investment and development for all commercial, industrial and retail property.

3. RUSSELL PROUTT

Chief Financial Officer

B.Bus

Russell joined Charter Hall in August 2017 and brings over 25 years' finance experience to the Group. His experience has included property and infrastructure investment management in North America, Australia and broader Asia as well as extensive M&A and financing capability across global markets.

He has a breadth of knowledge across commercial property markets and broad experience across infrastructure and private equity investments, mergers and acquisitions, transactions and finance functions.

4. RICHARD STACKER

Group Executive – Global Investor Relations

B.Bus

Richard is the Global Head of Investor Relations responsible for the Investor Relations function and the Direct business where he is an Executive Director on the responsible entity's Board. Richard has over 25 years of experience in real estate funds management, real estate finance, mergers and acquisitions, accounting and risk management. Prior to joining Charter Hall Group, Richard was a Division Director of Macquarie Group Limited and Chief Executive Officer of Macquarie Direct Property Management Limited. Previous to that, Richard was a General Manager with Lend Lease Corporation Limited and a senior manager with PricewaterhouseCoopers.

He has a Bachelor of Business and is a member of the Institute of Chartered Accountants in Australia.

5. ADRIAN TAYLOR

Group Executive – Office

B.Bus, CPA, GDipAppFin, FRIC

Adrian leads the $9.1 billion office platform including setting the Wholesale office funds strategy and objectives in conjunction with the Charter Hall Fund Managers and Investors and guides the asset management, property management, and technical service and development teams.

He has extensive capital transaction and capital management experience including debt and equity raising and deep joint venture experience in Australia and the US. He spent 15 years in listed REIT markets as General Manager,

For personal use only

For personal use only

Chief Investment Officer and Chief Executive Officer of the Charter Hall Office REIT prior to its privatisation. In his prior role as Head of Wholesale investment, he ran the investment management functions across office, retail and industrial sectors.

Adrian graduated with a Bachelor of Business from Monash University, is a Certified Practising Accountant, Fellow of the Financial Services Institute of Australasia, a fellow of the Royal Institute of Chartered Surveyors and is involved in numerous property industry groups including being Deputy Chair of the ICMD Division Council of the Property Council of Australia.

6. GREG CHUBB

Group Executive – Retail

B.Bus (Land Economics)

Greg joined Charter Hall in 2014 as Head of Retail and is responsible for leading the Charter Hall Retail strategy associated with the Group's $5.4 billion non-discretionary retail portfolio of shopping centres, hardware, hospitality and automotive assets. He was appointed to the Charter Hall Retail REIT (CQR) board as an Executive Director in February 2016.

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

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

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

7. NATALIE DEVLIN

Group Executive – People, Brand and Community

BA, Postgrad Dip in MR Management (Dean's List Award)

Natalie is responsible for culture, internal and external brand, organisational capability, sustainability and community investment. She is focused on achieving our aspiration to be 'the place for people in property' by creating an authentic and differentiated employee, customer and community experience for the Group.

Natalie's previous roles include Head of People and Development at Valad Property Group, where she established the human resources function during its rapid growth period, and Head of HR, Asia Pacific for a multinational publishing company, where she transformed their operating model.

8. AIDAN COLEMAN

Chief Technology Officer

BTech, MBT

Aidan is responsible for providing leadership and direction for all strategic IT activities associated with supporting IT's contribution to the organisation's key business initiatives.

Aidan has over 20 years' technology experience across a range of industries and geographies including property, funds management, retail, media, consumer goods, consulting, financial services and telco. Prior to joining Charter Hall, Aidan worked at Stockland, NewsCorp, Diageo and Accenture.

BOARD OF DIRECTORS













1. DAVID CLARKE
Chairman

2. ANNE BRENNAN
Non-Executive Director

3. PHILIP GARLING
Non-Executive Director

4. DAVID ROSS
Non-Executive Director

5. KAREN MOSES
Non-Executive Director

6. DAVID HARRISON
Managing Director and Group CEO

See pages 30 – 32 for Director bios.

FINANCIAL REPORT AND OTHER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2017

Comprising the stapling of ordinary shares in Charter Hall Limited (ACN 113 531 150) and units in the Charter Hall Property Trust (ARSN 113 339 147)

Directors' Report **25**

Auditor's Independence Declaration **52**

Consolidated Statements of Comprehensive Income **53**

Consolidated balance sheets **54**

Consolidated statement of changes in equity – Charter Hall Group **55**

Consolidated statement of changes in equity – Charter Hall Property Trust Group **56**

Consolidated cash flow statements **57**

Notes to the consolidated financial statements **58**

1 Summary of significant accounting policies 58
2 Critical accounting estimates and judgements 65
3 Segment information 65
4 Revenue 69
5 Expenses 69
6 Income tax expense 70
7 Distributions paid and payable 71
8 Earnings per stapled security 72
9 Cash and cash equivalents 73
10 Trade and other receivables 73
11 Investments accounted for using the equity method 74
12 Investment properties 74
13 Intangible assets 75
14 Property, plant and equipment 76
15 Deferred tax assets and liabilities 76
16 Trade and other payables 77
17 Provisions 78
18 Interest bearing liabilities 78
19 Contributed equity 79
20 Reserves 80
21 Accumulated losses 81
22 Remuneration of auditors 81
23 Reconciliation of profit after tax to net cash inflow from operating activities 82
24 Capital and financial risk management 82
25 Fair value measurement 86
26 Related parties 87
27 Controlled entities 89
28 Investments in associates 91
29 Investments in joint ventures 97
30 Interests in unconsolidated structured entities 98
31 Commitments 99
32 Contingent liabilities 100
33 Security-based benefits expense 100
34 Parent entity financial information 101
35 Deed of cross guarantee 102
36 Events occurring after the reporting date 103

Directors' declaration to securityholders **104**

Independent Auditor's Report **105**

Lodged

For personal use only

The Directors of Charter Hall Limited and the Directors of Charter Hall Funds Management Limited, the Responsible Entity (RE) of Charter Hall Property Trust, present their report together with the consolidated financial report of the Charter Hall Group (Group or CHC) and the consolidated financial report of the Charter Hall Property Trust Group (CHPT) for the year ended 30 June 2017, and the Independent Auditor's Report thereon. The financial report of the Group comprises Charter Hall Limited (Company or CHL) and its controlled entities, which include Charter Hall Funds Management Limited as the RE of Charter Hall Property Trust (Trust). The financial report of the Charter Hall Property Trust Group comprises the Trust and its controlled entities.

Charter Hall Limited and Charter Hall Funds Management Limited have identical Boards of Directors. The term Board hereafter should be read as a reference to both these Boards.

The units in the Trust are 'stapled' to the shares in the Company. A stapled security comprises one Company share and one Trust unit. The stapled securities cannot be traded or dealt with separately.

Directors

The following persons were Directors of the Group during the year and up to the date of this report, unless noted otherwise:

- David Clarke – Chair and Non-Executive Independent Director
- Anne Brennan – Non-Executive Independent Director
- Philip Garling – Non-Executive Independent Director
- David Harrison – Managing Director and Group CEO
- Karen Moses – Non-Executive Independent Director (appointed 1 September 2016)
- David Ross – Non-Executive Independent Director (appointed 20 December 2016)

Former Directors

- Peter Kahan – Non-Executive Director (resigned 20 December 2016)
- Colin McGowan – Non-Executive Independent Director (resigned 9 November 2016)

Principal activities

During the year, the principal activities of the Group consisted of:
(a) Investment in property funds; and
(b) Property funds management.

No significant changes in the nature of the activities of the Group occurred during the year.

Distributions – Charter Hall Group

Distributions paid/declared to members during the year were as follows:

	2017 $'000	2016 $'000
Final ordinary distribution for the six months ended 30 June 2017 of 15.6 cents per stapled security payable on 31 August 2017	**72,661**	–
Interim ordinary distribution for the six months ended 31 December 2016 of 14.4 cents per stapled security paid on 28 February 2017	**59,431**	–
Final ordinary distribution for the six months ended 30 June 2016 of 13.6 cents per stapled security paid on 25 August 2016	**–**	56,129
Interim ordinary distribution for the six months ended 31 December 2015 of 13.3 cents per stapled security paid on 26 February 2016	**–**	54,419
Total distributions paid and payable	**132,092**	110,548

Review and results of operations

The Group recorded a statutory profit after tax attributable to stapled securityholders for the financial year to 30 June 2017 of $257.6 million compared to a profit of $215.2 million for the year ended 30 June 2016.

Operating earnings amounted to $151.2 million for the year to 30 June 2017, compared to $124.7 million for the year ended 30 June 2016, an increase of 21.3% over the prior period. Operating earnings is split between property investments of $85.0 million (30 June 2016: $78.5 million) and property funds management of $66.2 million (30 June 2016: $46.2 million).

Review and results of operations continued

The operating earnings information included in the table below has not been subject to any specific audit procedures by our auditor but has been extracted from Note 3: Segment information of the accompanying financial report.

	2017 $'000	2016 $'000
Operating earnings attributable to stapled securityholders	**151,173**	124,735
Realised and unrealised gains/(losses) on derivatives[1]	**8,166**	(10,339)
Net fair value movements on investments and property[1]	**118,314**	107,757
Amortisation and impairment of intangibles	**(4,342)**	(8,517)
Impairment of investment in joint venture	**(10,494)**	–
Non-operating deferred income tax expense	**(4,118)**	(1,714)
Gain on disposal of property investments and inventory[1]	**3,890**	6,114
Other[1]	**(5,028)**	(2,796)
Statutory profit after tax attributable to stapled securityholders	**257,561**	215,240

1 Includes the Group's proportionate share of non-operating items of equity accounted investments on a look-through basis.

	2017	2016
Basic weighted average number of stapled securities per Note 8 ('000s)	**420,838**	409,980
Basic earnings per stapled security per Note 8 (cents)	**61.2**	52.5
Operating earnings per stapled security (OEPS) per Note 3 (cents)	**35.9**	30.4

The 30 June 2017 financial results with comparatives are summarised as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017	2016	2017	2016
Revenue ($ million)[1]	**213.4**	165.3	**19.7**	37.2
Statutory profit after tax for stapled securityholders ($ million)	**257.6**	215.2	**218.0**	197.3
Statutory earnings per stapled security (EPS) (cents)	**61.2**	52.5	**51.8**	48.1
Operating earnings for stapled securityholders ($ million)[2]	**151.2**	124.7	**n/a**	n/a
Operating earnings per stapled security (cents)[2]	**35.9**	30.4	**n/a**	n/a
Distributions to stapled securityholders ($ million)	**132.1**	110.5	**132.1**	110.5
Distribution per stapled security (cents)	**30.0**	26.9	**30.0**	26.9
Total assets ($ million)	**1,873.0**	1,415.6	**1,612.8**	1,251.6
Total liabilities ($ million)	**150.8**	104.5	**76.8**	56.5
Net assets attributable to stapled securityholders ($ million)	**1,722.2**	1,311.1	**1,536.0**	1,195.1
Stapled securities on issue (million)	**465.8**	412.7	**465.8**	412.7
Net assets per stapled security ($)	**3.70**	3.18	**3.30**	2.90
Net tangible assets (NTA) attributable to stapled securityholders ($ million)	**1,674.9**	1,256.3	**1,536.0**	1,195.1
NTA per stapled security ($)[3]	**3.60**	3.04	**3.30**	2.90
Balance sheet gearing[4]	**0.00%**	0.00%	**0.00%**	0.00%
Funds under management (FUM) ($ billion)	**19.8**	17.5	**n/a**	n/a

1 Gross revenue does not include share of net profits of associates and joint ventures of $207.2 million (30 June 2016: $168.3 million).
2 Excludes fair value adjustments, gains or losses on the sale of investments, amortisation and/or impairment of intangible assets, non-operating deferred tax expense and other unrealised or one-off items.
3 Net tangible assets (NTA) per stapled security ($) is calculated using assets less liabilities, net of intangible assets and related deferred tax.
4 Gearing is calculated by using debt drawn net of cash divided by total assets net of cash.

Operating earnings per stapled security (OEPS) has increased 18.1% from 30.4 cents for the year ended 30 June 2016 to 35.9 cents for the year ended 30 June 2017.

Annual distribution per stapled security (DPS) has increased 11.5% from 26.9 cents for the year ended 30 June 2016 to 30.0 cents for the year ended 30 June 2017.

Net Tangible Assets per stapled security (NTA) at 30 June 2017 is $3.60, an increase of 18.4% over $3.04 at 30 June 2016.

Lodged with the Australian Securities Exchange

For personal use only

Funds Under Management (FUM) increased from $17.5 billion at 30 June 2016 to $19.8 billion at 30 June 2017 due to the establishment of new funds Charter Hall Long Wale REIT and Charter Hall Prime Retail Fund, significant valuation uplifts, property acquisitions and developments in Charter Hall Office Trust, Charter Hall Prime Office Fund, Charter Hall Prime Industrial Fund, Charter Hall Direct Office Fund, Charter Hall Direct Industrial Fund No. 4, Charter Hall Retail REIT and investment properties acquired directly by the Charter Hall Group.

Property Investments

The Group's property investments are classified into the following real estate sectors:

- Office;
- Industrial;
- Retail; and
- Diversified.

The following table summarises the key metrics for the property investments of the Group:

	Ownership stake	Charter Hall investment	FY 17 Charter Hall investment income[1]	Weighted average lease expiry	Weighted average market cap rate	Weighted average discount rate	Weighted Average rental reviews	FY 17 Charter Hall investment yield[2]
	(%)	($m)	($m)	(years)	(%)	(%)	(%)	(%)
Office		**549.1**	**25.3**	**5.6**	**5.8**	**7.1**	**3.7**	**7.3**
Charter Hall Prime Office Fund (CPOF)	10.5	236.4	11.7	6.4	5.9	7.2	3.8	6.2
Charter Hall Office Trust (CHOT)	14.3	212.9	13.4	4.6	5.5	7.0	3.7	8.6
Brisbane Square Wholesale Fund (BSWF)	16.8	99.6	0.2	6.8	6.1	7.3	3.6	6.0
Charter Hall PFA Direct Fund (PFA)[3]	0.1	0.2	–	7.0	7.6	8.2	3.5	7.8
Industrial		**285.8**	**16.5**	**9.1**	**6.4**	**7.4**	**3.0**	**6.2**
Core Logistics Partnership Trust (CLP)	13.8	139.2	9.9	9.6	6.3	7.6	3.0	6.3
Charter Hall Prime Industrial Fund (CPIF)	6.0	117.1	6.2	7.7	6.4	7.6	3.0	6.1
Charter Hall Direct Industrial Fund No.4 (DIF4)	21.2	29.5	0.4	11.6	6.5	6.0	3.0	6.6
Retail		**486.0**	**34.0**	**6.8**	**6.1**	**7.4**	**3.9**	**7.3**
Charter Hall Retail REIT (CQR)[4]	18.6	321.2	21.1	6.8	6.3	7.4	4.1	7.7
Charter Hall Prime Retail Fund (CPRF)	38.0	44.8	1.9	4.1	5.8	7.5	4.4	6.3
Retail Partnership No. 6 Trust (RP6)[4]	20.0	34.3	2.1	3.3	5.8	7.7	3.3	6.5
BP Fund 1 (BP1)[6]	8.4	28.4	1.5	9.8	5.5	7.3	2.7	6.1
Long WALE Investment Partnership (LWIP)[5]	5.0	19.0	5.2	17.2	6.0	7.4	2.0	7.7
BP Fund 2 (BP2)[6]	13.2	13.8	0.7	11.8	5.7	7.4	2.7	4.8
Long WALE Investment Partnership 2 (LWIP2)[5]	10.0	10.1	0.7	18.0	6.0	7.4	2.0	7.3
TTP Wholesale Fund (TTP)[4,6]	10.0	8.0	0.4	3.8	6.3	7.5	4.1	5.8
Retail Partnership No. 2 (RP2)[4]	5.0	6.4	0.4	4.8	5.8	7.5	4.5	7.1
Diversified		**166.0**	**6.6**	**11.5**	**6.5**	**7.4**	**2.9**	**6.3**
Charter Hall Long WALE REIT (CLW)	20.0	166.0	6.6	11.8	6.2	7.4	2.8	6.3
Property investment – subtotal		**1,486.9**	**82.4**	**7.4**	**6.1**	**7.3**	**3.6**	**6.9**
Commercial and Industrial Property Pty Limited (CIP)	50.0%	19.5	1.5	n/a	n/a	n/a	n/a	n/a
Investments disposed/other[7]	–	40.3	0.9	n/a	n/a	n/a	n/a	n/a
Total		**1,546.7**	**84.8**					

1 Charter Hall Group property investment operating income per segment, Note 3(b) of the financial report.

2 Yield = Operating earnings divided by investment value at start of the year adjusted for investments/divestments during the period. Excludes MTM movements in NTA during the year.

3 Formerly PFA Diversified Property Trust.

4 Average rent reviews is contracted weighted average rent increases of specialty tenants.

5 The LWIP and LWIP2 rental increase is CPI, uncapped.

6 These funds comprise the Long WALE Hardware Partnership (LWHP).

7 Directly owned property, Charter Hall Opportunity Fund 4, Charter Hall Opportunity Fund 5, Coles Truganina and Woolworths Dandenong.

Review and results of operations continued

Property Investments continued

A summary of the significant activities of each of the Group's property investments is provided below:

(a) Office

Charter Hall Prime Office Fund (CPOF)

CPOF is a wholesale-pooled fund that invests in high-quality office buildings located in Australia's major capital cities. CPOF owns an interest in 21 assets valued at $3.4 billion.

Charter Hall Office Trust (CHOT)

CHOT is an unlisted wholesale partnership that invests in a diversified portfolio of office properties primarily located in Australian CBDs. CHOT owns an interest in 10 high-grade office assets valued at $2.6 billion.

Brisbane Square Wholesale Fund (BSWF)

BSWF is an unlisted fund which owns two assets valued at over $1 billion.

Charter Hall PFA Direct Fund (PFA)

PFA is an unlisted fund diversified across geographic locations, tenant profiles and lease expiries in Australia.

(b) Industrial

Core Logistics Partnership Trust (CLP)

CLP is a wholesale industrial partnership which owns an interest in 23 assets valued at $1.3 billion.

Charter Hall Prime Industrial Fund (CPIF)

CPIF is a wholesale industrial pooled fund focused on sourcing properties in the industrial and logistics sectors of major Australian capital cities. It includes both core and enhanced investment-grade property assets. CPIF owns an interest in 47 assets valued at $2.3 billion.

Charter Hall Direct Industrial Fund No.4 (DIF4)

DIF4 is an unlisted property fund investing in quality Australian industrial properties and also in the Charter Hall managed Core Logistics Partnership.

(c) Retail

Charter Hall Retail REIT (CQR)

CQR is an Australian Real Estate Investment Trust (REIT) listed on the Australian Securities Exchange (ASX) (ASX: CQR) and invests in neighbourhood and sub-regional shopping centres anchored by Coles and Woolworths supermarkets. CQR's portfolio comprises an interest in 71 properties valued at $2.8 billion.

Charter Hall Prime Retail Fund (CPRF)

CPRF is a wholesale fund which owns Campbelltown Shopping Centre valued at over $200 million.

Retail Partnership No.6 Trust (RP6)

RP6 is a wholesale retail fund focusing on neighbourhood and sub-regional shopping centres. RP6 owns two assets valued at over $250 million.

Long WALE Hardware Partnership (LWHP)

The combined BP1, BP2 and TTP Funds are collectively referred to as the Long WALE Hardware Partnership (LWHP), which owns assets valued at over $700 million.

BP Fund 1 (BP1)

BP1 is a wholesale fund which owns 12 freestanding warehouse properties valued at over $500 million.

BP Fund 2 (BP2)

BP2 is a wholesale fund which owns four freestanding warehouse properties valued at almost $150 million.

TTP Wholesale Fund (TTP)

TTP is a wholesale fund which owns the Keperra Square shopping centre in Brisbane valued at over $80 million.

Long WALE Investment Partnership (LWIP)

LWIP is a wholesale partnership which owns 57 hospitality assets valued at over $720 million. These assets are leased to ALH under triple net leases.

Long WALE Investment Partnership 2 (LWIP2)

LWIP2 is a wholesale partnership which owns nine hospitality assets valued at over $150 million.

Retail Partnership No.2 (RP2)

RP2 is a wholesale retail fund which owns the Bateau Bay Square shopping centre valued at over $220 million on the Central Coast of New South Wales.

(d) Diversified

Charter Hall Long WALE REIT (CLW)

CLW is a REIT listed on the ASX (ASX: CLW) and invests in high quality Australasian real estate assets that are predominantly leased to corporate and government tenants on long-term leases. CLW's portfolio comprises an interest in 79 properties valued at $1.4 billion.

(e) Wholesale mandates

The Group originates and manages segregated mandates for direct property investments either in joint venture with funds such as CPOF or CQR or as 100% owned assets by our clients. The total property value of wholesale mandates is $1.0 billion.

(f) Direct investor funds

The Group manages equity raised from retail investors via advisers, high net worth individuals and through direct distribution channels. The total FUM of these retail funds and single asset syndicates is $2.9 billion.

(g) Commercial and Industrial Property Pty Limited (CIP)

The Group has a 50% interest in CIP, an industrial development business.

Property Funds Management

The Property funds Management business provides investment management, asset management, property management, development management and leasing and transaction services to the Group's $19.8 billion funds management portfolio. The use of an integrated property services model, which earns fees from providing these services to the managed portfolio, enhances the Group's returns from capital invested. The Group also provides services to segregated mandates looking to capitalise on its property and funds management expertise. The Property funds Management business contributed $66.2 million in operating earnings to the Group.

During the year, total funds under management increased by $2.3 billion to $19.8 billion. The movement was a result of additional capital expenditure and valuation uplifts, along with the Group's managed funds acquiring approximately $3.0 billion and divesting approximately $2.2 billion of property.

For personal use only

Significant changes in the state of affairs

Significant Group matters during the year, in addition to the review of operations above, were as follows:

- The Group invested $46.0 million into Charter Hall Prime Retail Fund (CPRF), representing a 38.0% holding.
- The Group invested $73.3 million into Charter Hall Retail REIT (CQR), increasing its holding from 14.3% at 30 June 2016 to 18.6% at 30 June 2017.
- The Group invested $35.2 million into Charter Hall Opportunity Fund No. 5 (CHOF5), increasing its holding from 16.7% to 100% at 30 June 2017. Following the investment, the Group sold the investment property held by CHOF5 for proceeds of $68.3 million. The proceeds were partly used to repay CHOF5 debt with the remaining balance held in cash.
- The Group invested $165.4 million into Charter Hall Long WALE REIT (CLW), representing a 20.0% holding.
- The Group invested $100.6 million into Brisbane Square Wholesale Fund (BSWF), representing a 16.8% holding.
- The Group invested a further $20.0 million into Charter Hall Prime Industrial Fund (CPIF), increasing its holding to 6.0%.
- The Group invested a further $30.0 million into Charter Hall Prime Office Fund (CPOF), increasing its holding to 10.5%.
- The Group invested a total of $35.9 million into Charter Hall Direct Industrial Fund No. 4 (DIF4) acquisition units and sold a total of $6.4 million, at 30 June 2017 this represents a 21.2% holding. It also extended a $9.7 million loan to DIF4 which was subsequently repaid prior to 30 June 2017.
- The Group sold $152.2 million of its investment in Long WALE Investment Partnership (LWIP), reducing its holding from 50% to 5%.
- The Group sold $19.2 million of its investment in Core Logistics Partnership (CLP), reducing its holding from 16.1% at 30 June 2016 to 13.8% at 30 June 2017.
- The Group acquired 50% of the Coles Distribution Centre in Truganina, Vic for $51.3 million in August 2016. The Group sold CHPT Dandenong Trust, which held a 26% interest in CH DC Fund, which owns 225 Glasscocks Road, Dandenong South, Vic, to Charter Hall Long WALE REIT in November 2016 for $58.9 million.
- The Group acquired investment properties, held directly by the Group at 30 June 2017, for $41.1 million.

Matters subsequent to the end of the period

The following event has occurred subsequent to 30 June 2017:

- In August 2017, the CHPT $125 million debt facility was extended by two years with the maturity date changing to August 2020.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

(a) The Group's operations in future financial years; or
(b) The results of those operations in future financial years; or
(c) The Group's state of affairs in future financial years.

Likely developments and expected results of operations

Business strategy and prospects

Charter Hall's strategy is to use its specialist property expertise to access, deploy and manage equity invested in Retail, Office, Industrial property and diversified property fund portfolios. Charter Hall invests alongside equity partners to create value and provide superior returns for clients and Charter Hall securityholders.

Charter Hall is well positioned to benefit from projected growth of capital inflows from investors seeking property investments driven by the attractive spreads between property yields and long-term interest rates. During the last 12 months, Charter Hall has seen positive equity flows across all sectors from listed, wholesale and retail investors.

Property Investment portfolio

The property investment portfolio composition is primarily driven by co-investment requirements where, typically, between 10–20% of the equity in a fund is contributed by Charter Hall. In addition to these co-investments, the Group may invest a higher proportion in certain funds to reweight its investment portfolio, and continues to review opportunities to increase the proportion of retail and industrial investments and extend the overall WALE of its property investment portfolio.

The Group regularly reviews the performance of its property investment portfolio and relevant economic drivers to actively manage performance at an asset level in each fund.

The material business risks faced by the property investment portfolio that may have an effect on financial performance of the Group include interest rate risk, refinancing risk, lease defaults or extended vacancies, portfolio concentration risks and changes in economic or industry factors impacting tenants or the ability to source suitable investment opportunities.

Property funds management platform

The Group manages property investments on behalf of listed, wholesale and direct investors and has strict policies in place to ensure appropriate governance procedures are in place to meet fiduciary responsibilities and manage any conflicts of interest. Charter Hall provides a suite of services including investment management, asset management, property management, transaction services, development services, treasury, finance, legal and custodian services based on each fund's individual requirements.

The Group regularly reviews investor requirements and preferences for an investment partner in the Australian core real estate sectors and transaction structures that would meet their requirements.

The material business risks faced by the property funds management platform that may have an effect on the financial performance of the Group include not delivering on investor expectations leading to loss of FUM or management rights, loss of key personnel impacting service delivery, economic factors impacting fee streams, access to capital and economic factors impacting property valuations.

Information on Directors

David Clarke

Chair/Independent Non-Executive Director

Experience and expertise

David joined the Board of Charter Hall Group on 10 April 2014, and was appointed Chair of the Board on 12 November 2014.

David has over 35 years' experience in investment banking, funds management, property finance and retail banking. David was Chief Executive Officer of Investec Bank (Australia) Limited from 2009 to 2013.

Prior to joining Investec Bank, David was the CEO of Allco Finance Group and a Director of AMP Limited, following five years at Westpac Banking Corporation where he held a number of senior roles including Chief Executive of the Wealth Management Business, BT Financial Group. David also was previously an Executive Director at Lend Lease Corporation Limited, Chief Executive of MLC Limited, and prior to this was Chief Executive Officer of Lloyds Merchant Bank in London.

David holds a Bachelor of Laws degree.

Other current listed company directorships

Austbrokers Holdings Limited

Former listed company directorships in last three years

Nil

Special responsibilities

Chair of the Nominations Committee

Member of the Audit, Risk and Compliance Committee

Member of the Investment Committee

Interests in securities

45,875 stapled securities in Charter Hall Group via an indirect interest

Anne Brennan

Independent Non Executive Director

Experience and expertise

Anne joined the Board of Charter Hall Group on 6 October 2010 and is on the board of a number of other companies. Anne is an experienced executive and has held senior management roles in both large corporates and professional services firms.

During her executive career, Anne was the CFO at CSR and the Finance Director of the Coates Group. Prior to her executive roles, Anne was a partner in three professional services firms: KPMG, Arthur Andersen and Ernst & Young. Anne has more than 25 years' experience in audit, corporate finance and transaction services. Anne was also a member of the national executive team and a board member of Ernst & Young.

Anne holds a Bachelor of Commerce (Honours) degree, is a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Australian Institute of Company Directors.

Other current listed company directorships

Argo Investments Limited

Myer Holdings Limited

Nufarm Limited

Former listed company directorships in last three years

Echo Entertainment Group Limited

Special responsibilities

Chair of Remuneration and Human Resources Committee

Member of Audit, Risk and Compliance Committee

Interests in securities

30,000 stapled securities in Charter Hall Group via direct and indirect interests

For personal use only

For personal use only

Philip Garling

Independent Non-Executive Director

Experience and expertise

Philip joined the Board of the Charter Hall Group on 25 February 2013.

Philip has over 35 years' experience in property and infrastructure, development, operations and asset and investment management. His executive career included nine years as Global Head of Infrastructure at AMP Capital Investors and 22 years at Lend Lease Corporation, including five years as CEO of Lend Lease Capital Services.

Philip holds a Bachelor of Building from the University of NSW, has completed the Advanced Management Program at the Australian Institute of Management and the Advanced Diploma at the Australian Institute of Company Directors. He is a Fellow of the Australian Institute of Company Directors, Australian Institute of Building and Institution of Engineers, Australia.

Other current listed company directorships

Downer EDI Limited

Spotless Group Holdings Ltd

Former listed company directorships in last three years

Australian Renewable Fuels Limited (Chair)

Special responsibilities

Chair of the Audit, Risk and Compliance Committee (from 26 February 2016 until 9 November 2016)

Member of the Nominations Committee

Member of the Remuneration and Human Resources Committee

Chair of the Investment Committee

Interests in securities

16,759 stapled securities in Charter Hall Group via a direct interest

David Harrison

Managing Director and Group CEO

Experience and expertise

David has 31 years of property market experience across office, retail and industrial sectors in multiple geographies globally. As Charter Hall's Managing Director and Group CEO, David is responsible for all aspects of the Charter Hall business, with specific focus on strategy and continuing the momentum from building an Investment Manager recognised as a multi-core sector market leader. David is an executive member of various Fund Boards and Partnership Investment Committees, Chair of the Executive Property Valuation Committee and Executive Leadership Committee.

David has overseen the growth of the Charter Hall Group from $500 million to $19.8 billion of assets under management in 13 years.

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.

David is a Director and Vice-President of the Property Council of Australia and Chair of the Audit and Risk Committee. David is also a member of the Property Male Champions of Change.

Other current listed company directorships

Charter Hall Retail REIT

Charter Hall Long WALE REIT

Former listed company directorships in last three years

Nil

Special responsibilities

Member of the Investment Committee

Interests in securities

207,026 stapled securities in Charter Hall Group via direct interests and 1,441,773 stapled securities in Charter Hall Group via indirect interests. 799,336 performance rights and 43,420 service rights in the Charter Hall Performance Rights and Options Plan; performance rights, service rights and options vest after performance and service conditions are met.

Information on Directors continued

Karen Moses

Independent Non-Executive Director

Experience and expertise

Karen joined the Board of Charter Hall Group on 1 September 2016 and was appointed Chair of the Audit, Risk and Compliance Committee on 9 November 2016. Karen has over 30 years' corporate experience in the energy industry spanning oil, gas, electricity and coal commodities, has gained her experience both within Australia and overseas and has most recently been a panel member of the Finkel review. She was recently appointed to the position of Non-Executive Director of Orica Limited (July 2016) and her other directorships include Non-Executive Director of Boral Limited (since March 2016), Sydney Symphony Limited and Sydney Symphony Holdings Pty Limited (December 2015), Sydney Dance Company (May 2012) and SAS Trustee Corporation (March 2012).

Karen holds a Bachelor of Economics and a Diploma of Education from the University of Sydney.

Other current listed company directorships

Orica Ltd (ASX: ORI)

Boral Limited (ASX: BLD)

Former listed company directorships in last three years

Origin Energy Ltd (ASX: ORG)

Special responsibilities

Chair of Audit, Risk and Compliance Committee

Interests in securities

8,137 via a direct interest

David Ross

Independent Non-Executive Director

Experience and expertise

David joined the Board of the Charter Hall Group on 20 December 2016.

David has over 30 years' corporate experience in the property industry and has gained his experience both within Australia and overseas, including a total of eight years as Chief Executive Officer of GPT and Global Chief Executive Officer, Real Estate Investments for Lend Lease.

David is the Chair of Arena REIT, which owns, manages and develops property in the childcare and healthcare sectors. Previously, David held executive positions at GPT, Lend Lease and Babcock & Brown. Prior board appointments include a non-executive directorship with Sydney Swans Foundation Limited.

David holds a Bachelor of Commerce from the University of Western Australia and an Associate Diploma in Valuation from Curtin University in Western Australia.

David is also a Fellow of the Australian Institute of Company Directors.

Other current listed company directorships

Arena REIT

Former listed company directorships in last three years

Nil

Special responsibilities

Member of Audit, Risk and Compliance Committee (from 25 January 2017 to 2 June 2017)

Member of Nominations Committee

Member of Investment Committee

Member of Remuneration and Human Resources Committee

Interests in securities

Nil

Former Directors

Peter Kahan

Non-Executive Director (until 20 December 2016)

Experience and expertise

Peter joined the Board of Charter Hall Group on 1 October 2009, following an investment in the Charter Hall Group by The Gandel Group (Gandel) and resigned on 20 December 2016.

Peter is the Executive Deputy Chair of Gandel and has over 20 years of property and funds management experience. He joined Gandel in 1994 and was the Group's CEO from 2007 to 2012. Prior to this, Peter worked as a Chartered Accountant and held senior financial positions in various industry sectors. From 2002 to 2006, he was a director of Gandel Retail Management Pty Ltd and Colonial First State Property Retail Pty Ltd, a leading property and fund manager managing a portfolio of approximately $8 billion of retail assets in Australia.

Peter is a member of the Institute of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors. He holds Bachelor of Commerce and Bachelor of Accountancy degrees from the University of The Witwatersrand Johannesburg, South Africa.

Other current listed company directorships

Vicinity Limited and Vicinity Centres RE Limited

Former listed company directorships in last three years

Novion Limited

Special responsibilities

N/A – no longer a Director of Charter Hall Group

Interests in securities

N/A – no longer a Director of Charter Hall Group

Colin McGowan

Independent Non-Executive Director (until 9 November 2016)

Experience and expertise

Colin joined the Board of the Charter Hall Group on 6 April 2005 and resigned on 9 November 2016.

Colin was formerly CEO of the listed AMP Diversified Property Trust, Executive Vice President of Bankers Trust (Australia), founding Fund Manager of the BT Property Trust and founding Fund Manager of the Advance Property Fund.

He is a qualified valuer, a Fellow of the Australian Property Institute and a Senior Fellow of the Financial Services Institute of Australasia (formally SIA). He was the honorary SIA National Principal Lecturer and Task Force Chair for the Graduate Diploma's Property Investment Analysis course – a position he held for 11 years until 2003.

Other current listed company directorships

Nil

Former listed company directorships in last three years

Nil

Special responsibilities

N/A – no longer a Director of Charter Hall Group

For personal use only

For personal use only

Company Secretaries

Mark Bryant was appointed as joint Company Secretary for Charter Hall Group on 24 August 2015. Tracey Jordan resigned as Company Secretary on 1 March 2017. Mark is now the sole Company Secretary.

Mark holds a Bachelor of Business (Accounting) and a Bachelor of Laws (Hons) and has over 13 years' experience as a solicitor, 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.

Tracey has more than 25 years' experience in real estate and funds management, with extensive knowledge of real estate transactions, structuring, funds management, compliance and corporate governance. Prior to joining Charter Hall, Tracey was National Manager, Unlisted Property Funds and Senior Legal Counsel at Stockland. Tracey was also a Senior Associate for King & Wood Mallesons in its Canberra office in the Property and Projects division from 1999 to October 2005.

Tracey is a Solicitor of the Supreme Court of NSW, and has been admitted to the Supreme Court of the Australian Capital Territory and the High Court of Australia. She holds a Bachelor of Arts and Bachelor of Laws from the University of Sydney.

Meetings of Directors

The number of meetings of the Group's Board of Directors and of each Committee of the Board held during the year ended 30 June 2017, and the number of meetings attended by each Director were:

	Full meetings of the Board of Directors		Audit, Risk and Compliance Committee		Investment Committee		Nomination Committee		Remuneration and HR Committee	
	A	B	A	B	A	B	A	B	A	B
A Brennan	10	10	4	4	*	*	*	*	6	6
D Clarke	10	10	4	4	1	1	2	2	*	*
P Garling	9	10	1	1[5]	1	1	2	2	3	6
D Harrison	10	10	*	*	*	*	*	*	*	*
P Kahan[1]	6	6	2	2	*	*	*	*	3	3
C McGowan[2]	4	5	*	*	*	*	*	*	2	2
K Moses[3]	7	8	3	3	*	*	*	*	*	*
D Ross[4]	5	5	1	1[6]	1	1	2	2	1	1

A = Number of meetings attended.
B = Number of meetings held during the time the Director held office or was a member of the stated Committee during the year.
* = Not a member of the stated Committee.
1 Peter Kahan resigned 20 December 2016.
2 Colin McGowan resigned 9 November 2016.
3 Karen Moses appointed 1 September 2016.
4 David Ross appointed 20 December 2016.
5 Philip Garling resigned from committee 9 November 2016.
6 David Ross resigned from committee 2 June 2017.

Remuneration Report Summary

Charter Hall Limited is pleased to present its Remuneration Report (Report) for the year ended 30 June 2017. The table below outlines the key changes made in 2017 and outcomes achieved in 2017.

Component	Key changes in FY 2017
Key management personnel (KMP)	The appointment of Sean McMahon as Chief Investment Officer on 18 August 2016 and the departure of Paul Altschwager as Chief Financial Officer is reflected in our KMP changes. Russell Proutt was appointed as Chief Financial Officer with a commencement date of 20 July 2017. In the ensuing period, Philip Schretzmeyer and Anne Edwards acted as joint Chief Financial Officers whilst also fulfilling their regular duties.
Long term incentive (LTI)	Introduced changes to the existing total securityholder return (TSR) performance measures for the FY 2017 grant. The range for the absolute performance measure was changed from 10% to 13% per annum to 9% to 12% per annum and the comparator group and performance measures for relative TSR was refined (section 3.5).
Non-Executive Directors (NED)	Appointment of Karen Moses on 1 September 2016 and David Ross on 20 December 2016 replacing retiring Directors; Colin McGowan on 9 November 2016 and Peter Kahan on 20 December 2016.

Component	Key remuneration outcomes in FY 2017
Fixed remuneration	Reported Executives' fixed annual remuneration (FAR) increased on average 3.2% in the annual review.
Short term incentive (STI)	Based on performance of Group OEPS, an above target STI pool (129%) was awarded across the Group (section 3.4).
Long term incentive	As a result of the TSR performance over the three years to 30 June 2016 (FY 2014 grant), 50% of the performance rights vested in August 2016. The absolute TSR measure was exceeded. therefore 50% of the LTI vested. The relative TSR did not meet the threshold therefore 50% of the LTI was forfeited (section 3.5). The Special LTI grant for the former Joint Managing Directors (JMD) (David Harrison and David Southon) granted in November 2013 on signing of renegotiated contracts (section 3.5) met most but not all of the performance measures and as a result 100% of the Special LTI was forfeited.
Remuneration mix	Reviewed and adjusted the remuneration mix for some Reported Executives with the objective of increasing the 'at risk' components to better enable Charter Hall to reward executives when challenging performance measures are met (section 3.2) and to align with external market remuneration.
Other security plans	Continued the General Employee Securities Plan ($1,000 grant) for eligible employees not participating in the LTI.
Pay equity review	Continued to review gender pay equity as part of our annual remuneration review process.
Non-Executive Directors	NED base fees increased effective 1 July 2016 (section 5) by 2.5%.

Remuneration Report – unaudited

Actual remuneration received in FY 2017 – unaudited

The actual remuneration presented in the following table provides the remuneration Reported Executives received during the financial year ended 30 June 2017. This voluntary disclosure is provided to increase transparency and includes:

- fixed pay and other benefits for 2017;
- 2016 cash STI paid during 2017; and
- the value of any LTI and STI award that vested during 2017.

The actual remuneration presented is distinct from the audited disclosed remuneration (as required by section 308(C) of the *Corporations Act 2001* (Cth) (Act)) in the Financial Report on page 44, which is calculated in accordance with statutory obligations and accounting standards. The numbers in the audited disclosed remuneration include accounting values for current and prior years' LTI grants which have not been (have not or may not be) received, as they are dependent on performance hurdles and service conditions being met.

For personal use only

Name	Salary and other benefits[1]	Short term incentive[2]	Value of securities vested[3]	Total	% of remuneration consisting of rights
	$	$	$	$	%
Executive Director					
D Harrison	1,301,901	1,118,467	1,185,726	3,606,094	32.9
Other Reported Executives					
G Chubb[4]	631,901	215,752	415,934	1,263,587	32.9
P Ford	473,558	185,986	42,929	702,473	6.1
S McMahon[5]	699,336	–	–	699,336	–
A Taylor	700,738	292,200	327,371	1,320,309	24.8
Former Reported Executive					
P Altschwager[6]	385,094	175,327	495,564	1,055,985	46.9
Totals	**4,192,528**	**1,987,732**	**2,467,524**	**8,647,784**	**28.5**

1 Other benefits include superannuation and non-monetary benefits including car parking and salary continuance.

2 Values relate to STI paid in FY 2017 as cash for FY 2016 performance.

3 Values relate to value at vesting date for the FY 2014 LTI allocation (grant date of 20 November 2013), the second tranche of 2014 deferred STI and the first tranche of 2015 deferred STI, each of which vested on 31 August 2016 (value is determined by the price of the securities at vesting).

4 On 19 December 2014, G Chubb was awarded 197,370 service rights vesting in three equal tranches: with the final tranche of 65,790 vesting on 30 June 2017 to the value of $376,977 (value is determined by the price of the securities at vesting).

5 S McMahon commenced on 18 August 2016; his remuneration is pro-rata from this period.

6 P Altschwager ceased being a KMP on 7 December 2016 and remained employed by the Group until 31 December 2016. This table shows only his actual remuneration whilst employed, and excludes his separation arrangements.

Remuneration Report – audited

1. Key management personnel – audited

This Report outlines the remuneration policies and practices that apply to Charter Hall's KMP for the year ended 30 June 2017. The KMP include the Non-Executive Directors, Executive Directors and other Reported Executives who are responsible for the Group's strategy.

Name	Role	Term as KMP
Non-Executive Directors		
David Clarke	Chair	Full Year
Anne Brennan	Director	Full Year
Phil Garling	Director	Full Year
Karen Moses	Director	Part Year (appointed 1 Sept 2016)
David Ross	Director	Part Year (appointed 20 Dec 2016)
Former Non-Executive Directors		
Peter Kahan	Director	Part Year (resigned 20 Dec 2016)
Colin McGowan	Director	Part Year (resigned 9 Nov 2016)
Executive Director		
David Harrison	Managing Director & Group Chief Executive Officer	Full Year
Other Reported Executives		
Greg Chubb	Group Executive – Retail	Full Year
Paul Ford	Group Executive – Industrial	Full Year
Sean McMahon	Chief Investment Officer	Part Year (appointed 18 Aug 2016)
Adrian Taylor	Group Executive – Office	Full Year
Former Reported Executive		
Paul Altschwager	Chief Financial Officer	Part Year (ceased 7 Dec 2016)

The Report has been prepared and audited in accordance with the requirements of the Act.

For personal use only

Remuneration Report – audited continued

2. Remuneration governance

Charter Hall's Board and the Remuneration and Human Resources Committee (the Committee) are responsible for setting and overseeing remuneration policy for the Group.

Members of the Committee	The Committee is appointed by the Board and comprised solely of NEDs: • Anne Brennan (Chair of the Committee) • Philip Garling • Peter Kahan (resigned 20 December 2016) • Colin McGowan (resigned 9 November 2016) • David Ross (appointed to the Committee 2 June 2017)
Role of the Committee	Charter Hall's Board and the Committee are responsible for setting and overseeing remuneration policy for the Group. In summary, the Committee provides advice and recommendations to the Board for approval on: • the Group's Human Resources strategy; • remuneration policy for executives; • fixed annual remuneration and incentive outcomes for executives; • any other remuneration matters that relate to executives. • criteria for reviewing the performance of the Managing Director; • incentive plans for all employees; and • fees for NEDs of the Group and fund committees. The specific responsibilities of the Board and the Committee are detailed in their respective charters, which are available on the Group website at www.charterhall.com.au.
Attendance	Other Directors of the Board, the Managing Director and the Group Executive – People, Brand and Community attend Committee meetings by invitation. Importantly, executives (including the Managing Director), do not attend meetings, or sections of meetings, where agenda items for discussion relate to their own remuneration outcomes.
Remuneration & risk management	Risk is managed at various points in the executive remuneration framework through: • part deferral of STI awards into service rights over two years; • LTI performance hurdles that reflect the long-term performance of the business, measured over three years with an additional one year holding lock; • clawback on unvested deferred STI and unvested LTI for material misstatement and financial misrepresentation; • minimum shareholding for Independent Directors; and • Board discretion on performance outcomes.
External advisors and remuneration consultants	Where necessary, the Committee seeks support from independent experts and advisors. Remuneration consultants provide information on market trends in respect of KMP remuneration structures and benchmarking information on KMP remuneration levels. Other external advisors (including legal practitioners) assist with the administration of the Group's remuneration plans and ensure that the appropriate legal parameters are applied and employment contracts are in place. The Committee independently appoints its remuneration consultants and engages with them in a manner in which any information provided is not subject to undue influence by management. The information provided by external advisors is used as an input to the Committee's considerations and decision making only. The Board has ultimate decision making authority over matters of remuneration structure and outcomes. During the FY 2017 period the Committee appointed independent advisors Egan Associates to provide guidance to the Board, along with previously appointed Ernst & Young. Work undertaken during FY 2017 did not constitute a remuneration recommendation for the purposes of the *Corporations Act 2001*.

For personal use only

For personal use only

3. Executive remuneration framework

3.1 Executive remuneration strategy

Charter Hall's remuneration philosophy is aimed at rewarding performance. This is achieved by attracting and retaining talented people who are motivated to achieve challenging performance targets aligned with both the business strategy and the long-term interests of securityholders.

The following illustrates the link between business strategy and remuneration outcomes:

Business strategy

To access, deploy, manage and co-invest equity to create value and provide superior income and capital returns for our clients and securityholders through:

- delivering outperformance for both managed fund/partnership investors and CHC securityholders
- optimising total return on invested capital
- growing sustainable earnings and maintaining resilience via long WALE portfolios and through strong customer relationships
- developing a scalable and efficient platform
- recruiting, retaining and motivating a high performance team
- maintaining a through-the-cycle OEPS pre-tax growth range of 5% to 7% per annum

Remuneration strategy

Create sustainable securityholder value by:

- assessing performance and STI outcomes against financial and non-financial key performance indicators (KPI) linked to strategy
- deferring a portion of STI into equity for executives
- aligning LTI performance hurdles with securityholders' expected returns
- ensuring a significant 'at-risk' component of total remuneration

Attract, retain and motivate talent by:

- rewarding superior performance
- offering competitive total remuneration
- creating retention mechanisms
- ensuring remuneration strategy is simple, transparent and consistent

Remuneration components

FAR	Remuneration 'at risk' and subject to performance outcomes	
	STI • OEPS target, and • measured against KPIs (50% financial and 50% non-financial)	LTI • equal measures of absolute TSR and relative TSR (comparator group) • three year performance measures additional one year holding lock
	Delivered as cash (67%) / Deferred equity (33%) over two years	

Remuneration outcomes

FAR	Remuneration 'at risk' and subject to performance outcomes	
• Reported Executives increased by 3.2% in FY 2017	STI • FY 2017 OEPS performance above target led to an increased STI pool (129%) • 50% of deferred STI for FY 2015 and FY 2016 vested	LTI • FY 2014 LTI grant 50% vested (31 August 2016) based on the performance of absolute TSR with 50% relative TSR forfeited • JMD Special LTI grant (awarded 4 November 2013) did not meet all performance conditions and did not vest • FY 2015 LTI grant will fully vest (31 August 2017) based on performance of relative and absolute TSR

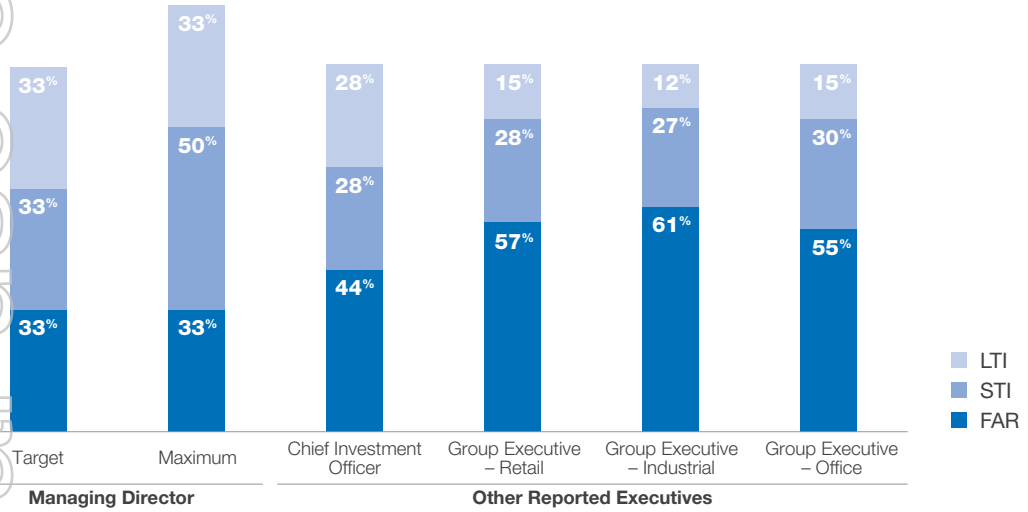
Remuneration Report – audited continued

3. Executive remuneration framework continued

3.2 Remuneration mix

Executive remuneration is structured as a mixture of fixed and variable 'at-risk' STI and LTI components. While fixed remuneration is designed to provide a base level of remuneration, the 'at-risk' STI and LTI components reward executives when challenging performance measures are met or exceeded.

The figures below for all Reported Executives show the percentage mix of fixed versus 'at-risk' for 'on target' total remuneration. The 'maximum' total remuneration for the Managing Director shows the mix of fixed versus 'at-risk' as a percentage of 'on target' remuneration. This reflects the maximum STI of up to 150% of the target STI due to strong Company and executive outperformance. Other Reported Executives also have the potential to earn up to 150% of target STI.



3.3 Fixed remuneration

Composition	Fixed remuneration comprises cash base salary, statutory superannuation contributions and other nominated benefits.
Review process	Fixed remuneration is targeted at the median of the market and is reviewed annually, effective 1 July, benchmarked against equivalent roles in the market recognising: • individual performance; and • the market environment for each individual's skills and capabilities.
Benchmarking	The following comparator group is used when determining the Reported Executives remuneration: • industry related companies: based on entities in the S&P/ASX 200 Australian Real Estate and Investment Trust (A-REIT) industry group.
Executive Director outcomes	The fixed remuneration of the Managing Director, Mr Harrison, did not increase in the FY 2017 annual remuneration review. His last review was received when he was appointed Managing Director, reflecting his change in role (1 February 2016).
Other Reported Executives	Other Reported Executives' fixed remuneration increased by an average of 4% in the annual remuneration review.

For personal use only

For personal use only

3.4 Short term incentive

Purpose	The STI is an 'at-risk' incentive awarded annually, which is designed to reward executives, subject to performance against agreed financial and non-financial KPIs.
Gateway for STI	A Group financial gateway of 90–95% of budgeted OEPS must be met before any STI entitlement is available, with the Board retaining overall discretion on performance achievement.
Determining and assessing the STI pool	The size of the pool is determined by the Board, upon advice from the Committee, based on achieving a budgeted OEPS target. The Board retains discretion to increase or decrease the overall STI pool available, based on its assessment of the overall performance throughout the year. In consultation with the Committee, the Board assesses the Group's financial performance and the performance of all Reported Executives against agreed KPIs.
Maximum STI potential	The maximum STI potential for all employees is 150% of their STI target, enabling recognition for outperformance.
Performance targets	The STI measures are set to ensure appropriate focus on achievement of Group, divisional and individual performance targets that are aligned with implementation of Charter Hall's overall strategy. KPIs are typically split between 50% financial and 50% non-financial, based on a balanced scorecard approach, which encourages executives to take a holistic approach to enhancing and protecting securityholder value.
Delivery	For all executives, STI is delivered in the form of cash (67%) and deferred service rights (33%). 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 an executive is determined based on an independent fair value calculation by Deloitte using the Black-Scholes valuation method. If an executive's employment terminates prior to expiry of the relevant vesting period, the service rights will be forfeited or remain 'on foot', subject to the Board's discretion to determine 'good leaver' status.

Managing Director's KPIs

The Managing Director's scorecard is divided into three performance goals, Financial, Customer and Leadership and Collaboration. For each of these goals there will be performance measures aligned to our core strategic objectives of growth and resilience.

Below is a summary of the Managing Director's performance measures and KPIs for FY 2017 as assessed by the Board.

Performance goal	Measures	Status
Financial (50%)	Including Group OEPS; growth in funds under management; return on equity; net financial equity flows and property funds management margin.	Exceeded
Customer (25%)	Delivering exceptional customer experience and satisfaction and continuous improvement and innovation.	Exceeded
Leadership & Collaboration (25%)	Talent optimisation, leadership contribution, succession planning, employee engagement initiatives and drive diverse and inclusive culture.	Achieved

Other Reported Executives KPIs

KPIs for other Reported Executives are broadly similar to that of the Managing Director and are focused on individual areas of accountability.

Performance goal	Measures	Status
Financial (50%)	Including Group and Divisional financials on investment earnings; growth in funds under management; operating earnings before interest, tax, depreciation and amortisation; funds management margin or divisional budget financial initiatives.	Exceeded
Customer (25%)	Including customer experience, service and satisfaction offerings.	Exceeded
Leadership & Collaboration (25%)	Including leadership contribution, talent and engagement.	Achieved

Remuneration Report – audited continued

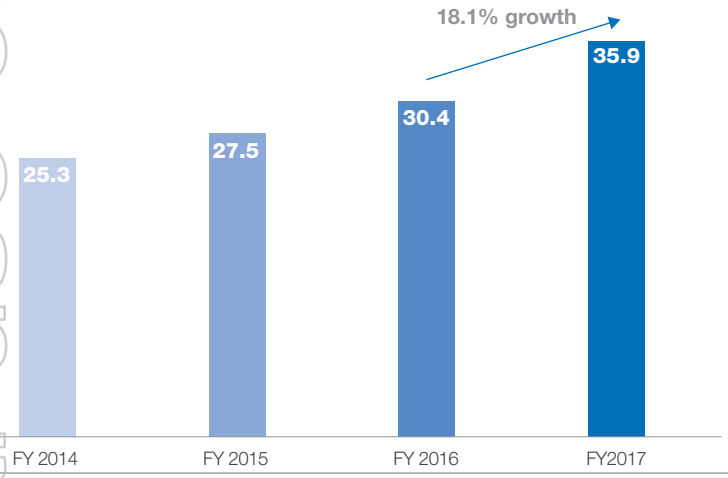
3. Executive remuneration framework continued

3.4 Short term incentive continued

Group FY 2017 performance outcomes

In FY 2017, Charter Hall's OEPS was 35.9 cents, which was 18.1% above the FY 2016 OEPS. The table below shows Charter Hall's OEPS (cps) over a four year period:

OEPS



FY 2017 STI Outcomes

In FY 2017, 129% of the target STI pool was awarded across the Group, recognising the outperformance of the Group's OEPS against budget and, as determined by the Board.

The below table shows the short term incentive outcomes for Reported Executives for 2017.

Name	STI earned $	Paid in cash $	Deferred into service rights $	Target STI of fixed pay %	STI earned compared to target %	% of target STI opportunity forfeited[1] %
Executive Director						
D Harrison	1,820,000	1,213,333	606,667	100%	140%	0%
Other Reported Executives						
G Chubb	403,000	268,667	134,333	49%	130%	0%
P Ford	260,000	173,333	86,667	43%	130%	0%
S McMahon[2]	594,570	396,380	198,190	61%	140%	0%
A Taylor	566,109	377,406	188,703	56%	145%	0%
Former Reported Executive						
P Altschwager[2]	134,783	134,783	–	50%	70%	30%

1 The STI was not earned; the Act requires this disclosure as forfeiture.
2 STI pro-rata for period employed.

3.5 Long term incentive

Purpose

The LTI aligns key employee rewards with sustainable growth in securityholder value over time. It also plays an important role in employee retention.

Participants

All Reported Executives, executives, Fund Managers and selected other managers, comprising approximately 7% of employees.

Type of equity awarded

The LTI is governed by the Performance Rights and Options Plan (PROP), under which either rights or options 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. For FY 2017 detail see specific grant allocation (section 6.2).

For personal use only

For personal use only

Valuation	The number of rights granted to an executive is determined based on an independent fair value calculation by Deloitte using the Black-Scholes valuation method.
Performance measures, vesting schedule and holding lock	For the FY 2017 LTI allocation, the two performance hurdles that apply to the performance rights for vesting over a three year period commencing 1 July 2016 were: • Absolute TSR (50%) – vesting occurs on a straight line basis if the compound total return is between 9% and 12% per annum, with 50% vesting at the lower end of the range and 100% vesting at the higher end of the range. • Relative TSR (50%) – vesting occurs on a straight line basis if the total compounded return when Charter Hall's return is ranked against a comparator group of the S&P/ASX 200 A-REIT Accumulation Index (XPJAI), is between the 50th and the 75th percentile. Vesting starts at 50% at the lower end of the range with 100% vesting at the higher end of the range. The comparator group for the relative TSR grant is: – Abacus Property Group (ABP) – BWP Trust (BWP) – Cromwell Property Group (CMW) – Charter Hall Retail REIT (CQR) – Dexus Property Group (DXS) – Goodman Group (GMG) – Growthpoint Properties Australia (GOZ) – GPT Group (GPT) – Iron Mountain Incorporated (INM) – Investa Office Fund (IOF) – Mirvac Group (MGR) – National Storage REIT (NSR) – SCentre Group (SCG) – Shopping Centres Australasia Property Group (SCP) – Stockland (SGP) – Vicinity Centres (VCX) Any performance rights that fail to meet these performance hurdles by 30 June 2019 will lapse. Performance rights which vest will be subject to a further one year holding lock.
Rationale for change to performance conditions	TSR measures the overall returns that a company has provided for its securityholders, reflecting share price movements and reinvestment of dividends over a specified period. During FY 2017, adjustments have been made to both absolute and relative TSR measure. Key considerations of the Board when reviewing the performance conditions have been ensuring any performance measure is aligned with the Group's securityholders investment returns and with the business strategy to access, deploy, manage and co-invest equity to create value and provide superior income and capital returns for our clients and securityholders. Absolute TSR provides a strong link to Charter Hall's business strategy of co-investing in managed funds with absolute and total return hurdles. Charter Hall's original absolute TSR hurdle of 10% to 13% was established in 2010. For the FY 2017 grant, the Board approved an adjustment to 9% to 12% to reflect changes in the cost of capital and bond yield benchmarks over the past six years, which when compared to sector peers is above market (a high return compared to peers). Relative TSR is the most widely used LTI hurdle adopted in Australia. It ensures that value is only delivered to participants if the investment return actually received by CHC securityholders is sufficiently high relative to the return they could have received by investing in a portfolio of alternative A-REIT sector stocks over the same period. For the FY 2017 grant, the Board refined the relative TSR measure and comparator group. In the past, Charter Hall has taken a whole of index approach and set the gateway at the index and then a straight line to 1.1 times this index. A review of our peers noted that for those which have a relative TSR measure, the measurement commonly used is a 50th to 75th percentile measurement. Consideration of the performance of the index as a whole results in the larger cap stocks being up-weighted, and can disadvantage the smaller cap stocks. The move to the ranking of performance of each index participant in the comparator group removes this weighting effect. The Board revised the original S&P/ASX200 A-REIT Accumulation Index (XPJAI) measurement group to a defined comparator group as outlined above. The comparator group is the S&P/ASX200 A-REIT Accumulation Index (XPJAI) as at 1 July 2016 excluding Westfield Corporation (WFD), due to assets being held outside Australia and Charter Hall Group (CHC). The Board is able to determine the treatment of the companies in the comparator group at its discretion.

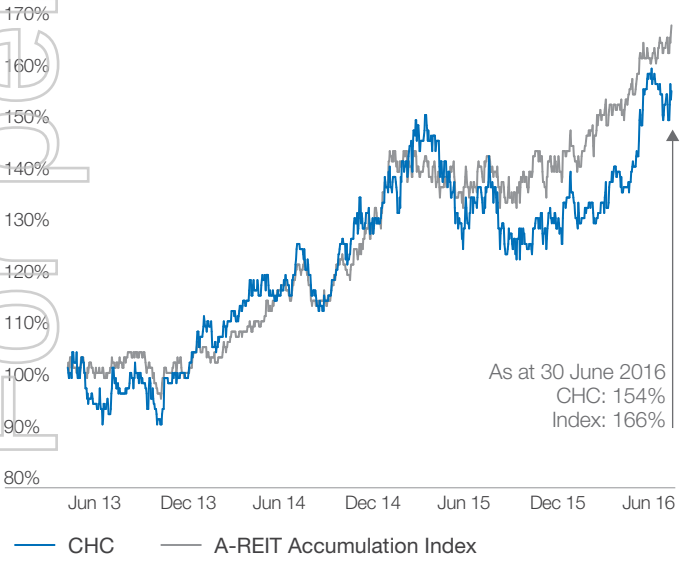
Remuneration Report – audited continued

3. Executive remuneration framework continued

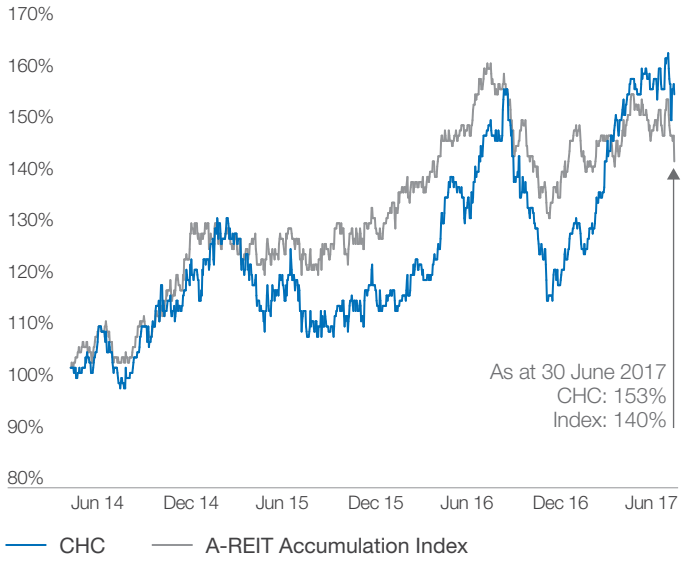
3.5 Long term incentive continued

Cessation of employment provisions	For the FY 2017 LTI allocation, the following provisions apply in the case of cessation of a participant's employment: • Misconduct: all unvested performance rights are forfeited unless the Board determines otherwise; • Resignation or where a participant breaches a post-termination restriction in their employment contract: all unvested performance rights are forfeited unless the Board determines otherwise; and • All other leavers, including good leavers: all unvested performance rights lapse with effect from the date of cessation of employment, unless the Board allows part or all to vest early or remain on foot subject to the original terms of grant.
Change of control provisions	The Board, in its absolute discretion, may determine that all or a specified number of a participant's unvested performance rights vest. In doing so, the Board has regard to whether the performance is in line with the performance conditions over the period from the date of the grant of the performance right to the date of the relevant event.
Treatment of dividends	Participants who hold performance rights are not entitled to receive any distributions or dividends declared by the Group until the performance rights are exercised and held as stapled securities.
Hedging and margin lending prohibitions	In accordance with the *Corporations Act 2001*, all KMP are prohibited from hedging or otherwise protecting the value of unvested stapled securities.
Special LTI grant for JMDs	Following securityholder approval, as part of their contract renewal effective 4 November 2013, the former JMDs received a special allocation of three year performance rights. D Harrison received 300,000 performance rights and D Southon 100,000 performance rights. The vesting of these performance rights is subject to both service and performance conditions over the three year period: • Absolute TSR Performance – measured over a performance period from 1 July 2013 to 30 June 2016; • Relative TSR Performance – measured over a performance period from 1 July 2013 to 30 June 2016; and • Annual Milestones – set annually and measured over a performance period from 4 October 2013 to 4 October 2016. All measures need to be met for any Special LTI to become available. As the relative TSR did not meet the performance measure, 100% of the performance rights were forfeited.

The following graphs demonstrate how the Group's TSR (including stapled security price movements and distributions) has performed relative to the ASX A-REIT Accumulation Index for the three years to 30 June 2016 (FY 2014 LTI performance period) and three years to 30 June 2017 (FY 2015 LTI performance period).



FY 2014 LTI period (vesting date 31 August 2016)



FY 2015 LTI period (vesting date 31 August 2017)

For personal use only

Outcomes

- The FY 2014 LTI had a vesting date of 1 July 2016. As a result of the TSR performance over the three years to 30 June 2016, 50% vested based on absolute performance and 50% was forfeited based on relative performance.
  - Absolute TSR – For the three years to 30 June 2016, Charter Hall stapled securities achieved a compound average growth rate of 15%. This performance is in excess of the absolute TSR outperformance hurdle of 13% per annum.
  - Relative performance – For the three years to 30 June 2016, Charter Hall did not outperform the S&P/ASX 200 A-REIT Accumulation Index and did not meet the 1.0 times relative TSR threshold and therefore did not vest.
- The FY 2015 LTI has a vesting date of 31 August 2017. As a result of the TSR performance over the three years to 30 June 2017, the performance hurdles were exceeded and 100% of the performance rights will vest based on absolute and relative performance.

3.6 Group summary of performance and total remuneration outcomes

The tables below provide information on Charter Hall's performance against key metrics over the last five years and the relationship to Reported Executives' total remuneration, both fixed and 'at risk'. Charter Hall's STI is weighted towards growth in OEPS and the LTI provides an important link between remuneration and TSR.

Key performance metrics	2013	2014	2015	2016	**2017**
Statutory profit after tax for stapled securityholders ($000s)	54,842	82,116	117,885	215,240	**257,561**
Operating earnings for stapled securityholders ($000s)	68,750	81,163	98,799	124,735	**151,173**
Operating earnings per stapled security (cents)	22.9	25.3	27.5	30.4	**35.9**
Statutory earnings per stapled security (EPS) (cents)	18.3	25.6	32.8	52.5	**61.2**
Growth in OEPS %	10.8	10.4	8.7	10.5	**18.1**
Distribution per stapled security (cents)	20.2	22.3	24.2	26.9	**30.0**
Stapled security price at 30 June ($)	3.87	4.26	4.52	5.06	**5.50**
S&P/ASX 200 A-REIT Accumulation Index (XPJAI) – Jul–Jun (%)	24.3	11.1	20.3	23.2	**(6.3)**
Total securityholder return – Jul–Jun (%)	80.6	16.3	11.8	18.3	**15.2**

Reported Executives total remuneration summary	2013	2014	2015	2016[1]	**2017[2]**
Fixed payments ($)	5,978,392	6,122,898	4,776,471	6,774,805	**4,120,280**
STI accounting expense ($)	2,659,913	3,381,549	3,037,030	5,070,682	**3,778,462**
LTI accounting expense ($)[3]	2,369,843	2,169,193	1,746,018	1,761,639	**931,165**
Earned remuneration ($)[4]	11,008,148	11,673,640	9,559,519	13,607,126	**8,829,907**
On target total remuneration ($)	11,216,962	11,984,905	9,257,989	12,198,875	**7,864,408**
Earned remuneration relative to target remuneration – over/(under) (%)	(2%)	(3%)	4%	12%	**12%**

1 Includes remuneration for Mr Southon's 2017 notice period and excludes his redundancy payments.
2 Includes remuneration for Mr Altschwager for his period of KMP and excludes his separation arrangements and the STI payment reported for Mr Southon in 2017.
3 The LTI expense attributed to the Reported Executives reflects the statutory accounting expense under AASB2.
4 Earned remuneration for the Reported Executives is the sum of their fixed payments, the STI accounting expense and the LTI accounting expense.

For personal use only

Remuneration Report – audited continued

4. Executive remuneration in detail

4.1 Total remuneration of Reported Executives

The following table details the total remuneration of the Reported Executives of the Group for FY 2016 and FY 2017.

	Short-term benefits				Post employ-ment benefits	Security-based payment		Other long-term benefits	Termin-ation benefits		
	Salary	Cash short-term incentive	Annual leave[1]	Non-monetary benefits[2]	Super-annuation	Security-based short-term incentive	Securities, options and perform-ance rights	Long service leave[1]	Termin-ation benefits	Total	% of total remun-eration consisting of rights
Name	$	$	$	$	$	$	$	$	$	$	%
Executive Director											
D Harrison											
2017	**1,280,384**	**1,213,333**	**(147,108)**	**1,901**	**19,616**	**606,667**	**429,177**	**22,751**	**–**	**3,426,721**	**30**
2016	1,171,259	1,118,467	87,976	1,276	19,308	559,233	506,418	57,643	–	3,521,580	30
Other Reported Executives											
G Chubb											
2017	**610,384**	**268,667**	**(24,834)**	**1,901**	**19,616**	**134,333**	**161,457**	**11,561**	**–**	**1,183,084**	**25**
2016	592,692	215,752	10,165	1,337	19,308	107,876	311,720	10,857	–	1,269,707	33
P Ford											
2017	**448,754**	**173,333**	**11,988**	**5,188**	**19,616**	**86,667**	**26,536**	**15,348**	**–**	**787,430**	**14**
2016	391,559	185,986	(8,588)	9,748	19,308	–	24,703	14,853	–	637,569	4
S McMahon											
2017	**677,820**	**396,380**	**14,118**	**1,901**	**19,616**	**198,190**	**209,733**	**12,213**	**–**	**1,529,971**	**27**
A Taylor											
2017	**673,704**	**377,406**	**(17,057)**	**7,418**	**19,616**	**188,703**	**75,641**	**23,125**	**–**	**1,348,556**	**20**
2016	645,692	292,200	(2,672)	12,362	19,308	146,100	78,165	11,638	–	1,202,793	19
Former Reported Executives (ex CHC)											
D Southon											
2017	**–**	**197,190**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**197,190**	**–**
2016											
2017											
Notice Period[3]	637,458	328,648	52,413	2,481	11,442	164,324	142,677	11,356	–	1,350,799	23
Separation[3]	–	–	–	–	–	–	211,157	–	1,112,400	1,323,557	16
2016											
Actuals[3]	1,093,092	732,416	(22,462)	14,477	19,308	366,208	375,226	19,468	–	2,597,733	29
P Altschwager[4]											
2017	**375,287**	**134,783**	**–**	**5,646**	**9,808**	**–**	**28,621**	**–**	**893,344**	**1,447,489**	**2**
2016	732,092	175,327	24,407	1,276	19,308	87,663	164,294	14,635	–	1,219,002	21
Former Reported Executives											
S Dundas[5]											
2016	480,692	175,760	(14,094)	1,276	19,308	87,880	59,306	8,750	–	818,878	18
R Stacker[5]											
2016	580,692	217,895	24,306	3,402	19,308	108,947	99,130	(64,615)	–	989,065	21
Total 2017	**4,066,333**	**2,761,092**	**(162,893)**	**23,955**	**107,887**	**1,214,560**	**931,165**	**84,998**	**893,344**	**9,920,441**	**22**
Total 2016	**6,325,228**	**3,442,451**	**151,451**	**47,635**	**165,906**	**1,628,231**	**1,972,796**	**84,585**	**1,112,400**	**14,930,683**	**31**

For personal use only

1 Shows the movement in leave accruals for the year.

2 Non-monetary benefits include car parking benefits and salary continuance.

3 Mr Southon ceased as KMP in his role as Joint Managing Director effective 1 February 2016.

In accordance with Mr Southon's employment agreement and the announcement to the market on 1 February 2016, Mr Southon was entitled during his 12 month notice period to the following: he continued to be eligible for STI; no future LTI grants were awarded; previous service rights awarded under his STI and performance rights under his LTI remained on foot and vest at the originally intended vesting date to the extent that the performance conditions (where applicable) are satisfied; and a 12 month redundancy payment based on fixed remuneration was paid at the end of his notice period.

The presentation of Mr Southon's remuneration has been split into three components. Actual 2016 represents his remuneration for 12 months to 30 June 2016, including five months of his notice period to 30 June 2016. The 2017 notice period represents the remuneration he received during FY 2017 as he continued as an employee during his notice period until 31 January 2017. For FY 2017, the STI opportunity was shown at target amount as it may be earned in the event of performance criteria being met. The performance criteria were met and the actual amount paid is $690,161. The difference to the previously reported amount is shown in the 2017 data. The separation line reflects the redundancy payment he received on termination of his employment. The separation benefits include the remaining security-based expense for unvested incentives as at 31 January 2017 which remain on foot and may vest at the same time as all other participants. None of these benefits are termination benefits for the purposes of the Corporations Act termination benefits cap.

4 In accordance with Mr Altschwager's employment agreement, Mr Altschwager is entitled to six months' notice period. The termination benefits value also includes the remaining security-based expense for unvested incentives as at 31 December 2016 which remain on foot and may vest at the same time as all other participants and statutory leave entitlements. None of these benefits are termination benefits for the purposes of the Corporations Act termination benefits cap.

5 Mr Dundas and Mr Stacker ceased as KMP effective 1 February 2016 but remained employed by the Group as Fund Manager, Charter Hall Retail REIT and Head of Investor Relations respectively. Remuneration shown is for full year.

4.2 Key terms of employment

The remuneration and other terms of employment for Reported Executives are formalised in employment contracts. Each of these contracts provides for participation in the Group's STI and LTI programs (as described above) and payment of other benefits.

The terms and conditions of employment of each executive reflect market conditions at the time of their contract. All Reported Executives' contracts are ongoing in duration. The material terms of the employment agreements for the Executive Directors and Reported Executives are summarised below:

		Minimum notice period[1]	
Name	Position	Employee	Charter Hall
Executive Director			
D Harrison	Managing Director and Group CEO	6 months	12 months
Other Reported Executives			
G Chubb	Group Executive – Retail	3 months	3 months
P Ford	Group Executive – Industrial	3 months	3 months
S McMahon	Chief Investment Officer	6 months	6 months
A Taylor[2]	Group Executive – Office	3 months	3 months
Former Reported Executive			
P Altschwager	Chief Financial Officer	3 months	6 months

1 No notice period is required for termination by the Company for serious or wilful misconduct by the employee.

2 Termination payments under Adrian Taylor's contract equals nine months base salary plus one month per year of service to a maximum of 12 months base salary.

Charter Hall's redundancy policy applies to all employees, including Reported Executives, and is calculated based on notice period plus four weeks pay for each completed year of service, with a minimum payment of eight weeks and a maximum of 52 weeks. Payments are calculated on the base rate of pay on ordinary hours worked and exclude any incentive-based payments or bonuses. The employment contract for the Managing Director does not include a redundancy provision.

Other than as described above, the Reported Executives' contracts do not provide for any termination benefits aside from payment in lieu of notice (where applicable). Treatment of unvested incentives is dealt with in accordance with the terms of the grant (refer to STI and LTI commentary in section 3).

For personal use only

Remuneration Report – audited continued

5. Non-Executive Director remuneration

Policy	The Committee makes recommendations to the Board on the total level of remuneration of the Chair and other Non-Executive Directors, including any additional fees payable to Directors for membership of Board committees.
Benchmarking	Fees are set by reference to the following considerations: • industry practice and best principles of corporate governance; • responsibilities and risks attaching to the role of NEDs; • the time commitment expected of NEDs on Group matters; and • reference to fees paid to NEDs of other comparable companies. NED fees are periodically reviewed to ensure they remain in line with general industry practice and reflect proper compensation for duties undertaken. External independent advice is sought in these circumstances.
Fee framework	NED fees, including committee fees, are set by the Board within the aggregate amount of $1.3 million per annum as approved by securityholders at the AGM in November 2014. Under the current framework, NEDs, other than the Chair, receive (inclusive of superannuation): • Board base fee; and • Committee fees. The Chair receives an all-inclusive fee. NEDs are also entitled to be reimbursed for all business-related expenses, including travel on Charter Hall business, incurred in the discharge of their duties in accordance with Charter Hall's Constitution. In accordance with principles of good corporate governance, NEDs do not receive any benefits upon retirement under any retirement benefits schemes (other than statutory superannuation) and NEDs are not eligible to participate in any of Charter Hall's employee incentive schemes.
Remuneration outcomes	The Chair's fee structure was increased to $307,500 per annum and the base fees for NEDs was increased to $123,000 per annum, both effective 1 July 2016. No changes to Committee Chairs and members' fees occurred.
Minimum shareholding requirement	Minimum shareholding requirements were implemented in FY 2016 requiring Independent Directors to hold CHC securities to the value of $50,000 (being approximately a year's base fee, net of tax) to be purchased over a three year period. The valuation is based on the value of the securities at the time of purchase.

Summary of fee framework per annum	**2017 $**	2016 $
Board		
Chair	**307,500**	300,000
Member	**123,000**	120,000
Audit Risk and Compliance Committee		
Chair	**30,000**	30,000
Member	**15,000**	15,000
Remuneration and Human Resources Committee		
Chair	**25,000**	25,000
Member	**13,879**	13,879
Nomination Committee		
Chair	**2,060**	2,060
Member	**2,060**	2,060
Investment Committee[1]		
Chair	**–**	–
Member	**–**	–

1 The Investment Committee members have previously received no remuneration for the Committee fees, this will be reviewed in FY 2018.

For personal use only

Non-Executive Director remuneration	2017 fees $	2016 fees $
Non-Executive Directors		
D Clarke	**307,500**	300,000
A Brennan	**163,000**	165,305
P Garling	**159,287**	144,117
K Moses	**124,659**	–
D Ross	**73,035**	–
Former Non-Executive Directors		
D Deverall[1]	**–**	109,583
P Kahan	**72,004**	141,016
C McGowan	**49,256**	133,879
TOTAL	**948,741**	**993,900**

1 Mr Deverall resigned effective 26 February 2016.

6. Appendix – further detail

6.1 Securityholdings

Key management personnel securityholdings

Name	Opening balance at 30 Jun 2016	Stapled securities acquired[1]	Rights and options exercised	Stapled securities sold	Closing balance at 30 Jun 2017
Directors of Charter Hall Limited					
Ordinary stapled securities					
D Clarke	43,138	2,737	–	–	45,875
A Brennan	30,000	–	–	–	30,000
P Garling	9,435	7,324	–	–	16,759
K Moses[2]	–	8,137	–	–	8,137
D Ross[3]	–	–	–	–	–
Former Directors					
P Kahan[4]	–	–	–	–	–
C McGowan[5]	10,000	–	–	(10,000)	–
Executive Director					
D Harrison	1,441,773	–	207,026	–	1,648,799
Other Reported Executives					
G Chubb	–	72,581	–	(72,581)	–
P Ford	–	7,622	–	(7,622)	–
S McMahon	–	–	–	–	–
A Taylor	61,605	57,066	–	(57,066)	61,605
Former Reported Executive					
P Altschwager[6]	–	86,707	–	(86,707)	–

1 Includes securities acquired under the security purchase plan.

2 Appointed as Board Member on 1 September 2016. Includes a deemed acquisition of 5,400 stapled securities that K Moses held at time of appointment.

3 Appointed as Board Member on 20 December 2016.

4 Resigned as Board Member on 20 December 2016. Prior to his resignation, Mr Kahan was a representative of the Group's major securityholder, Gandel Group. Mr Kahan did not hold any securities in his own right.

5 Resigned as Board Member on 9 November 2016. Deemed disposal of all stapled securityholdings as no longer a director of the Group.

6 Deemed disposal of all stapled securityholders as no longer a KMP of the Group.

For personal use only

Remuneration Report – audited continued

6. Appendix – further detail continued

6.2 Performance Rights and Options Plan details

Performance rights and service rights outstanding under the PROP.

Performance rights

Year of issue	Securities	Exercise price	Vesting conditions
2015	918,240	Nil	Absolute and relative performance criteria
2016	879,695	Nil	Absolute and relative performance criteria
2017	877,183	Nil	Absolute and relative performance criteria
Total performance rights outstanding	**2,675,118**		

Service rights

Year of issue	Securities	Exercise price	Vesting conditions
2015	65,790	Nil	Service conditions
2016	179,364	Nil	Service conditions – Deferred STI
2017	59,056	Nil	Service conditions
2017	268,876	Nil	Service conditions – Deferred STI
Total service rights issued	**573,086**		

Valuation model inputs

The Black-Scholes methodology is used for allocation purposes while the Monte Carlo method is used for accounting purposes. The accounting value determined using a Monte Carlo simulation valuation is in accordance with AASB 2.

The model inputs for the PROP performance rights plan issued during FY 2014 to FY 2017 to assess the fair value are as follows:

Performance rights	FY 2014	FY 2014	FY 2015	FY 2016	FY 2017
Grant date[1]	20/11/2013	20/11/2013	19/12/2014	30/11/2015	**25/11/2016**
Stapled security price at grant date	$3.68	$3.68	$4.68	$4.47	**$4.55**
Opening TSR measurement price	$2.34	$3.89	$4.23	$4.64	**$5.11**
Fair value of right	$1.42	$1.11	$2.09	$1.41	**$1.39**
Expected price volatility	30.4%	30.4%	30.4%	24.0%	**17.1%**
Risk-free interest rate	2.9%	3.0%	3.0%	2.1%	**1.8%**

Service rights	FY 2014	FY 2015	FY 2015	FY 2016	FY 2017
Grant date	20/11/2013	19/12/2014	19/12/2014	30/11/2015	**25/11/2016**
Stapled security price at grant date	$3.68	$4.68	$4.68	$4.47	**$4.55**
Fair value of right	$3.42	$4.28	$4.36	$4.37	**$4.26**
Expected price volatility	27.4%	26.5%	24.6%	25.4%	**21.8%**
Risk-free interest rate	2.6%	2.5%	2.5%	2.0%	**1.8%**

1. The grant date reflects the date the rights were allocated whilst participants are eligible and performance period commences from 1 July of the relevant financial year.

Number of performance and service rights issued and outstanding to Reported Executives as at 30 June 2017:

	LTI performance rights				Sign on (service rights)			STI deferred (service rights)		
	FY 2015	FY 2016	**FY 2017**	Total	FY 2015	**FY 2017**	Total	FY 2016	**FY 2017**	Total
Executive Director										
D Harrison	248,371	250,965	**330,178**	829,514	–	**–**	–	43,420	**119,240**	162,660
Other Reported Executives										
G Chubb	42,135	39,490	**36,991**	118,616	65,790	**–**	65,790	6,791	**23,002**	29,793
P Ford	15,450	15,005	**20,786**	51,241	–	**–**	–	–	**–**	–
S McMahon	–	–	**112,934**	112,934	–	**59,056**	59,056	–	**–**	–
A Taylor	48,315	49,099	**46,018**	143,432	–	**–**	–	17,523	**31,152**	48,675

For personal use only

For personal use only

Reported Executives rights – details by plan

Type of equity	Rights previously granted	Rights granted during the year	Rights held at 30 June 2017	Grant date	Fair value per right at grant date	No. vested and exercised during the year	No. forfeited during the year	Vesting date	Fair value to be expensed in future years[1]
Executive Director									
D Harrison									
LTI Performance Rights	231,707	–	–	20–Nov–13	$1.42	231,707	–	1–Jul–16	–
LTI Performance Rights	300,000	–	–	20–Nov–13	$1.11	–	300,000	4–Oct–16	–
LTI Performance Rights	248,371	–	248,371	19–Dec–14	$2.09	–	–	31–Aug–17	–
LTI Performance Rights	250,965	–	250,965	30–Nov–15	$1.41	–	–	31–Aug–18	$130,595
LTI Performance Rights	–	330,178	330,178	25–Nov–16	$1.39	–	–	31–Aug–19	$314,163
STI Deferred Rights	47,752	–	–	19–Dec–14	$4.23	47,752	–	31–Aug–16	–
STI Deferred Rights	43,420	–	–	30–Nov–15	$4.38	43,420	–	31–Aug–16	–
STI Deferred Rights	43,420	–	43,420	30–Nov–15	$4.16	–	–	31–Aug–17	–
STI Deferred Rights	–	59,620	59,620	25–Nov–16	$4.37	–	–	31–Aug–17	–
STI Deferred Rights	–	59,620	59,620	25–Nov–16	$4.15	–	–	31–Aug–18	–
Other Reported Executives									
G Chubb									
LTI Performance Rights	42,135	–	42,135	19–Dec–14	$2.09	–	–	31–Aug–17	–
LTI Performance Rights	39,490	–	39,490	30–Nov–15	$1.41	–	–	31–Aug–18	$20,549
LTI Performance Rights	–	36,991	36,991	25–Nov–16	$1.39	–	–	31–Aug–19	$35,227
LTI Service Rights	65,790	–	–	19–Dec–14	$4.27	65,790	–	30–Jun–16	–
LTI Service Rights	65,790	–	65,790	19–Dec–14	$4.03	–	–	30–Jun–17	–
STI Deferred Rights	6,791	–	–	30–Nov–15	$4.38	6,791	–	31–Aug–16	–
STI Deferred Rights	6,791	–	6,791	30–Nov–15	$4.16	–	–	31–Aug–17	–
STI Deferred Rights	–	11,501	11,501	25–Nov–16	$4.37	–	–	31–Aug–17	–
STI Deferred Rights	–	11,501	11,501	25–Nov–16	$4.15	–	–	31–Aug–18	–
P Ford									
LTI Performance Rights	15,244	–	–	20–Nov–13	$1.42	15,244	–	1–Jul–16	–
LTI Performance Rights	15,450	–	15,450	19–Dec–14	$2.09	–	–	31–Aug–17	–
LTI Performance Rights	15,005	–	15,005	30–Nov–15	$1.41	–	–	31–Aug–18	7,808
LTI Performance Rights	–	20,786	20,786	25–Nov–16	$1.39	–	–	31–Aug–19	19,795
S McMahon									
LTI Performance Rights	–	112,934	112,934	25–Nov–16	$1.41	–	–	31–Aug–19	107,549
LTI Service Rights	–	59,056	59,056	25–Nov–16	$4.29	–	–	31–Aug–17	93,047
A Taylor									
LTI Performance Rights	47,561	–	–	20–Nov–13	$1.42	47,561	–	1–Jul–16	–
LTI Performance Rights	48,315	–	48,315	19–Dec–14	$2.09	–	–	31–Aug–17	–
LTI Performance Rights	49,099	–	49,099	30–Nov–15	$1.41	–	–	31–Aug–18	25,550
LTI Performance Rights	–	46,018	46,018	25–Nov–16	$1.39	–	–	31–Aug–19	43,824
STI Deferred Rights	15,763	–	–	19–Dec–14	$4.23	15,763	–	31–Aug–16	–
STI Deferred Rights	17,523	–	–	30–Nov–15	$4.38	17,523	–	31–Aug–16	–
STI Deferred Rights	17,522	–	17,522	30–Nov–15	$4.16	–	–	31–Aug–17	–
STI Deferred Rights	–	15,576	15,576	25–Nov–16	$4.37	–	–	31–Aug–17	–
STI Deferred Rights	–	15,576	15,576	25–Nov–16	$4.15	–	–	31–Aug–18	–
Former Reported Executives									
P Altschwager									
LTI Performance Rights	106,708	–	–	20–Nov–13	$1.42	106,708	–	1–Jul–16	–
LTI Performance Rights	101,967	–	101,967	19–Dec–14	$2.09	–	–	31–Aug–17	–
LTI Performance Rights	95,356	–	–	30–Nov–15	$1.41	–	95,356	31–Aug–18	–
LTI Performance Rights	–	88,937	–	25–Nov–16	$1.39	–	88,937	31–Aug–19	–
STI Deferred Rights	14,933	–	–	19–Dec–14	$4.23	14,933	–	31–Aug–16	–
STI Deferred Rights	18,420	–	–	30–Nov–15	$4.38	18,420	–	31–Aug–16	–
STI Deferred Rights	18,419	–	18,419	30–Nov–15	$4.16	–	–	31–Aug–17	–
STI Deferred Rights	–	9,346	9,346	25–Nov–16	$4.37	–	–	31–Aug–17	–
STI Deferred Rights	–	9,346	9,346	25–Nov–16	$4.15	–	–	31–Aug–18	–

1 The maximum value of the grants yet to vest is the fair value amount at the grant date yet to be reflected in the Group's consolidated income statement. The minimum future value is $nil as the future performance and service conditions may not be met.

Indemnification and insurance of directors, officers and auditor

During the year, the Charter Hall Group contributed to the premium for a contract insuring all directors, secretaries, executive officers and officers of the Charter Hall Group and of each related body corporate of the Group, with the balance of the premium paid by funds managed by members of the Charter Hall Group. The insurance does not provide any cover for the independent auditor of the Charter Hall Group or of a related party of the Charter Hall Group. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

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

Non-audit services

The Company may decide to employ the auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non audit services provided during the year are set out below.

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 compatible 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 below, did not compromise the auditor 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 they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year, the following fees were paid or payable for non-audit services provided by the auditor of the Charter Hall Group and Charter Hall Property Trust Group, its related practices and non related audit firms:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $	2016 $	**2017 $**	2016 $
PricewaterhouseCoopers Australian firm				
Taxation services	**135,781**	228,744	**–**	–

Environmental regulation

The Charter Hall Group recognises that sustainability is more than protecting the natural environment; it is about responding to the needs of our customers, achieving our long-term commercial goals and working in partnership with our stakeholders to improve environmental and social outcomes. Our Group Sustainability Policy outlines our commitments to achieving a leading role in a sustainable future.

The Group ensures compliance with applicable environmental standards and regulations and reports its greenhouse gas emissions and energy use on an annual basis under the *National Greenhouse and Energy Reporting Act 2007*. Charter Hall emissions reports are independently audited and in October 2017 the Group will report to the Clean Energy Regulator emissions for the measurement period 1 July 2016 to 30 June 2017. To mitigate its carbon emissions, the Group continues to implement resource efficiency measures across its portfolio of assets and is also exploring renewable energy generation opportunities within its retail and industrial portfolios.

Charter Hall also voluntarily reports annually to international organisations, such as the Dow Jones Sustainability Index (DJSI), United Nations Principles for Responsible Investment (PRI) and the Carbon Disclosure Project (CDP). Charter Hall has recently submitted its 2017 DJSI, PRI and CDP reports, which address Charter Hall sustainability practices and emissions from 1 July 2015 to 30 June 2016. Charter Hall funds (CQR, CHOT, CPOF, DOF, CPIF and CLP) also voluntarily report to the Global Real Estate Sustainability Benchmark (GRESB). These funds have recently submitted their 2017 GRESB reports, which also address Charter Hall sustainability practices and emissions from 1 July 2015 to 30 June 2016.

To the best of the Directors' knowledge, the operations of the Group have been undertaken in compliance with the applicable environmental regulations that apply to the Group's activities.

Lodged with the Australian Securities Exchange

For personal use only

Tax Governance Statement

Charter Hall Group has adopted the Board of Taxation's Tax Transparency Code (TTC) at 30 June 2017. As part of the TTC, Charter Hall has published a Tax Governance Statement (TGS) which details Charter Hall Group's corporate structure and tax corporate governance systems. Charter Hall Group's TGS can be found on our website at www.charterhall.com.au.

Proceedings on behalf of the Company

Section 237 of the *Corporations Act 2001* allows for a person to apply to the Court to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, in certain circumstances.

No person has made such an application and no proceedings have been brought or intervened in on behalf of the Company with the Court under this section.

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 52.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument (Rounding in Financial/Directors' Reports) 2016/91, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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 23 August 2017. The Directors have the power to amend and re-issue the Financial Statements.



David Clarke
Chair

Sydney
23 August 2017

For personal use only

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Limited and Charter Hall Property Trust for the year ended 30 June 2017, 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 Limited and the entities it controlled during the period and Charter Hall Property Trust and the entities it controlled during the period.

Wayne Andrews
Partner
PricewaterhouseCoopers

Sydney
23 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Charter Hall Group 2017 $'000	Charter Hall Group 2016 $'000	Charter Hall Property Trust Group 2017 $'000	Charter Hall Property Trust Group 2016 $'000
Income					
Revenue	4	**213,393**	165,287	**19,717**	37,212
Share of net profit of investments accounted for using the equity method	28,29	**207,192**	168,284	**198,034**	157,905
Net gain on sale of investments and inventory		**3,244**	5,976	**3,720**	978
Net gain on investment in associates at fair value	28	**–**	4,016	**–**	4,016
Foreign exchange gains		**–**	35	**–**	–
Total income		**423,829**	343,598	**221,471**	200,111
Expenses					
Depreciation	5	**(3,475)**	(2,604)	**–**	–
Finance costs	5	**(1,522)**	(1,742)	**(1,295)**	(1,562)
Net loss on investment in associates at fair value	28	**(17)**	–	**(17)**	–
Impairment of investments in joint ventures	29	**(10,494)**	–	**–**	–
Net fair value adjustments on investment properties	12	**(712)**	–	**(712)**	–
Amortisation and reversal of impairment of intangibles	5,13	**(4,343)**	(8,517)	**–**	–
Asset management fees		**–**	–	**(1,382)**	(1,193)
Employee costs	5	**(100,921)**	(95,512)	**–**	–
Administration and other expenses	5	**(21,186)**	(18,269)	**(114)**	(87)
Total expenses		**(142,670)**	(126,644)	**(3,520)**	(2,842)
Profit before tax		**281,159**	216,954	**217,951**	197,269
Income tax expense	6	**(23,598)**	(1,714)	**–**	–
Profit for the year		**257,561**	215,240	**217,951**	197,269
Profit for the year as attributable to:					
Equity holders of Charter Hall Limited		**39,610**	17,971	**–**	–
Equity holders of Charter Hall Property Trust (non-controlling interest)		**217,951**	197,269	**217,951**	197,269
Profit for the year		**257,561**	215,240	**217,951**	197,269
Other comprehensive income					
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	20	**(8)**	227	**(8)**	227
Equity accounted fair value movements in cash flow hedges	20	**(442)**	(181)	**(442)**	(181)
Other comprehensive income for the year, net of tax		**(450)**	46	**(450)**	46
Total comprehensive income for the year		**257,111**	215,286	**217,501**	197,315
Total comprehensive income for the year is attributable to:					
Equity holders of Charter Hall Limited		**39,610**	17,971	**–**	–
Equity holders of Charter Hall Property Trust (non-controlling interest)		**217,501**	197,315	**217,501**	197,315
Total comprehensive income for the year		**257,111**	215,286	**217,501**	197,315
Basic earnings per security (cents) attributable to:					
Equity holders of Charter Hall Limited		**9.4**	4.4	**n/a**	n/a
Equity holders of Charter Hall Property Trust (non-controlling interest)		**51.8**	48.1	**51.8**	48.1
Basic earnings per stapled security (cents) attributable to stapled securityholders of Charter Hall Group	8(a)	**61.2**	52.5	**n/a**	n/a
Diluted earnings per security (cents) attributable to:					
Equity holders of Charter Hall Limited		**9.3**	4.3	**n/a**	n/a
Equity holders of Charter Hall Property Trust (non-controlling interest)		**51.4**	47.7	**51.4**	47.7
Diluted earnings per stapled security (cents) attributable to stapled securityholders of Charter Hall Group	8(b)	**60.7**	52.0	**n/a**	n/a

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

For personal use only

CONSOLIDATED BALANCE SHEETS

AS AT 30 JUNE 2017

	Note	Charter Hall Group 2017 $'000	Charter Hall Group Restated[1] 2016 $'000	Charter Hall Property Trust Group 2017 $'000	Charter Hall Property Trust Group 2016 $'000
Assets					
Current assets					
Cash and cash equivalents	9	**174,418**	145,358	**53,377**	43,321
Trade and other receivables	10	**66,203**	48,687	**29,936**	26,684
Total current assets		**240,621**	194,045	**83,313**	70,005
Non-current assets					
Trade and other receivables	10	**–**	–	**73,175**	139,860
Investments in associates at fair value through profit or loss	28	**29,690**	208	**29,690**	208
Investments accounted for using the equity method	11	**1,476,630**	1,136,727	**1,386,261**	1,041,502
Investment properties	12	**40,350**	–	**40,350**	–
Intangible assets	13	**65,400**	69,743	**–**	–
Property, plant and equipment	14	**18,764**	14,855	**–**	–
Deferred tax assets	15	**1,582**	–	**–**	–
Total non-current assets		**1,632,416**	1,221,533	**1,529,476**	1,181,570
Total assets		**1,873,037**	1,415,578	**1,612,789**	1,251,575
Liabilities					
Current liabilities					
Trade and other payables	16	**127,415**	86,894	**76,786**	56,488
Provisions	17	**1,892**	1,680	**–**	–
Total current liabilities		**129,307**	88,574	**76,786**	56,488
Non-current liabilities					
Trade and other payables	16	**6,479**	5,193	**–**	–
Provisions	17	**1,303**	1,334	**–**	–
Deferred tax liabilities	15	**13,677**	9,393	**–**	–
Total non-current liabilities		**21,459**	15,920	**–**	–
Total liabilities		**150,766**	104,494	**76,786**	56,488
Net assets		**1,722,271**	1,311,084	**1,536,003**	1,195,087
Equity					
Equity holders of Charter Hall Limited					
Contributed equity	19(a)	**284,956**	256,049	**–**	–
Reserves	20	**(44,614)**	(45,533)	**–**	–
Accumulated losses	21	**(54,074)**	(94,519)	**–**	–
Parent entity interest		**186,268**	115,997	**–**	–
Equity holders of Charter Hall Property Trust					
Contributed equity	19(a)	**1,456,853**	1,201,346	**1,456,853**	1,201,346
Reserves	20	**(450)**	–	**(450)**	–
Accumulated profit/(losses)	21	**79,600**	(6,259)	**79,600**	(6,259)
Equity holders of Charter Hall Property Trust (non-controlling interest)		**1,536,003**	1,195,087	**1,536,003**	1,195,087
Total equity		**1,722,271**	1,311,084	**1,536,003**	1,195,087

1 Details of the restated deferred tax liability are included in note 15.

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

For personal use only

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CHARTER HALL GROUP

FOR THE YEAR ENDED 30 JUNE 2017

For personal use only

	Note	Attributable to the owners of Charter Hall Limited					
		Contributed equity $'000	Reserves $'000	Accumulated profit/(losses) $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Restated balance at 1 July 2015		253,907	(44,615)	(112,490)	96,802	1,088,746	1,185,548
Profit for the year		–	–	17,971	17,971	197,269	215,240
Other comprehensive income		–	–	–	–	46	46
Total comprehensive income		–	–	17,971	17,971	197,315	215,286
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of issue costs	19(b)	2,550	–	–	2,550	23,525	26,075
Buyback and issuance of securities for exercised performance rights		(408)	(4,721)	–	(5,129)	(3,951)	(9,080)
Transfer due to deferred compensation payable in service rights		–	1,722	–	1,722	–	1,722
Distribution provided for or paid	7	–	–	–	–	(110,548)	(110,548)
Security-based benefit expense		–	2,081	–	2,081	–	2,081
Equity accounted fair value movements in cash flow hedges		–	–	–	–	–	–
		2,142	(918)	–	1,224	(90,974)	(89,750)
Restated balance at 30 June 2016		**256,049**	**(45,533)**	**(94,519)**	**115,997**	**1,195,087**	**1,311,084**
Balance at 1 July 2016		**256,049**	**(45,533)**	**(94,519)**	**115,997**	**1,195,087**	**1,311,084**
Profit for the year		**–**	**–**	**39,610**	**39,610**	**217,951**	**257,561**
Other comprehensive income		**–**	**–**	**–**	**–**	**(450)**	**(450)**
Total comprehensive income		**–**	**–**	**39,610**	**39,610**	**217,501**	**257,111**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of issue costs	19(b)	**28,347**	**–**	**–**	**28,347**	**257,991**	**286,338**
Buyback and issuance of securities for exercised performance rights		**(273)**	**(2,439)**	**–**	**(2,712)**	**(2,484)**	**(5,196)**
Tax recognised direct to equity		**833**	**1,710**	**(358)**	**2,185**	**–**	**2,185**
Transfer due to deferred compensation payable in service rights		**–**	**1,427**	**–**	**1,427**	**–**	**1,427**
Distribution provided for or paid	7	**–**	**–**	**–**	**–**	**(132,092)**	**(132,092)**
Security-based benefit expense		**–**	**1,414**	**–**	**1,414**	**–**	**1,414**
Transfer unvested securities to accumulated losses		**–**	**(1,193)**	**1,193**	**–**	**–**	**–**
		28,907	**919**	**835**	**30,661**	**123,415**	**154,076**
Balance at 30 June 2017		**284,956**	**(44,614)**	**(54,074)**	**186,268**	**1,536,003**	**1,722,271**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CHARTER HALL PROPERTY TRUST GROUP

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Attributable to the owners of the Charter Hall Property Trust Group			
		Contributed equity $'000	Reserves $'000	Accumulated profit/(losses) $'000	Total equity $'000
Balance at 1 July 2015		1,181,772	(46)	(92,980)	1,088,746
Profit for the year		–	–	197,269	197,269
Other comprehensive income		–	46	–	46
Total comprehensive income/(loss)		–	46	197,269	197,315
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of issue costs	19(b)	23,525	–	–	23,525
Buyback and issuance of securities for exercised performance rights		(3,951)	–	–	(3,951)
Distribution provided for or paid	7	–	–	(110,548)	(110,548)
		19,574	–	(110,548)	(90,974)
Balance at 30 June 2016		**1,201,346**	**–**	**(6,259)**	**1,195,087**
Balance at 1 July 2016		**1,201,346**	**–**	**(6,259)**	**1,195,087**
Profit for the year		**–**	**–**	**217,951**	**217,951**
Other comprehensive income		**–**	**(450)**	**–**	**(450)**
Total comprehensive income		**–**	**(450)**	**217,951**	**217,501**
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of issue costs	19(b)	**257,991**	**–**	**–**	**257,991**
Buyback and issuance of securities for exercised performance rights		**(2,484)**	**–**	**–**	**(2,484)**
Distribution provided for or paid	7	**–**	**–**	**(132,092)**	**(132,092)**
		255,507	**–**	**(132,092)**	**123,415**
Balance at 30 June 2017		**1,456,853**	**(450)**	**79,600**	**1,536,003**

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

For personal use only

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Charter Hall Group 2017 $'000	Charter Hall Group 2016 $'000	Charter Hall Property Trust Group 2017 $'000	Charter Hall Property Trust Group 2016 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		**217,845**	174,609	**10,679**	19,778
Payments to suppliers and employees (inclusive of GST)		**(138,957)**	(116,320)	**(2,384)**	(3,141)
Interest received		**2,222**	2,609	**267**	237
Interest paid		**(1,279)**	(1,121)	**(1,181)**	(976)
Distributions and dividends from investments		**76,483**	70,549	**72,518**	63,028
Net cash inflow from operating activities	23	**156,314**	130,326	**79,899**	78,926
Cash flows from investing activities					
Payments for property, plant and equipment, net of lease incentive received		**(4,599)**	(4,917)	**–**	–
Proceeds on disposal of investment property		**67,238**	15,874	**–**	–
Payments for investment properties		**(40,537)**	–	**(40,537)**	–
Payment for acquisition of subsidiary, net of cash acquired		**(25,233)**	–	**–**	–
Investments in associates and joint ventures		**(383,950)**	(160,988)	**(379,846)**	(160,238)
Proceeds on disposal and return of capital from investments in associates and joint ventures		**119,940**	102,674	**123,634**	102,696
Loans to associates, joint ventures and related parties		**(11,699)**	(11,730)	**(407,595)**	(215,625)
Repayments of loans to associates, joint ventures and related parties		**21,234**	9,145	**494,555**	284,595
Net cash (outflow)/inflow from investing activities		**(257,606)**	(49,942)	**(209,789)**	11,428
Cash flows from financing activities					
Proceeds from issues/(buy back) of stapled securities		**281,238**	16,996	**255,507**	19,574
Proceeds from borrowings		**88,800**	–	**88,800**	–
Repayment of borrowings		**(124,125)**	–	**(88,800)**	–
Distributions paid to stapled securityholders		**(115,561)**	(103,644)	**(115,561)**	(103,644)
Net cash inflow/(outflow) from financing activities		**130,352**	(86,648)	**139,946**	(84,070)
Net increase/(decrease) in cash and cash equivalents		**29,060**	(6,264)	**10,056**	6,284
Cash and cash equivalents at the beginning of the year		**145,358**	151,593	**43,321**	37,037
Effects of exchange rate changes on cash and cash equivalents		**–**	29	**–**	–
Cash and cash equivalents at the end of the year	9	**174,418**	145,358	**53,377**	43,321

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

For personal use only

1 Summary of significant accounting policies

The significant policies which have been adopted in the preparation of these consolidated financial statements for the year ended 30 June 2017 are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

(a) Basis of preparation

The Charter Hall Group (Group, CHC or Charter Hall) is a 'stapled' entity comprising Charter Hall Limited (Company or CHL) and its controlled entities, and Charter Hall Property Trust (Trust or CHPT) and its controlled entities (Charter Hall Property Trust Group). The shares in the Company are stapled to the units in the Trust. The stapled securities cannot be traded or dealt with separately. The stapled securities of the Group are listed on the Australian Securities Exchange (ASX). CHL has been identified as the parent entity in relation to the stapling.

The two Charter Hall entities comprising the stapled group remain separate legal entities in accordance with the *Corporations Act 2001*, and are each required to comply with the reporting and disclosure requirements of Accounting Standards and the *Corporations Act 2001*.

As permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838, this financial report is a combined financial report that presents the consolidated financial statements and accompanying notes of both the Charter Hall Group and the Charter Hall Property Trust Group.

The financial report of the Charter Hall Group comprises CHL and its controlled entities, including Charter Hall Funds Management Limited (Responsible Entity) as responsible entity for CHPT and CHPT and its controlled entities. The results and equity, not directly owned by CHL, of CHPT have been treated and disclosed as a non-controlling interest. Whilst the results and equity of CHPT are disclosed as a non-controlling interest, the stapled securityholders of CHL are the same as the stapled securityholders of CHPT. The financial report of the Charter Hall Property Trust Group comprises the Trust and its controlled entities.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Charter Hall Group and Charter Hall Property Trust Group are for-profit entities for the purpose of preparing the consolidated financial statements.

On 6 June 2005, CHL acquired Charter Hall Holdings Pty Ltd (CHH). Under the terms of AASB 3 *Business Combinations*, CHH was deemed to be the accounting acquirer in this business combination. This transaction has therefore been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the consolidated financial statements of CHH. CHH, as the deemed acquirer, has acquisition accounted for CHL as at 6 June 2005.

Group references in accounting policies

The accounting policies in Note 1 apply to both the Group and Charter Hall Property Trust Group unless otherwise stated in the relevant policy.

Compliance with IFRS

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

Historical cost convention

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

- investments in associates at fair value through profit or loss – measured at fair value;
- investments in financial assets held at fair value – measured at fair value.

New and amended standards adopted

No new accounting standards or amendments have come into effect for the year ended 30 June 2017 that affect the Group's operations or reporting requirements.

(b) Principles of consolidation

(i) Controlled entities

The consolidated financial statements of the Charter Hall Group and the Charter Hall Property Trust Group incorporate the assets and liabilities of all controlled entities as at 30 June 2017 and their results for the year then ended.

The Group controls an entity when the Group 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. Controlled entities are fully consolidated from the date on which control is transferred to the Group. 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 Group.

Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of changes in equity respectively.

(ii) Investments in associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for in the consolidated balance sheet at either fair value through profit or loss (CHPT only) or by using the equity method (CHPT and CHL). On initial recognition, the Group elects to account for investments in associates at either fair value through profit or loss or using the equity method based on assessment of the expected strategy for the investment.

Financial statements

For personal use only

Under the equity accounted method, the Group's share of the associates' post acquisition net profit after income tax expense is recognised in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions and dividends received from associates are recognised in the consolidated financial report as a reduction of the carrying amount of the investment.

Investments in associates at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of comprehensive income.

(iii) Joint arrangements

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

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the consolidated financial statements under the appropriate headings.

Joint ventures

Interests in joint ventures are accounted for using the equity method, with investments initially recognised at cost and adjusted thereafter to recognise the Group's share of post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint venture entities are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been aligned where necessary to ensure consistency with the policies adopted by the Group.

(iv) Changes in ownership interests

When the Group ceases to equity account for an investment because of a loss of joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group.

If the ownership interest in a joint venture entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

(c) Segment reporting

Segment information is reported in a manner that is consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

(d) Foreign currency translation

(i) Functional and presentation currencies

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

(ii) Transactions and balances

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

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

(iii) Foreign operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

(iv) Foreign currency translation

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

1 Summary of significant accounting policies continued

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

(i) Management fees and expense recoveries

Management fees and expense recoveries are brought to account on an accruals basis when the services have been performed and, if not received at the reporting date, are reflected in the consolidated balance sheet as a receivable.

Where management fees are derived in respect of an acquisition or disposal of property, the fees are recognised where services have been performed and the fee can be reliably estimated.

(ii) Performance and transaction fees

Performance fees are only recognised when the services have been performed and the amount can be reliably measured and it is probable the performance fee criteria will be met. Transaction fees are recognised when the services have been performed and the fee can be reliably estimated. Detailed calculations are completed and the risks associated with the fee are assessed when deciding when it is appropriate to recognise revenue. Further information is provided in the critical accounting estimates and judgements in Note 2.

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iv) Distributions

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

(v) Other investment-related revenue

Other investment-related revenue represents amounts received in relation to investment commitments and rebates relating to investments and is recognised where the right to receive payment is established.

(f) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, any non-controlling interest in the acquiree is recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the acquirer's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(g) Income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Lease disclosures

For personal use only

(h) Impairment of assets

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

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

(i) Cash and cash equivalents

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

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

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

(k) Other financial assets

Classification

The Group classifies its other financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset held for trading is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date.

(iii) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

(iv) Available for sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Recognition and derecognition

Regular way purchases and sales of investments are recognised at trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss, excluding interest and distribution income, are presented in the consolidated statement of comprehensive income in the year in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs. Further details on how the fair value of financial instruments is determined are disclosed in Note 1(w) and Note 25.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of comprehensive income – is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments classified as available for sale are not reversed through the consolidated statement of comprehensive income.

1 Summary of significant accounting policies continued

(l) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Furniture, fittings and equipment 3 to 10 years
- Fixtures 5 to 10 years
- Software 3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

(m) Investment properties

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

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are stated at fair value. Fair value of investment property is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Gains and losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive income in the year in which they arise.

At each balance date, the fair values of the investment properties are assessed by the Responsible Entity with reference to independent valuation reports or through appropriate valuation techniques adopted by the Responsible Entity. Specific circumstances of the owner are not taken into account. Further information relating to valuation techniques can be found in Note 25(c).

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

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

(n) Intangibles

(i) Intangibles – indefinite life assets

Intangibles with no fixed life are not amortised as they have an indefinite life. Intangibles with an indefinite life are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses. Intangibles are allocated to cash generating units for the purpose of impairment testing.

(ii) Management Rights – finite life assets

Management rights with a fixed life are amortised using the straight line method over their useful life. Management rights of Charter Hall Office Trust (CHOT) are amortised over nine years.

(o) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group. 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.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. If the facility has not been drawn down the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

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

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

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

(q) Borrowing costs

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

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

For personal use only

For personal use only

(s) Goods and Services Tax (GST)

Revenues, expenses and assets (with the exception of receivables) are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

(t) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

Liabilities for other employee entitlements which are not expected to be paid or settled within 12 months of reporting date are accrued in respect of all employees at present values of future amounts expected to be paid, based on a projected weighted average increase in wage and salary rates. Expected future payments are discounted using a corporate bond rate with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Contributions to employee defined contribution superannuation funds are recognised as an expense as they become payable.

(iv) Security-based benefits

Security-based compensation benefits are provided to employees via the Charter Hall Performance Rights and Options Plan (PROP) and the General Employee Security Plan (GESP). Information relating to these schemes is set out in Note 33. For PROP, the fair value at grant date is independently valued using a Monte Carlo simulation pricing model that takes into account the exercise price, the term of the option, impact of dilution, stapled security price at grant date, expected price volatility of the underlying stapled security, expected dividend yield and the risk-free interest rate for the term of the option and market vesting conditions but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of stapled securities that are expected to vest. At each reporting date, the entity revises its estimate of the number of stapled securities that are expected to vest. The employee benefits expense recognised each year takes into account the most recent estimate.

Upon the vesting of stapled securities, the balance of the stapled security-based benefits reserve relating to those stapled securities is transferred to equity, net of any directly attributable transaction costs.

For GESP, eligible employees are entitled to receive up to $1,000 in stapled securities based on the stapled security price on the grant date. The cost of the stapled securities bought on market to settle the award liability is included in employee benefits expense. The stapled securities are held in trust on behalf of eligible employees until the earlier of the completion of three years' service or termination.

(v) Bonus plans

Charter Hall recognises a liability and an expense for amounts payable to employees. Charter Hall recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates:

(a) when the Group can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(u) Contributed equity

Ordinary stapled securities are classified as equity. Incremental costs directly attributable to the issue of new stapled securities or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Distributions paid and payable

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

(w) Fair value estimation

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

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

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

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

Certain unlisted property securities have been designated on initial recognition to be treated at fair value through profit or loss. Movements in fair value during the period have been recognised in the consolidated statement of comprehensive income. These assets have been acquired with the intention of being long-term investments. Where the assets in this category are expected to be sold within 12 months, they are classified as current assets; otherwise they are classified as non-current.

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

1 Summary of significant accounting policies continued

(x) Earnings per stapled security

Basic earnings per stapled security from continuing operations is determined by dividing profit from continuing operations attributable to the stapled securityholders by the weighted average number of ordinary stapled securities on issue during the year.

Basic earnings per stapled security is determined by dividing the profit by the weighted average number of ordinary stapled securities on issue during the year.

Diluted earnings per stapled security from continuing operations is determined by dividing profit from continuing operations attributable to the stapled securityholders by the weighted average number of ordinary stapled securities and dilutive potential ordinary stapled securities on issue during the year.

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

(y) Parent entity financial information

The financial information for the parent entity of the Charter Hall Group, Charter Hall Limited, and for the parent entity of the Charter Hall Property Trust Group, Charter Hall Property Trust, disclosed in Note 34, has been prepared on the same basis as the Group's financial statements except as set out below:

(i) Investments in controlled entities

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

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

(ii) Receivables and payables

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

(iii) Recoverable amount of assets

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

(iv) Tax consolidation legislation

The head entity, Charter Hall Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Charter Hall Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under a tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in Note 6.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(z) Impact of new standards and interpretations issued but not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2017 but are available for early adoption. The impact of these new standards and interpretations (to the extent relevant to the Group) is set out below:

(i) AASB 9 Financial Instruments (applicable 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities and sets out new rules for hedge accounting. Management has completed a preliminary assessment and does not expect any changes to the above. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, would therefore have to be recognised directly in the statement of comprehensive income. The Group has not yet decided when to adopt AASB 9 and management is currently assessing the impact of the new standard.

(ii) AASB 15 Revenue from Contracts with Customers (applicable 1 January 2018)

The standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer, so the notion of control replaces the notion of risks and rewards. It applies to all contracts with customers, excluding leases, financial instruments and insurance contracts. The basis of the new standard is a new five step model that involves identifying the contract with the customer, identifying performance obligations under the contract, determining the transaction price in exchange for satisfying those performance obligations and recognising revenue as or when each performance obligation is satisfied. Variable consideration should be estimated and included in the transaction price to the extent it is highly probable that the cumulative amount of revenue recognised will not be significantly reversed.

AASB 15 requires reporting entities to provide users of financial statements with more informative, relevant disclosures. The Group has completed a preliminary assessment of the implications of the new standard to its operational and financial results.

The Group will adopt the standard in the financial year beginning 1 July 2018, applying the standard retrospectively, which may involve an adjustment to opening retained earnings to recognise the cumulative effect of applying the standard.

Lodged with the ASX

For personal use only

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

The standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset.
The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics such as Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) will change. The accounting by lessors will not significantly change. Management has completed a preliminary assessment that the operating lease commitments, as disclosed in Note 31, will result in the recognition of a right-of-use asset and a corresponding lease liability and how this will affect the Group's results. The standard will primarily impact the Group's office leases as lessee.

(aa) Comparative information

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

(ab) Rounding of amounts

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

2 Critical accounting estimates and judgements

The Charter Hall Group and Charter Hall Property Trust Group make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Classification and carrying value of investments

The Group controls an entity when the Group 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 over the entity. Critical judgements are made in assessing whether an investee entity is controlled or subject to significant influence or joint control. These judgements include an assessment of the nature, extent and financial effects of the Group's interest in investee entities, including the nature and effects of its contractual relationship with the entity or with other investors.

Investments in associates are accounted for at either fair value through profit or loss (CHPT only) or by using the equity method (CHPT and CHL). CHPT designates investments in associates as fair value through profit or loss or equity accounted on a case by case basis taking the investment strategy into consideration.

Management regularly reviews equity accounted investments for impairment and remeasures investments carried at fair value through profit or loss 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. When a fair value is estimated through an earnings valuation, critical judgements and estimates are made in relation to the earnings measure and appropriate multiple.

Critical judgement is made in assessing the manner in which the cost of indefinite life intangible assets is expected to be recovered and corresponding deferred tax liability. Critical judgements and accounting estimates are made in assessing the extent to which the utilisation of tax losses carried forward is considered probable and the corresponding deferred tax asset recognised.

(b) Performance fee recognition

Critical judgements and estimates are made by the Charter Hall Group in respect of recognising performance fee revenue. Performance fees are only recognised when services have been performed and they can be reliably estimated and are probable. Detailed calculations are completed and the risks associated with the fee are assessed when deciding when it is appropriate to recognise revenue.

(c) Valuation of intangibles

Critical judgements and estimates are made by the Charter Hall Group in assessing the recoverable amount of intangibles acquired, where the funds to which those intangibles relate have an indefinite life. Intangibles are considered to have an indefinite useful life if there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. Refer to Note 13 for further details.

3 Segment information

(a) Description of segments

Charter Hall Property Trust Group

The Board allocates resources and assesses the performance of operating segments for the entire Charter Hall Group. Results are not separately identified and reported according to the legal structure of the Charter Hall Group and therefore segment information for CHPT is not prepared and provided to the chief operating decision maker.

Charter Hall Group

Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions. The Board is responsible for allocating resources and assessing performance of the operating segments.

Operating earnings is a financial measure which represents statutory profit after tax adjusted for proportionally consolidated fair value adjustments, gains or losses on sale of investments, amortisation and/or impairment of intangible assets, deferred tax expense and other unrealised or one-off items. Operating earnings is the primary measure of the Group's underlying and recurring earnings from its operations. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare.

The Board has identified the following two reportable segments, the performance of which it monitors separately.

Property Investments

This segment comprises investments in property funds.

Property Funds Management

This segment comprises funds management services, property management services and other property services.

3 Segment information continued

(a) Description of segments continued

Charter Hall Group

Corporate costs which were previously unallocated in the June 2016 financial report are now included in the property funds management segment. The impact of this reclassification is a decrease of property funds management operating earnings from $71,380,000 to $46,234,000 in June 2016. The reallocation has a $nil net effect on the total operating earnings.

(b) Proportionally consolidated operating segments

The operating segments provided to the Board for the reportable segments for the year ended 30 June 2017 are as follows:

30 June 2017	Property Investments $'000	Property Funds Management $'000	Total $'000
Property rental income[1]	157,447	–	**157,447**
Property expenses[1]	(31,441)	–	**(31,441)**
Management fee revenue	–	158,719	**158,719**
Net property development EBITDA[2]	3,568	–	**3,568**
Net operating expenses	(1,039)	(68,348)	**(69,387)**
Corporate expenses[3]	–	(24,178)	**(24,178)**
EBITDA	**128,535**	**66,193**	**194,728**
EBITDA as a % of total EBITDA	**66.0%**	**34.0%**	
Inter-segment fees and expenses[4]	(14,072)	22,980	**8,908**
Depreciation and amortisation expense	(195)	(3,475)	**(3,670)**
Net interest expense	(28,647)	–	**(28,647)**
Income tax expense[5]	(666)	(19,480)	**(20,146)**
Operating earnings	**84,955**	**66,218**	**151,173**
Basic weighted average number of stapled securities ('000)			420,838
Operating earnings per stapled security (cents)			**35.9 cps**
Other segment items			
Realised gains/(losses) on disposal of investments[6]	32,570		
EBITDA as a % of total EBITDA, including realised gains/(losses)[7]	**70.9%**	**29.1%**	

1 Property rental income and property expenses are calculated on a proportionate equity accounted look-through basis.
2 Net property development EBITDA is the Group's share of EBITDA from its investment in CIP, an industrial development business.
3 Corporate expenses includes the costs to manage the listed stapled entity of CHC and non-sector costs of managing the group wide platform including the Board, CEO, CFO, heads of group wide functions (People and IT), group finance, CHC investor relations, group marketing, corporate share of security-based benefits expense and restructuring costs.
4 Inter-segment fees and expenses are made up of fees and expenses paid by the funds to the Group whether treated as expenses or capitalised by the fund.
5 Current income tax expense in Property investments represents the Group's share of Commercial and Industrial Property Pty Ltd's income tax expense.
6 Realised gains/(losses) are calculated on property disposals based on sales price less historical acquisition costs plus capital expenditure on a look-through basis, excluding fair value movements.
7 This proportionate equity accounted ratio is calculated by dividing the Property investment EBITDA plus the realised gains/(losses) on disposal of investments by the total EBITDA plus realised gains/(losses) on disposal of investments.

For personal use only

30 June 2016	Property Investments $'000	Property Funds Management $'000	Total $'000
Property rental income[1]	146,743	–	146,743
Property expenses[1]	(28,846)	–	(28,846)
Management fee revenue	–	119,546	119,546
Net property development EBITDA[2]	6,229	–	6,229
Net operating expenses	(1,134)	(61,854)	(62,988)
Corporate expenses[3]	–	(24,495)	(24,495)
EBITDA	122,992	33,197	156,189
EBITDA as a % of total EBITDA	**78.7%**	**21.3%**	
Inter-segment fees and expenses[4]	(11,352)	15,641	4,289
Depreciation and amortisation expense	(585)	(2,604)	(3,189)
Net interest expense	(31,180)	–	(31,180)
Income tax expense	(1,374)	–	(1,374)
Operating earnings	78,501	46,234	124,735
Basic weighted average number of stapled securities ('000)			409,980
Operating earnings per stapled security (cents)			30.4 cps
Other segment items			
Realised gains/(losses) on disposal of investments[5]	22,356		
EBITDA as a % of total EBITDA, including realised gains/(losses)[6]	**81.4%**	**18.6%**	

1 Property rental income and property expenses are calculated on a look-through basis.

2 Net property development EBITDA is the Group's share of EBITDA from its investment in CIP, an industrial development business.

3 Corporate expenses includes the costs to manage the listed stapled entity of CHC and non-sector costs of managing the group wide platform including the Board, CEO, CFO, heads of group wide functions (People and IT), group finance, CHC investor relations, group marketing, corporate share of security-based benefits expense and restructuring costs.

4 Inter-segment fees and expenses are made up of fees and expenses paid by the funds to the Group whether treated as expenses or capitalised by the fund.

5 Realised gains/(losses) are calculated on property disposals based on sales price less historical acquisition costs plus capital expenditure on a look-through basis, excluding fair value movements.

6 This proportionate equity accounted ratio is calculated by dividing the Property investment EBITDA plus the realised gains/(losses) on disposal of investments by the total EBITDA plus realised gains/(losses) on disposal of investments.

Refer to Note 8 for statutory earnings per stapled security figures.

For personal use only

3 Segment information continued

(c) The reconciliation of operating earnings to statutory profit after tax attributable to stapled securityholders is shown below:

	2017 $'000	2016 $'000
Operating earnings attributable to stapled securityholders	**151,173**	124,735
Realised and unrealised gains/(losses) on derivatives[1]	**8,166**	(10,339)
Net fair value movements on investments and property[1]	**118,314**	107,757
Amortisation and impairment of intangibles	**(4,342)**	(8,517)
Impairment of investment in joint venture	**(10,494)**	–
Non-operating deferred income tax expense	**(4,118)**	(1,714)
Gain on disposal of property investments and inventory[1]	**3,890**	6,114
Other[1]	**(5,028)**	(2,796)
Statutory profit after tax attributable to stapled securityholders	**257,561**	215,240

1 Includes the Group's proportionate share of non-operating items of equity accounted investments on a look-through basis.

(d) Reconciliation of operating earnings from the property investments segment to the share of net profit of investments accounted for using the equity method and the net gain on investment in associates at fair value in the statement of comprehensive income

	2017 $'000	2016 $'000
Operating earnings – investments	**84,955**	78,501
Add: non-operating equity accounted profit	**122,830**	93,378
Less: fair value distributions in operating income	**(377)**	(3,610)
Add: net gain/(loss) on investment in associates at fair value	**(17)**	4,016
Add: other operating expenses	**1,038**	1,133
Less: net operating interest income	**(1,192)**	(1,118)
Less: rental income	**(62)**	–
	207,175	172,300
Share of net profit of investments accounted for using the equity method	**207,192**	168,284
Net gain/(loss) on investment in associates at fair value	**(17)**	4,016
	207,175	172,300

(e) Reconciliation of property funds management income stated above to revenue per the statement of comprehensive income

	2017 $'000	2016 $'000
Management revenue	**158,719**	119,546
Inter-segment revenue	**22,980**	15,641
Less: recoveries eliminated against expenses	**(3,189)**	(2,171)
Property funds management revenue	**178,510**	133,016
Add: recovery of property and fund-related expenses	**31,729**	26,052
Add: interest income	**2,715**	2,609
Add: distributions received for investments accounted for at fair value	**377**	3,610
Add: rental income	**62**	–
Revenue per statement of comprehensive income	**213,393**	165,287

Geographical segments are immaterial as the vast majority of the Group's income is from Australian sources. Assets and liabilities have not been reported on a segmented basis as the Board is focused on the consolidated balance sheet.

For personal use only

For personal use only

4 Revenue

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Sales revenue				
Gross rental income	**62**	–	**62**	–
Management fees and expense recoveries	**156,492**	130,751	**–**	–
Transaction and performance fees	**53,747**	28,317	**–**	–
	210,301	159,068	**62**	–
Other revenue				
Interest	**2,742**	2,609	**9,005**	13,291
Distributions/dividends[1]	**350**	3,610	**350**	3,610
Other investment-related revenue	**–**	–	**10,300**	20,311
Total other revenue	**3,092**	6,219	**19,655**	37,212
Total revenue	**213,393**	165,287	**19,717**	37,212

1 Represents the distribution of income from investments in associates accounted for at fair value by the Group and Charter Hall Property Trust Group. Revenue excludes share of net profits of equity accounted associates and joint ventures. Refer to Notes 28 and 29 for further details.

5 Expenses

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Profit before income tax includes the following specific expenses:				
Depreciation				
Plant and equipment	**3,475**	2,604	**–**	–
Impairment of joint ventures				
Impairment of investments in joint ventures	**10,494**	–	**–**	–
Amortisation and impairment of intangibles				
Intangibles – amortisation	**5,143**	8,517	**–**	–
Intangibles – reversal of impairment	**(800)**	–	**–**	–
Total amortisation and impairment	**4,343**	8,517	**–**	–
Finance costs				
Interest and finance charges paid/payable	**1,522**	1,742	**1,295**	1,562
Employee costs				
Employee benefit expenses	**94,528**	83,878	**–**	–
Restructuring costs	**243**	5,057	**–**	–
Security-based benefits expense	**1,414**	2,081	**–**	–
Payroll tax	**4,736**	4,496	**–**	–
Total employee costs	**100,921**	95,512	**–**	–
Administration and other expenses				
Legal and consulting costs	**5,008**	3,673	**–**	–
Rent expense and occupancy costs	**3,267**	2,848	**–**	–
Communication and IT expenses	**5,534**	4,914	**30**	–
Other expenses	**7,377**	6,834	**84**	87
Total administration and other expenses	**21,186**	18,269	**114**	87

6 Income tax expense

	Note	Charter Hall Group 2017 $'000	Charter Hall Group 2016 $'000	Charter Hall Property Trust Group 2017 $'000	Charter Hall Property Trust Group 2016 $'000
(a) Income tax expense					
Current tax expense/(benefit)		**19,544**	(73)	**–**	–
Deferred income tax expense		**4,054**	1,787	**–**	–
		23,598	1,714	**–**	–
Deferred income tax expense					
Decrease/(increase) in deferred tax assets for the tax consolidated group	15	**768**	(135)	**–**	–
Increase in deferred tax liabilities for the tax consolidated group	15	**4,868**	1,922	**–**	–
Increase in deferred tax assets for entities outside the tax consolidated group	15	**(1,582)**	–	**–**	–
		4,054	1,787	**–**	–
(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable					
Profit before income tax expense		**281,159**	216,954	**217,951**	197,269
Prima facie tax expense at the Australian tax rate of 30%		**84,348**	65,086	**65,385**	59,181
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:					
Charter Hall Property Trust income		**(65,385)**	(59,181)	**(65,385)**	(59,181)
Non-allowable expenses		**80**	2,541	**–**	–
Other allowable deductions		**(135)**	(38)	**–**	–
Share-based payments expense		**–**	(3,857)	**–**	–
Sundry items		**(9)**	155	**–**	–
Net tax refund on foreign subsidiaries		**–**	(73)	**–**	–
Capital gain sheltered by unrecognised capital losses		**–**	(1,718)	**–**	–
Non-taxable dividends, net of equity accounted profit		**(1,245)**	(1,117)	**–**	–
Impairment of equity accounted investment		**3,148**	–	**–**	–
Recognition of deferred tax asset on previously unrecognised income tax losses		**(1,582)**	–	**–**	–
Income sheltered by losses in subsidiary outside of the tax consolidated group		**(307)**	–	**–**	–
Amounts under/(over) provided in respect of prior years		**4,685**	(84)	**–**	–
Income tax expense		**23,598**	1,714	**–**	–
(c) Amounts recognised directly in equity					
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:					
Current tax: Deduction for rights vesting in excess of the cumulative expense for the share-based payments		**(833)**	–	**–**	–
Deferred tax: Estimated future deduction for rights vesting, in excess of the cumulative expense for the rights		**(1,710)**	–	**–**	–
Deferred tax: Unwind of deferred tax assets on rights which failed to meet vesting conditions		**358**	–	**–**	–
		(2,185)	–	**–**	–

Lodged by Computershare Investor Services Pty Limited

For personal use only

(d) Tax consolidation legislation

Charter Hall Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation with effect from 1 July 2003. The accounting policy in relation to this legislation is set out in Note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Charter Hall Limited.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Charter Hall Limited for any current tax payable assumed and are compensated by Charter Hall Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Charter Hall Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

(e) Charter Hall Property Trust

Under current Australian income tax legislation, the Trust is not liable for income tax on its taxable income (including any assessable component of capital gains) provided that the unitholders are presently entitled to the income of the Trust.

(f) Capital tax losses – Charter Hall Group

At 30 June 2017, the Group has approximately $12.8 million (2016: $11.2 million) of tax effected unrecognised capital tax losses.

7 Distributions paid and payable

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Ordinary stapled securities				
Final ordinary distribution for the six months ended 30 June 2017 of 15.6 cents per stapled security payable on 31 August 2017	**72,661**	–	**72,661**	–
Interim ordinary distribution for the six months ended 31 December 2016 of 14.4 cents per stapled security paid on 28 February 2017	**59,431**	–	**59,431**	–
Final ordinary distribution for the six months ended 30 June 2016 of 13.6 cents per stapled security paid on 25 August 2016	**–**	56,129	**–**	56,129
Interim ordinary distribution for the six months ended 31 December 2015 of 13.3 cents per stapled security paid on 26 February 2016	**–**	54,419	**–**	54,419
Total distributions paid and payable	**132,092**	110,548	**132,092**	110,548

Franking credits available in the parent entity (Charter Hall Limited) for subsequent financial years based on a tax rate of 30% (2016: 30%) are $3.3 million (2016: $3.3 million).

8 Earnings per stapled security

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 Cents	2016 Cents	**2017 Cents**	2016 Cents
(a) Basic earnings per security attributable to:				
Equity holders of Charter Hall Limited	**9.4**	4.4	**n/a**	n/a
Equity holders of Charter Hall Property Trust (non-controlling interest)	**51.8**	48.1	**51.8**	48.1
Stapled securityholders of Charter Hall Group	**61.2**	52.5	**n/a**	n/a
(b) Diluted earnings per security attributable to:				
Equity holders of Charter Hall Limited	**9.3**	4.3	**n/a**	n/a
Equity holders of Charter Hall Property Trust (non-controlling interest)	**51.4**	47.7	**51.4**	47.7
Stapled securityholders of Charter Hall Group	**60.7**	52.0	**n/a**	n/a

	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
(c) Reconciliations of earnings used in calculating earnings per stapled security				
Equity holders of Charter Hall Limited	**39,610**	17,971	**n/a**	n/a
Profit attributable to the ordinary stapled securityholders of the Group used in calculating basic and diluted earnings per stapled security	**257,561**	215,240	**217,951**	197,269

	2017 Number	2016 Number	**2017 Number**	2016 Number
(d) Weighted average number of stapled securities used as the denominator				
Weighted average number of ordinary stapled securities used as the denominator in calculating basic earnings per stapled security	**420,838,262**	409,979,949	**420,838,262**	409,979,949
Adjustments for calculation of diluted earnings per stapled security:				
Performance rights	**2,881,070**	3,324,586	**2,881,070**	3,324,586
Service rights	**546,854**	733,776	**546,854**	733,776
Weighted average number of ordinary stapled securities and potential ordinary stapled securities used as the denominator in calculating diluted earnings per stapled security	**424,266,186**	414,038,311	**424,266,186**	414,038,311

(e) Information concerning the classification of securities

Performance rights, service rights issued under the Charter Hall Performance Rights and Options Plan

The performance and service rights are unquoted securities. Conversion to stapled securities and vesting to executives is subject to service and performance conditions.

Stapled securities issued under the General Employee Share Plan (GESP)

Stapled securities issued under the GESP are purchased on market on behalf of eligible employees but held in trust until the earlier of the completion of three years' service or termination. No adjustment to diluted earnings per stapled security is required under the GESP.

For personal use only

For personal use only

9 Cash and cash equivalents

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Cash at bank and on hand	**174,418**	145,358	**53,377**	43,321

These amounts earn fixed and floating interest rates of between 1.6% and 2.5% (2016: 1.8% and 2.0%).

10 Trade and other receivables

	Note	Charter Hall Group		Charter Hall Property Trust Group	
		2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Current					
Trade receivables		**27,938**	14,008	**2,698**	2,330
Loans to joint ventures	26(e)	**8,500**	6,500	**–**	–
Loans to associates	26(e)	**750**	2,586	**750**	2,586
Distributions receivable		**27,432**	24,379	**26,344**	21,768
Other receivables		**854**	985	**144**	–
Prepayments		**729**	229	**–**	–
		66,203	48,687	**29,936**	26,684
Non-current					
Loan receivable from Charter Hall Limited		**–**	–	**73,175**	139,860
		–	–	**73,175**	139,860

(a) Bad and doubtful trade receivables

During the year, the Charter Hall Group and Charter Hall Property Trust Group incurred $nil expense (2016: $nil) in respect of provisioning for bad and doubtful trade receivables.

(b) Fair values

Receivables are carried at amounts that approximate their fair value.

(c) Credit risk

There is a limited concentration of credit risk as the majority of current and non-current receivables are due from related parties of Charter Hall Group and Charter Hall Property Trust Group. Refer to Note 24 for more information on the risk management policy of the Charter Hall Group and Charter Hall Property Trust Group.

The ageing of trade receivables at the reporting date was as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Current	**27,850**	13,604	**2,698**	2,330
1 to 3 months	**20**	344	**–**	–
3 to 6 months	**30**	3	**–**	–
More than 6 months	**38**	57	**–**	–
	27,938	14,008	**2,698**	2,330

As at 30 June 2017, Charter Hall Group had trade receivables of $0.1 million (2016: $0.4 million) past due but not impaired. Charter Hall Property Trust had $nil receivables past due (2016: $nil).

11 Investments accounted for using the equity method

	Note	Charter Hall Group 2017 $'000	Charter Hall Group 2016 $'000	Charter Hall Property Trust Group 2017 $'000	Charter Hall Property Trust Group 2016 $'000
Investments in associates	28	**1,218,160**	851,371	**1,147,241**	784,609
Investments in joint venture entities	29	**258,470**	285,356	**239,020**	256,893
		1,476,630	1,136,727	**1,386,261**	1,041,502

Investments in associates represent units in listed and unlisted Charter Hall managed funds which are accounted for using the equity method. Refer to Note 28(a) for carrying value of investments in associates. Investments in joint venture entities represent joint venture interests in Australia which are accounted for using the equity method. Refer to Note 29(a) for carrying value of investments in joint venture entities.

12 Investment properties

During the year, the Group established a new controlled entity investment fund, Charter Hall Direct Consumer Staples Fund, to facilitate the purchase of a portfolio of investment properties.

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

	Charter Hall Group 2017 $'000	Charter Hall Group 2016 $'000	Charter Hall Property Trust Group 2017 $'000	Charter Hall Property Trust Group 2016 $'000
Opening balance	**–**	–	**–**	–
Additions	**108,300**	–	**41,062**	–
Net loss from fair value adjustment	**(712)**	–	**(712)**	–
Disposals	**(67,238)**	–	**–**	–
Closing balance	**40,350**	–	**40,350**	–

Key valuation assumptions used in the determination of the investment properties' fair value and the Group's valuation policy are disclosed in Note 25.

Leasing arrangements

The investment properties, excluding development properties, are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Charter Hall Group 2017 $'000	Charter Hall Group 2016 $'000	Charter Hall Property Trust Group 2017 $'000	Charter Hall Property Trust Group 2016 $'000
Due within one year	**2,350**	–	**2,350**	–
Due between one and five years	**7,292**	–	**7,292**	–
Over five years	**12,679**	–	**12,679**	–
	22,321	–	**22,321**	–

For personal use only

For personal use only

13 Intangible assets

In March 2010, the Charter Hall Group completed a transaction to acquire the majority of Macquarie Group's core real estate management platform. This transaction was structured to secure the management rights (i.e. future management fee revenue) of Macquarie Office Trust (now Charter Hall Office Trust), Macquarie CountryWide Trust (now Charter Hall Retail REIT) and Macquarie Direct Property Fund (now Charter Hall Direct Office Fund). The excess of consideration paid over net tangible assets acquired represents the value of these management rights.

With the exception of management rights held over Charter Hall Office Trust (CHOT), management considers that the management rights have an indefinite life as there are no finite terms in the underlying agreements and the Charter Hall Group has no intention to cease managing these funds. On 1 May 2012, Charter Hall Office REIT (CQO) was privatised and CQO changed from a listed REIT to a wholesale unit trust (CHOT) with liquidity reviews every five years. In November 2016, CHOT's investors agreed to extend the life of the fund by three years to 30 April 2020. The amortisation period for the CHOT management rights has also been extended prospectively by three years. The Group is amortising the associated intangible assets over a nine year period from 1 May 2012, which includes an additional year to source liquidity were the fund to be wound up as a result of a liquidity review.

On 15 August 2012, a subsidiary of the Group paid the previous manager of Charter Hall Direct PFA Trust (PFA) to facilitate the appointment of a Group subsidiary as the responsible entity of PFA. As PFA is an open ended fund with no termination date or review event contemplated in its constitution, these facilitation payments have been treated as an intangible asset which is considered to have an indefinite useful life.

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Indefinite life intangibles				
Charter Hall Retail REIT				
Opening and closing balance	**42,288**	42,288	**–**	–
Charter Hall Direct Office Fund				
Opening and closing balance	**7,423**	7,423	**–**	–
Charter Hall Direct PFA Trust				
Opening balance	**4,417**	4,417	**–**	–
Reversal of impairment	**800**	–	**–**	–
Closing balance	**5,217**	4,417	**–**	–
Total indefinite life intangibles	**54,928**	54,128	**–**	–
Finite life intangibles				
Charter Hall Office Trust				
Opening balance	**15,615**	24,132	**–**	–
Amortisation charge	**(5,143)**	(8,517)	**–**	–
Closing balance	**10,472**	15,615	**–**	–
At balance date				
Cost	**50,283**	50,283	**–**	–
Accumulated amortisation	**(39,811)**	(34,668)	**–**	–
Total finite life intangibles	**10,472**	15,615		
Total intangible assets	**65,400**	69,743	**–**	–

All indefinite life intangible assets recognised on the consolidated balance sheet are subject to an annual impairment assessment. The impairment assessments support the carrying values and the methodology applied is an assessment of value in use based on discounted cash flows.

Key assumptions used for the indefinite life intangible impairment calculations are as follows:

- cash flow projections covering a three year period based on financial budgets approved by management. Cash flows beyond the three-year period are extrapolated using estimated growth rates appropriate for the business;
- pre-tax discount rate range of 14–16% (2016: 14–16%) which is in excess of the Group's weighted average cost of capital;
- growth after three years of 2–3% (2016: 2–3%) per annum; and
- terminal value multiple of 7.0–8.0 times earnings (2016: 7.0–8.0 times).

Impairment is tested at the cash generating unit (CGU) level being each fund which generates management fee income.

14 Property, plant and equipment

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Opening net book amount	**14,855**	11,931	**–**	–
Additions	**7,384**	6,289	**–**	–
Disposals	**–**	(761)	**–**	–
Depreciation charge	**(3,475)**	(2,604)	**–**	–
Closing net book amount	**18,764**	14,855	**–**	–
At balance date				
Cost	**29,275**	21,890	**–**	–
Accumulated depreciation	**(10,511)**	(7,035)	**–**	–
Net book amount	**18,764**	14,855	**–**	–

15 Deferred tax assets and liabilities

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	Restated 2016 $'000	**2017 $'000**	2016 $'000
Deferred tax assets comprises temporary differences attributable to:				
Tax losses carried forward[1]	**1,582**	–	**–**	–
Deferred tax assets comprises temporary differences attributable to:				
Tax losses carried forward	**–**	1,494	**–**	–
Employee benefits	**11,886**	8,968	**–**	–
Other	**467**	1,307	**–**	–
	12,353	11,769	**–**	–
Deferred tax liabilities comprises temporary differences attributable to:				
Intangible assets	**(18,055)**	(14,913)	**–**	–
Investment in associates	**(6,364)**	(5,387)	**–**	–
Other	**(1,611)**	(862)	**–**	–
	(26,030)	(21,162)	**–**	–
Net deferred tax liabilities	**(13,677)**	(9,393)	**–**	–

1 Tax losses carried forward in 2017 were acquired following the acquisition of Charter Hall Opportunity Fund No.5 (CHOF5) as a wholly owned entity. CHOF5 does not form part of the Charter Hall tax consolidated group and therefore is not included in the net deferred tax liability balance on the Balance Sheet.

Change in accounting policy and retrospective application

During the year, the Group changed its accounting policy in relation to the recognition of deferred income tax on its intangible assets. This change was made to reflect the view of the IFRS Interpretations Committee (IFRIC), published in November 2016, that the carrying amounts of intangible assets with indefinite useful lives may not necessarily be recovered through sale, but also through use.

Based on the IFRIC guidance, the Group has determined that it is appropriate to retrospectively change its accounting policy in relation to the assumed method of recovery of its intangible assets from recovery through sale to recovery through use. As the benefits of the intangible assets flow to the Group in the form of management fees over time, this is considered to provide reliable and more relevant information.

The impact of this change in accounting policy on the 2017 and previously reported 2016 and 2015 balance sheets is an increase of $14,913,000 of deferred tax liabilities and an increase to accumulated losses of $14,913,000. There was no impact on the statement of comprehensive income.

Lodged with the Australian Securities Exchange

A reconciliation of the carrying amount of deferred tax assets for the tax consolidated group at the beginning and end of the current and previous years is set out below:

	Note	Tax losses carried forward $'000	Employee benefits $'000	Other $'000	Total $'000
Charter Hall Group					
Balance at 1 July 2015		5,836	5,616	182	11,634
Charged/(credited) to income statement	6	(4,342)	3,352	1,125	135
Balance at 30 June 2016		1,494	8,968	1,307	11,769
Charged/(credited) to income statement	6	(1,494)	1,566	(840)	(768)
Charged/(credited) directly to equity		–	1,352	–	1,352
Balance at 30 June 2017		**–**	**11,886**	**467**	**12,353**

A reconciliation of the carrying amount of deferred tax liabilities for the tax consolidated group at the beginning and end of the current and previous years is set out below:

	Note	Intangible assets $'000	Investment in associate $'000	Other $'000	Total $'000
Charter Hall Group					
Balance at 1 July 2015 (Restated)		14,913	4,108	219	19,240
Charged/(credited) to income statement	6	–	1,279	643	1,922
Balance at 30 June 2016 (Restated)		14,913	5,387	862	21,162
Charged/(credited) to income statement	6	3,142	977	749	4,868
Balance at 30 June 2017		**18,055**	**6,364**	**1,611**	**26,030**

16 Trade and other payables

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Current				
Trade payables	**1,137**	421	–	–
Accruals	**3,271**	5,970	**467**	359
Distribution payable	**72,661**	56,129	**72,661**	56,129
GST payable	**765**	2,149	**(92)**	(66)
Annual leave liability	**3,473**	3,110	**–**	–
Employee benefits liability	**21,715**	17,404	**–**	–
Other payables	**4,536**	630	**3,750**	66
Income tax payable	**18,711**	–	**–**	–
Lease incentive liability	**1,146**	1,081	**–**	–
	127,415	86,894	**76,786**	56,488
Non-current				
Lease incentive liability	**6,479**	5,193	**–**	–

All current liabilities are expected to be settled within 12 months.

For personal use only

17 Provisions

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Current				
Employee benefits – long service leave	**1,892**	1,680	**–**	–
Non-current				
Employee benefits – long service leave	**1,303**	1,334	**–**	–

18 Interest bearing liabilities

Charter Hall Property Trust loan

The $100 million debt facility was increased to $125 million in December 2016 with the maturity date unchanged at August 2018. At 30 June 2017, drawn borrowings of $nil (30 June 2016: $nil) and bank guarantees of $14.3 million (30 June 2016: $26.0 million) had been utilised under this facility, which under the terms of the agreement reduce the available facility. No liability is recognised for bank guarantees.

The carrying amounts of assets pledged as security for borrowings are:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Non-current				
First ranking security				
Investment in associates	**1,415,951**	1,041,710	**1,415,951**	1,041,710

(a) Financial arrangements

The Charter Hall Group and Charter Hall Property Trust Group had unrestricted access at reporting date to the following lines of credit:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Total facilities	**125,000**	100,000	**125,000**	100,000
Used at reporting date	**(14,267)**	(26,049)	**(14,267)**	(26,049)
Unused at reporting date	**110,733**	73,951	**110,733**	73,951

(b) Gearing

Gearing is a measure used to monitor levels of debt capital used by the business to fund its operations. This ratio is calculated as interest bearing debt divided by total assets with both net of cash and cash equivalents.

The gearing ratio of the Charter Hall Group at 30 June 2017 was nil % (30 June 2016: nil %) and Charter Hall Property Trust Group nil % (30 June 2016: nil %). Debt covenants are monitored regularly to ensure compliance and reported to the debt provider on a six monthly basis. The Group Treasurer is responsible for negotiating new debt facilities and monitoring compliance with covenants.

For personal use only

For personal use only

19 Contributed equity

(a) Security capital

	2017 Securities	2016 Securities	2017 $'000	2016 $'000
Charter Hall Limited			**284,956**	256,049
Charter Hall Property Trust			**1,456,853**	1,201,346
Ordinary securities – stapled securities, fully paid	**465,777,131**	412,717,802	**1,741,809**	1,457,395

(b) Movements in ordinary stapled security capital

Details	Number of securities[1]	Average issue price	Charter Hall Limited $'000	Charter Hall Property Trust $'000	Total $'000
Opening balance at 1 July 2015	406,817,856		253,907	1,181,772	1,435,679
Buyback and issuance of securities for exercised performance and service rights[1]	–	$2.26	(408)	(3,951)	(4,359)
Issuance under DRP[2]	5,899,946	$4.45	2,563	23,669	26,232
Closing balance at 30 June 2016	412,717,802		256,062	1,201,490	1,457,552
Less: Transaction costs on stapled security issues			(13)	(144)	(157)
Closing balance per accounts at 30 June 2016	**412,717,802**		**256,049**	**1,201,346**	**1,457,395**
Buyback and issuance of securities for exercised performance and service rights[3]	**–**	**$2.63**	**(273)**	**(2,484)**	**(2,757)**
Tax recognised directly in equity	**–**	**–**	**833**	**–**	**833**
Issued under institutional placement[4]	**53,059,329**	**$5.48**	**28,786**	**261,979**	**290,765**
Balance at 30 June 2017	**465,777,131**		**285,395**	**1,460,841**	**1,746,236**
Less: Transaction costs on stapled security issues			**(439)**	**(3,988)**	**(4,427)**
Balance per accounts at 30 June 2017	**465,777,131**		**284,956**	**1,456,853**	**1,741,809**

1 1,926,951 stapled securities bought on market at an average value of $4.37, offset by the exercise of 1,581,344 performance rights with a value of $1.91 and 474,902 service rights with an average value of $3.41.

2 2,345,435 stapled securities issued in September 2015 with an issue price of $4.60 and 3,554,511 issued in February 2016 with an issue price of $4.34.

3 879,616 stapled securities bought on market at an average value of $5.74, offset by the exercise of 445,518 performance rights with a value of $1.16 and 434,098 service rights with an average value of $4.11.

4 53,059,239 stapled securities issued under Institutional Placement and Security Purchase Plan in May 2017 with an issue price of $5.48.

(c) Ordinary stapled securities

Ordinary stapled securities entitle the holder to participate in distributions/dividends and the proceeds on winding up of the Company/Trust in proportion to the number of and amounts paid on the stapled securities held.

On a show of hands, every holder of ordinary stapled securities present at a meeting in person or by proxy is entitled to one vote and upon a poll, each holder is entitled to one vote per security that they hold.

(d) Distribution Re-investment Plan

The Group has established a Distribution Re-investment Plan (DRP) under which holders of ordinary stapled securities may elect to have all or part of their distribution satisfied by the issue of new ordinary stapled securities rather than by being paid in cash. The DRP was in operation for the distribution paid on 26 February 2016, however was suspended for the distribution paid on 25 August 2016 and subsequent distributions.

20 Reserves

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Business combination reserve	**(52,000)**	(52,000)	**–**	–
Security-based benefits reserve	**5,676**	6,467	**–**	–
Other reserves	**1,260**	–	**(450)**	–
	(45,064)	(45,533)	**(450)**	–
Charter Hall Limited	**(44,614)**	(45,533)	**–**	–
Charter Hall Property Trust	**(450)**	–	**(450)**	–
	(45,064)	(45,533)	**(450)**	–

Movements:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Business combination reserve				
Opening and closing balance	**(52,000)**	(52,000)	**–**	–
Security-based benefits reserve				
Opening balance	**6,467**	7,385	**–**	–
Security-based benefits expense	**1,414**	2,081		
Transfer due to deferred compensation payable in performance rights	**1,427**	1,722	**–**	–
Transferred to equity on options and performance rights exercised	**(2,439)**	(4,721)	**–**	–
Transfer unvested securities to accumulated losses	**(1,193)**	–	**–**	–
Closing balance	**5,676**	6,467	**–**	–
Other reserves				
Opening balance	**–**	(46)	**–**	(46)
Exchange differences on translation of foreign operations	**(8)**	227	**(8)**	227
Equity accounted fair value movements in cash flow hedges	**(442)**	(181)	**(442)**	(181)
Deferred tax asset recognised directly in equity	**1,710**	–	**–**	–
Closing balance	**1,260**	–	**(450)**	–

(a) Business combination reserve

This reserve relates to the reverse acquisition at the initial public offering (IPO) in 2005. This is the amount that relates to the investment in CHH that is not eliminated by paid in capital. No goodwill is recognised as this transaction is the result of a reverse acquisition.

(b) Security based benefits reserve

The security based benefits reserve is used to recognise the fair value of rights and options issued under the PROP.

For personal use only

For personal use only

(c) Other reserves

Exchange differences arising on translation of foreign controlled entities and the Charter Hall Group's and Charter Hall Property Trust Group's share of foreign exchange differences arising from the equity accounted investments are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Equity accounted fair value movements in cash flow hedges is the equity accounted portion of the gains or losses on hedging instruments in cash flow hedges that are determined to be an effective hedge relationship.

Deferred tax credits recognised directly in equity relate to the excess of the expected future tax deduction on performance and service rights on issue over the cumulative fair value expensed to date.

21 Accumulated losses

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	Restated 2016 $'000	**2017 $'000**	Restated 2016 $'000
Opening balance	**(100,778)**	(205,470)	**(6,259)**	(92,980)
Profit for the year	**257,561**	215,240	**217,951**	197,269
Distributions	**(132,092)**	(110,548)	**(132,092)**	(110,548)
Transfer unvested securities to accumulated losses	**1,193**	–	**–**	–
Deferred tax asset recognised directly to equity	**(358)**	–	**–**	–
Closing balance	**25,526**	(100,778)	**79,600**	(6,259)
Charter Hall Limited	**(54,074)**	(94,519)	**–**	–
Charter Hall Property Trust	**79,600**	(6,259)	**79,600**	(6,259)
Closing balance	**25,526**	(100,778)	**79,600**	(6,259)

22 Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditors of the Charter Hall Group and Charter Hall Property Trust Group, their related practices and non related audit firms:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $	2016 $	**2017 $**	2016 $
(a) Audit services				
PricewaterhouseCoopers – Australian Firm				
Audit and review of financial reports	**304,750**	312,000	**7,000**	7,000
Other assurance services	**18,000**	–	**–**	–
Total remuneration for audit services	**322,750**	312,000	**7,000**	7,000
(b) Taxation services				
PricewaterhouseCoopers – Australian Firm				
Taxation services	**135,781**	228,744	**–**	–
Total remuneration for taxation services	**135,781**	–	**–**	–

23 Reconciliation of profit after tax to net cash inflow from operating activities

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Profit after tax for the year	**257,561**	215,240	**217,951**	197,269
Non-cash items:				
Amortisation and impairment of intangibles	**4,343**	8,517	**–**	–
Impairment of joint ventures	**10,494**	–	**–**	–
Depreciation and amortisation	**3,617**	3,019	**141**	416
Non-cash security-based benefits expense	**1,413**	2,081	**–**	–
Net loss/(gain) on sale of investments, property and derivatives	**(3,244)**	(5,976)	**(3,720)**	(978)
Fair value adjustments	**729**	(4,016)	**729**	(4,016)
Foreign exchange movements	**–**	(29)	**–**	–
Change in assets and liabilities, net of effects from purchase of controlled entity:				
(Increase)/decrease in trade debtors and other receivables	**(11,420)**	999	**(9,393)**	(15,216)
Increase/(decrease) in trade creditors and accruals	**20,053**	10,048	**57**	69
Share of profit from investment in associates and joint venture entities	**(129,935)**	(101,344)	**(125,866)**	(98,618)
(Increase)/decrease for net deferred income tax	**2,703**	1,787	**–**	–
Net cash inflow from operating activities	**156,314**	130,326	**79,899**	78,926

Distribution and interest income received on investments has been classified as cash flow from operating activities.

24 Capital and financial risk management

(a) Capital risk management

The key capital risk management objective of the Charter Hall Group and Charter Hall Property Trust Group is to optimise returns through the mix of available capital sources whilst complying with statutory and constitutional capital requirements, and complying with the covenant requirements of the finance facility. The capital management approach is regularly reviewed by management and the Board as part of the overall strategy. The capital mix can be altered by issuing new units, electing to have the DRP underwritten, adjusting the amount of distributions paid, activating a unit buyback program or selling assets.

(b) Financial risk management

Both the Charter Hall Group and Charter Hall Property Trust Group activities expose it to a variety of financial risks: market risk (price risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management framework focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. From time to time, the Group uses derivative financial instruments such as interest rate swaps and option contracts to hedge certain risk exposures.

Risk management is carried out by the Group Treasurer, the Chief Financial Officer and the Managing Director and Group CEO in consultation with senior management, the Audit, Risk and Compliance Committee and the Board of Directors. The Group Treasurer identifies, evaluates and hedges financial risks in close cooperation with the Chief Financial Officer. The Board provides guidance for overall risk management, as well as covering specific areas, such as mitigating price, interest rate and credit risks, the use of derivative financial instruments and investing excess liquidity.

For personal use only

For personal use only

(i) Market risk

Unlisted unit price risk

The Group is exposed to unlisted unit price risk. This arises from investments in unlisted property funds managed by the Group. These funds invest in direct property. Charter Hall manages all the funds that the Group invests in and its executives have a sound understanding of the underlying property values and trends that give rise to price risk. The carrying value of investments in associates at fair value through profit or loss is measured with reference to the funds' unit prices which are determined in accordance with the funds' respective constitutions. The key determinant of the unit price is the underlying property values which are approved by the respective fund board or investment committee and the Executive Property Valuation Committee.

The following table illustrates the potential impact a change in unlisted unit prices by +/-10% would have on the Charter Hall Group and Charter Hall Property Trust Group's profit and equity. The movement in the price variable has been determined based on management's best estimate, having regard to a number of factors, including historical levels of price movement, historical correlation of the Group's investments with the relevant benchmark and market volatility. However, actual movements in the price may be greater or less than anticipated due to a number of factors. As a result, historic price variations are not a definitive indicator of future price variations.

		-10%		+10%	
	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Charter Hall Group					
2017					
Assets – Charter Hall Group					
Investments in associates at fair value through profit or loss	**29,690**	**(2,969)**	**(2,969)**	**2,969**	**2,969**
2016					
Assets – Charter Hall Group					
Investments in associates at fair value through profit or loss	208	(21)	(21)	21	21
Charter Hall Property Trust Group					
2017					
Assets – Charter Hall Property Trust Group					
Investments in associates at fair value through profit or loss	**29,690**	**(2,969)**	**(2,969)**	**2,969**	**2,969**
2016					
Assets – Charter Hall Property Trust Group					
Investments in associates at fair value through profit or loss	208	(21)	(21)	21	21

Cash flow and fair value interest rate risk

The Charter Hall Group has no long-term interest bearing assets.

Charter Hall Property Trust has a loan receivable from Charter Hall Limited which is an unsecured stapled loan maturing on 30 June 2021 with interest charged on an arm's length basis. Refer to note 26(e) for further details.

The Charter Hall Group's and Charter Hall Property Trust Group's external interest rate risk arises from the $125 million loan facility. At 30 June 2017 no borrowings were drawn on this facility (2016: $nil). Borrowings drawn at variable rates expose both Groups to cash flow interest rate risk. Borrowings drawn at fixed rates expose both Groups to fair value interest rate risk. The Charter Hall Group and Charter Hall Property Trust Group's policy is to fix rates between 50–100% of core borrowings for the anticipated debt term. Core borrowings are defined as being the level of borrowings that are expected to be held for a period of more than two years. The Group did not hold any derivatives as at 30 June 2017.

24 Capital and financial risk management continued

(b) Financial risk management continued

(ii) Interest rate risk exposure

As the Group has no drawn debt, interest rate risk exposure is minimal.

The Charter Hall Property Trust's exposure arises predominantly from an unsecured stapled loan maturing on 30 June 2021 receivable from Charter Hall Limited bearing variable interest rates.

Interest rate sensitivity analysis

The following tables illustrate the potential impact a change in interest rates of +/-1% would have on the Charter Hall Group and Charter Hall Property Trust Group's profit and equity.

				-1%		+1%	
	Effective interest rate	Fair value $'000	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Charter Hall Group							
2017							
Financial assets							
Cash and cash equivalents	**2.5%**	**174,418**	**174,418**	**(1,744)**	**(1,744)**	**1,744**	**1,744**
2016							
Financial assets							
Cash and cash equivalents	2.0%	145,358	145,358	(1,454)	(1,454)	1,454	1,454
Charter Hall Property Trust Group							
2017							
Financial assets							
Cash and cash equivalents	**2.5%**	**53,377**	**53,377**	**(534)**	**(534)**	**534**	**534**
Loan receivable from Charter Hall Ltd	**9.3%**	**73,175**	**73,175**	**(732)**	**(732)**	**732**	**732**
Total increase/(decrease)				**(1,266)**	**(1,266)**	**1,266**	**1,266**
2016							
Financial assets							
Cash and cash equivalents	2.0%	43,321	43,321	(433)	(433)	433	433
Loan receivable from Charter Hall Ltd	9.7%	139,860	139,860	(1,399)	(1,399)	1,399	1,399
Total increase/(decrease)				(1,832)	(1,832)	1,832	1,832

The fair value of interest-bearing liabilities is inclusive of costs which would be incurred on settlement of a liability, and is based upon market prices, where a market exists, or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

(iii) Foreign exchange risk

The Charter Hall Group's principal exposure to foreign exchange risk arises from its investments in foreign subsidiaries. The major asset held by foreign subsidiaries is cash in foreign denominated bank accounts. The Charter Hall Property Trust Group does not have any exposure of this type.

For personal use only

For personal use only

(c) Credit risk

The Charter Hall Group and Charter Hall Property Trust Group have policies in place to ensure that sales of services are made to customers with appropriate credit histories.

50% of the Charter Hall Group's income is derived from management fees, transaction and other fees from related parties. 49% of the Charter Hall Group's income is derived from equity accounted investments in property funds and distributions from investments in property funds held at fair value through the profit and loss. The balance relates to interest income, gross rental income and gains on sales of investments and inventory.

89% of the Charter Hall Property Trust Group's income is derived from equity accounted investments in property funds and distributions from investments in property funds held at fair value through profit and loss.

All tenants in the underlying property funds for Charter Hall Group and the Charter Hall Property Trust Group are assessed for creditworthiness, taking into account their financial position, past experience and other factors. Refer to Note 10(c) for more information on credit risk.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Charter Hall Group and Charter Hall Property Trust Group have policies that limit the amount of credit exposure to any one financial institution.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Charter Hall Group and Charter Hall Property Trust Group aim at maintaining flexibility in funding by keeping committed credit lines available.

Maturities of financial liabilities

The following table provides the contractual maturity of Charter Hall Group's and Charter Hall Property Trust Group's financial liabilities. The amounts presented represent the future contractual undiscounted principal and interest cash flows and therefore do not equate to the value shown in the balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Carrying amount $'000	Less than 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total cash flows $'000
Charter Hall Group					
2017					
Trade and other payables	**133,894**	**127,415**	**1,146**	**5,333**	**133,894**
2016					
Trade and other payables	92,087	86,894	790	4,403	92,087
Charter Hall Property Trust Group					
2017					
Trade and other payables	**76,786**	**76,786**	**–**	**–**	**76,786**
2016					
Trade and other payables	56,488	56,488	–	–	56,488

25 Fair value measurement

(a) Recognised fair value measurement

The Charter Hall Group and the Charter Hall Property Trust Group measure and recognise the following assets and liabilities at fair value on a recurring basis:

- Investments in associates at fair value through profit and loss (refer to Note 28).
- Investment properties.

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

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

The following table presents the Charter Hall Group and Charter Hall Property Trust Group's assets and liabilities measured and recognised at fair value:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Charter Hall Group				
30 June 2017				
Investments in associates at fair value through profit and loss	**–**	**–**	**29,690**	**29,690**
Investment properties	**–**	**–**	**40,350**	**40,350**
Total assets	**–**	**–**	**70,040**	**70,040**
30 June 2016				
Investments in associates at fair value through profit and loss	–	–	208	208
Total assets	–	–	208	208
Charter Hall Property Trust Group				
30 June 2017				
Investments in associates at fair value through profit and loss	**–**	**–**	**29,690**	**29,690**
Investment properties	**–**	**–**	**40,350**	**40,350**
Total assets	**–**	**–**	**70,040**	**70,040**
30 June 2016				
Investments in associates at fair value through profit and loss	–	–	208	208
Total assets	–	–	208	208

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

(b) Disclosed fair values

The carrying amounts of current trade receivables and payables approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Charter Hall Group and Charter Hall Property Trust Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

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

Investments in associates

The fair value of investments in associates held at fair value through profit and loss, which are investments in unlisted securities, are determined giving consideration to the unit prices and net assets of the underlying funds. The unit prices and net asset values are largely driven by the fair values of investment properties and derivatives held by the funds. Recent arm's length transactions, if any, are also taken into consideration.

The fair value of investments in associates at fair value through profit or loss is impacted by the price per security of the investment. An increase to the price per security results in an increase to the fair value of the investment.

For personal use only

For personal use only

Investment property

The fair value measurement of investment property takes into account the Group's ability to generate economic benefits by using the asset in its highest and best use.

The use of independent external valuers is on a rotational basis at least once every 12 months, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property.

Where an independent valuation is not obtained, the fair value is determined using Discounted Cash Flow and income capitalisation methods. The table below identifies the inputs, which are not based on observable market data, used to measure the fair value (Level 3) of the investment properties:

	Fair value $'000	Adopted capitalisation rate (% p.a.)	Adopted terminal yield (% p.a.)	Adopted discount rate (% p.a.)
2017	**40,350**	**6.8–8.5**	**7.0–9.0**	**7.5–9.3**

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 major tenant on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Capitalisation rate	The return represented by the income produced by an investment, expressed as a percentage.
Terminal yield	A percentage return applied to the expected net income following a hypothetical sale at the end of the cash flow period.
Discount rate	A rate of return used to convert a future monetary sum or cash flow into present value.

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.

26 Related parties

(a) Parent entity

The parent entity of the Charter Hall Group is Charter Hall Limited. The parent entity of the Charter Hall Property Trust Group is the Charter Hall Property Trust.

(b) Controlled entities

Interests in controlled entities are set out in Note 27.

(c) Key management personnel

The following persons were considered key management personnel (excluding Non-Executive Directors) during the year:

Executive director

D Harrison

Other key management personnel

G Chubb

P Ford

S McMahon[1]

A Taylor

Former key management personnel

P Altschwager[2]

1 Commenced being key management personnel on 18 August 2016.

2 Ceased being key management personnel on 7 December 2016.

26 Related parties continued

(c) Key management personnel continued

Former key management personnel continued

Below are the aggregate amounts paid or payable to key management personnel (including Non-Executive Directors):

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $	2016 $	**2017 $**	2016 $
Salary and fees	**3,988,438**	6,561,264	**–**	–
Non-Executive Director remuneration	**948,741**	993,900	**–**	–
Short-term incentives	**3,975,652**	5,070,682	**–**	–
Superannuation	**107,887**	165,906	**–**	–
Value of securities vested	**931,165**	1,972,796	**–**	–
Non-monetary benefits	**23,955**	47,635	**–**	–
Termination benefits	**893,344**	1,112,400	**–**	–
	10,869,182	15,924,583	**–**	–

(d) Transactions with related parties

The following income was earned from related parties during the year:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $	2016 $	**2017 $**	2016 $
Associates				
Accounting cost recoveries	**7,320,825**	7,000,934	**–**	–
Marketing cost recoveries	**2,342,380**	1,806,214	**–**	–
Transaction and performance fees	**44,596,526**	8,573,615	**–**	–
Management and development fees	**63,449,515**	53,178,149	**–**	–
Property management fees and cost recoveries	**48,557,784**	39,816,970	**–**	–
Joint ventures				
Accounting cost recoveries	**658,290**	427,524	**–**	–
Marketing cost recoveries	**204,765**	303,796	**–**	–
Transaction and performance fees	**3,901,109**	5,399,262	**–**	–
Management and development fees	**11,004,826**	5,332,194	**–**	–
Property management fees and cost recoveries	**4,216,980**	4,411,135	**–**	–
Other				
Accounting cost recoveries	**1,603,926**	1,485,338	**–**	–
Marketing cost recoveries	**50,430**	45,290	**–**	–
Transaction and performance fees	**8,079,222**	4,997,852	**–**	–
Management and development fees	**10,619,575**	7,853,635	**–**	–
Property management fees and cost recoveries	**1,976,327**	1,817,967	**–**	–
Investment-related revenue	**–**	–	**10,300,164**	20,310,647

Financial statements

The following balances arising through the normal course of business were due from related parties at balance date:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $	2016 $	**2017 $**	2016 $
Associates				
Management fee receivables	**8,368,874**	6,017,451	**–**	–
Other receivables	**13,518,435**	4,831,481	**–**	–
Joint ventures				
Management fee receivables	**2,282,187**	860,520	**–**	–
Other receivables	**1,180,909**	423,351	**–**	–
Other				
Management fee receivables	**682,148**	677,194	**–**	–
Other receivables	**1,412,695**	1,132,936	**–**	–

(e) Loans to/(from) related parties

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $	2016 $	**2017 $**	2016 $
Loans to joint ventures				
Opening balances	**6,500,000**	6,500,000	**–**	–
Loans advanced	**2,000,000**	9,144,662	**–**	9,144,662
Loan repayments received	**–**	(9,144,662)	**–**	(9,144,662)
Closing balance	**8,500,000**	6,500,000	**–**	–
Loans to other related parties				
Opening balances	**2,585,658**	–	**2,585,658**	–
Loans advanced	**19,398,622**	2,585,658	**19,398,622**	2,585,658
Loan repayments received	**(21,234,280)**	–	**(21,234,280)**	–
Closing balance	**750,000**	2,585,658	**750,000**	2,585,658
Loans to Charter Hall Limited				
Opening balance	**–**	–	**139,860,499**	198,426,764
Loans advanced	**–**	–	**397,896,815**	203,960,533
Loan repayments received	**–**	–	**(473,320,830)**	(275,450,051)
Interest charged	**–**	–	**8,738,212**	12,923,253
Closing balance	**–**	–	**73,174,696**	139,860,499

No provisions for doubtful debts have been raised in relation to any outstanding balances.

The loan to CHL comprises an unsecured stapled loan maturing on 30 June 2021. Interest is charged on an arm's length basis which, at 30 June 2017, amounted to a weighted average rate of 9.30% (June 2016: 9.97%).

(f) Fees paid to the Responsible Entity or its associates

Fees paid to the Responsible Entity of the Charter Hall Property Trust, and its associates, by the Charter Hall Property Trust Group amounted to $1,382,000 (2016: $1,193,000). At 30 June 2017, related fees payable amounted to $414,000 (2016: $311,000).

27 Controlled entities

The consolidated financial statements of the Charter Hall Group incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 1(b):

For personal use only

27 Controlled entities continued

(a) Details of controlled entities of the Charter Hall Group

Name of entity	Country of incorporation	Principal activity	Class of securities	2017 %	2016 %
Controlled entities of Charter Hall Limited					
Charter Hall Holdings Pty Limited	Australia	Property management	Ordinary	**100**	100
CH La Trobe Trust	Australia	Property investment	Ordinary	**100**	100
Controlled entities of Charter Hall Holdings Pty Ltd					
Bieson Pty Limited	Australia	Trustee company	Ordinary	**100**	100
Charter Hall Nominees Pty Limited	Australia	Trustee company	Ordinary	**100**	100
Charter Hall Asset Services Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Development Services Pty Ltd	Australia	Property management	Ordinary	**100**	100
Charter Hall Direct Property Management Limited	Australia	Responsible entity	Ordinary	**100**	100
Charter Hall Escrow Agent Pty Limited	Australia	Holding company	Ordinary	**100**	100
Charter Hall Funds Management Limited	Australia	Responsible entity	Ordinary	**100**	100
Charter Hall Holdings Investment Trust	Australia	Holding company	Ordinary	**100**	100
Charter Hall Holdings Real Estate Pty Limited	Australia	Holding company	Ordinary	**100**	100
Charter Hall International Office Pty Limited	Australia	Holding company	Ordinary	**100**	100
Charter Hall Investment Management Limited	Australia	Responsible entity	Ordinary	**100**	100
Charter Hall (NZ) Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Office Collins Street Pty Limited	Australia	Holding company	Ordinary	**100**	100
Charter Hall Office Investments Pty Limited	Australia	Holding company	Ordinary	**100**	100
Charter Hall Opportunity Fund No.5	Australia	Property development	Ordinary	**100**	–
Charter Hall Opportunity Fund No.5 Bringelly Trust	Australia	Property development	Ordinary	**100**	–
Charter Hall Wholesale Management Limited	Australia	Responsible entity	Ordinary	**100**	100
Charter Hall Real Estate Inc	USA	Property management	Ordinary	**100**	100
CHREI US Office LLC	USA	Property management	Ordinary	**100**	100
CHREI US Retail LLC	USA	Property management	Ordinary	**100**	100
Charter Hall Real Estate Europe Limited	UK	Property management	Ordinary	**100**	100
Charter Hall Real Estate Management Services (ACT) Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Real Estate Management Services (NSW) Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Real Estate Management Services (QLD and NT) Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Real Estate Management Services (SA) Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Real Estate Management Services (TAS) Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Real Estate Management Services (VIC) Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Real Estate Management Services (WA) Pty Limited	Australia	Property management	Ordinary	**100**	100
Charter Hall Retail Management Limited	Australia	Responsible entity	Ordinary	**100**	100
Visokoi Pty Limited	Australia	Trustee company	Ordinary	**100**	100
Votraint No.1622 Pty Limited	Australia	Trustee company	Ordinary	**100**	100
Charter Hall WALE Limited	Australia	Responsible entity	Ordinary	**100**	100
Controlled entities of Charter Hall Property Trust					
Charter Hall Co-Investment Trust[1]	Australia	Property investment	Ordinary	**100**	100
CHC CDC Holding Trust	Australia	Property investment	Ordinary	**100**	100
CHPT RP2 Trust	Australia	Property investment	Ordinary	**100**	100
CHPT Dandenong Trust	Australia	Property investment	Ordinary	**–**	100
Charter Hall Direct Consumer Staples Fund	Australia	Property investment	Ordinary	**100**	–
DCSF NZ Trust	New Zealand	Property investment	Ordinary	**100**	–

1 Charter Hall Co-Investment Trust is an entity which was set up by Charter Hall Property Trust to hold its investments in Charter Hall Retail REIT (CQR), Charter Hall Office Trust (CHOT), BP Fund 1 (BP1), BP Fund 2 (BP2), Core Logistics Partnership (CLP), TTP Wholesale Fund (TTP), Retail Partnership No.6 Trust (RP6), Charter Hall Prime Retail Fund (CPRF), Brisbane Square Wholesale Fund (BSWF) and Charter Hall Long WALE REIT (CLW).

For personal use only

For personal use only

(b) Details of controlled entities of the Charter Hall Property Trust Group

Name of entity	Country of incorporation	Principal activity	Class of securities	2017 %	2016 %
Controlled entities of Charter Hall Property Trust					
Charter Hall Co-Investment Trust[1]	Australia	Property investment	Ordinary	**100**	100
CHC CDC Holding Trust	Australia	Property investment	Ordinary	**100**	100
CHPT RP2 Trust	Australia	Property investment	Ordinary	**100**	100
CHPT Dandenong Trust	Australia	Property investment	Ordinary	**–**	100
Charter Hall Direct Consumer Staples Fund	Australia	Property investment	Ordinary	**100**	–
DCSF NZ Trust	New Zealand	Property investment	Ordinary	**100**	–

1 Charter Hall Co-Investment Trust is an entity which was set up by Charter Hall Property Trust to hold its investments in Charter Hall Retail REIT (CQR), Charter Hall Office Trust (CHOT), BP Fund 1 (BP1), BP Fund 2 (BP2), Core Logistics Partnership (CLP), TTP Wholesale Fund (TTP), Retail Partnership No.6 Trust (RP6), Charter Hall Prime Retail Fund (CPRF), Brisbane Square Wholesale Fund (BSWF) and Charter Hall Long WALE REIT (CLW).

28 Investments in associates

(a) Carrying amounts

Information relating to associates is set out below. All associates are incorporated and operate in Australia.

Unless otherwise noted all associates have a 30 June year end.

Charter Hall Group		Ownership Interest		Carrying amount	
Name of entity	Principal activity	2017 %	2016 %	2017 $'000	2016 $'000
Accounted for at fair value through profit or loss:[1]					
Unlisted					
Charter Hall Direct Industrial Fund No.4[2]	Property investment	**21.2**	–	**29,472**	–
Charter Hall Direct PFA Fund	Property investment	**0.1**	0.1	**218**	208
				29,690	208
Equity accounted					
Unlisted					
Charter Hall Prime Office Fund	Property investment	**10.5**	10.7	**236,426**	183,301
Charter Hall Office Trust[3]	Property investment	**14.3**	14.3	**212,859**	164,107
Core Logistics Partnership	Property investment	**13.8**	16.1	**139,154**	170,040
Charter Hall Prime Industrial Fund	Property investment	**6.0**	6.8	**117,128**	94,801
Long WALE Investment Partnership[4]	Property investment	**5.0**	–	**19,011**	–
Retail Partnership No.2 Trust	Property investment	**5.0**	5.0	**6,440**	6,051
Charter Hall Opportunity Fund No.5[5]	Property development	**100.0**	16.7	**–**	6,337
Charter Hall Opportunity Fund No.4	Property development	**–**	3.0	**–**	18
Listed					
Charter Hall Retail REIT[6]	Property investment	**18.6**	14.3	**321,171**	226,716
Charter Hall Long WALE REIT[7]	Property investment	**20.0**	–	**165,971**	–
				1,218,160	851,371
Total investments in associates				**1,247,850**	851,579

1 These investments comprise units in certain unlisted Charter Hall managed funds which have been designated at fair value through profit or loss. Changes in fair values of investments in associates at fair value through profit or loss are recorded in fair value adjustments in the consolidated statement of comprehensive income. Information about the Charter Hall Group and Charter Hall Property Trust Group's material exposure to share and unit price risk is provided in Note 24.

2 Initial acquisition of DIF4 units in December 2016 was settled in a single transaction involving the simultaneous sale of CLP units to DIF4 for $20.0 million offset by advancing a loan to DIF4 of $9.7 million and acquisition of units for $6.4 million with the balance settled in cash. The loan was repaid progressively in December 2016 and January 2017 and the units redeemed in February 2017. CHC's current holding of DIF4 units was acquired progressively in April and May 2017.

3 The entity has a 31 December balance date.

4 Reclassified from joint venture to associate on reduction of ownership to 14.8% and a change in voting arrangements. The reduction in ownership was settled by the sale of LWIP units to Charter Hall Long Wale REIT (CLW) for $152.2 million offset by acquisition of CLW units for $134.2 million with the balance settled in cash.

5 On 25 January 2017, CHL acquired 500 units of CHOF5 to increase the Group's ownership to 100%. This investment has been consolidated since this date.

6 Fair value at the ASX closing price as at 30 June 2017 was $306.6 million (30 June 2016: $274.5 million).

7 Fair value at the ASX closing price as at 30 June 2017 was $171.2 (30 June 2016: n/a).

28 Investments in associates continued

(a) Carrying amounts continued

Charter Hall Property Trust Group		Ownership Interest		Carrying amount	
Name of entity	Principal activity	**2017 %**	2016 %	**2017 $'000**	2016 $'000
Accounted for at fair value through profit or loss:					
Unlisted					
Charter Hall Direct Industrial Fund No.4[1]	Property investment	**21.2**	–	**29,472**	–
Charter Hall Direct PFA Fund	Property investment	**0.1**	0.1	**218**	208
				29,690	208
Equity accounted					
Unlisted					
Charter Hall Prime Office Fund	Property investment	**10.0**	10.0	**223,028**	171,359
Charter Hall Office Trust[2]	Property investment	**14.3**	14.3	**212,859**	164,107
Core Logistics Partnership	Property investment	**13.8**	16.1	**139,154**	170,040
Charter Hall Prime Industrial Fund	Property investment	**2.9**	3.3	**56,436**	46,336
Long WALE Investment Partnership[3]	Property investment	**5.0**	–	**19,011**	–
Retail Partnership No.2 Trust	Property investment	**5.0**	5.0	**6,440**	6,051
Charter Hall Opportunity Fund No.5	Property development	**7.5**	–	**3,171**	–
Listed					
Charter Hall Retail REIT[4]	Property investment	**18.6**	14.3	**321,171**	226,716
Charter Hall Long WALE REIT[5]	Property investment	**20.0**	–	**165,971**	–
				1,147,241	784,609
Total investments in associates				**1,176,931**	784,817

1 Initial acquisition of DIF4 units in December 2016 was settled in a single transaction involving the simultaneous sale of CLP units to DIF4 for $20.0 million offset by advancing a loan to DIF4 of $9.7 million and acquisition of units for $6.4 million with the balance settled in cash. The loan was repaid progressively in December 2016 and January 2017 and the units redeemed in February 2017. CHC's current holding of DIF4 units was acquired progressively in April and May 2017.

2 The entity has a 31 December balance date.

3 Reclassified from joint venture to associate on reduction of ownership to 14.8% and a change in voting arrangements. The reduction in ownership was settled by the sale of LWIP units to Charter Hall Long Wale REIT (CLW) for $152.2 million offset by acquisition of CLW units for $134.2 million with the balance settled in cash.

4 Fair value at the ASX closing price as at 30 June 2017 was $306.6 million (30 June 2016: $274.5 million).

5 Fair value at the ASX closing price as at 30 June 2017 was $171.2 (30 June 2016: n/a).

(b) Summarised movements in carrying amounts of associates accounted for at fair value through profit or loss

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Opening balance	**208**	65,535	**208**	65,535
Investment	**35,900**	–	**35,900**	–
Net (loss)/gain on investment in associates at fair value	**(17)**	4,016	**(17)**	4,016
Disposal of units	**(6,441)**	(70,321)	**(6,441)**	(70,321)
Gain on disposal	**40**	978	**40**	978
Closing balance	**29,690**	208	**29,690**	208

Financial statements

For personal use only

(c) Summarised movements in carrying amounts of equity accounted associates

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Opening balance	**851,371**	655,980	**784,609**	592,722
Investment	**288,726**	153,530	**280,899**	152,890
Share of profit after income tax	**192,814**	123,029	**185,151**	115,799
Distributions received/receivable	**(72,152)**	(53,163)	**(68,173)**	(48,797)
Share of movement in reserves	**(450)**	47	**(450)**	47
Return of capital	**(32,797)**	(32,176)	**(32,773)**	(32,176)
Disposal of units	**(19,241)**	–	**(19,241)**	–
Transfer of associate acquired as subsidiary[1]	**(7,330)**	–	**–**	–
Transfer from investment in joint ventures[2]	**17,219**	4,124	**17,219**	4,124
Closing balance	**1,218,160**	851,371	**1,147,241**	784,609

1 CHOF5 was reclassified in 2017 from associate to controlled entity on increase of ownership to 100%.

2 LWIP was reclassified in 2017 from joint venture to associate on reduction of ownership to 5% and a change in voting arrangements. Retail Partnership No.2 Trust was reclassified in 2016 from joint venture to associate on reduction of ownership to 5% and a change in voting arrangements.

(d) Summarised financial information for material associates

The tables below provide summarised financial information for the associates that are material to CHC and CHPT. Materiality is assessed on the investments' contribution to Group income and net assets. The information presented reflects the amounts in the financial statements of the associates, not the Group's proportionate share.

	Charter Hall Office Trust $'000	Charter Hall Retail REIT $'000	Charter Hall Prime Office Fund $'000	Core Logistics Partnership $'000	Charter Hall Long WALE REIT $'000
2017					
Summarised balance sheet:					
Current assets	**53,755**	**245,048**	**128,299**	**33,450**	**12,157**
Non-current assets	**2,589,298**	**2,462,227**	**2,986,262**	**1,318,442**	**1,180,468**
Current liabilities	**57,029**	**96,281**	**105,771**	**28,431**	**17,686**
Non-current liabilities	**1,098,983**	**936,450**	**742,761**	**321,572**	**357,553**
Net assets	**1,487,041**	**1,674,544**	**2,266,029**	**1,001,889**	**817,386**
Summarised statement of comprehensive income:					
Revenue	**146,941**	**215,462**	**202,155**	**97,819**	**45,550**
Profit for the year from continuing operations	**523,068**	**251,271**	**333,745**	**101,681**	**34,583**
Other comprehensive loss	**(1)**	**(2,159)**	**–**	**–**	**–**
Total comprehensive income	**523,067**	**247,858**	**333,745**	**101,681**	**34,583**
2016					
Summarised balance sheet:					
Current assets	235,495	54,689	43,384	58,678	–
Non-current assets	2,120,610	2,394,257	2,388,833	1,463,573	–
Current liabilities	53,726	92,594	66,926	39,100	–
Non-current liabilities	1,156,704	824,074	626,083	430,200	–
Net assets	1,145,675	1,532,278	1,739,208	1,052,951	–
Summarised statement of comprehensive income:					
Revenue	213,540	211,855	159,920	93,206	–
Profit for the year from continuing operations	288,375	180,628	219,488	112,874	–
Loss from discontinued operations	–	–	–	–	–
Other comprehensive income	1,593	–	–	–	–
Total comprehensive income	289,968	180,628	219,488	112,874	–

28 Investments in associates continued

(e) Reconciliation of net assets of associates to carrying amounts of equity accounted investments

Charter Hall Group	Charter Hall Office Trust $'000	Charter Hall Retail REIT $'000	Charter Hall Prime Office Fund $'000	Core Logistics Partnership $'000	Charter Hall Long WALE REIT $'000
2017					
Net assets of associate	**1,487,041**	**1,674,544**	**2,266,029**	**1,001,889**	**817,386**
Group's share in %	**14.3**	**18.6**	**10.5**	**13.8**	**20.0**
Group's share in $	**212,647**	**311,465**	**237,933**	**138,261**	**163,477**
Other movements not accounted for under the equity method[1]	**212**	**9,706**	**(1,507)**	**893**	**2,494**
Carrying amount	**212,859**	**321,171**	**236,426**	**139,154**	**165,971**
Movements in carrying amounts:					
Opening balance	**164,107**	**226,716**	**183,301**	**170,040**	**–**
Investment	**–**	**73,306**	**30,000**	**–**	**165,428**
Disposal	**–**	**–**	**–**	**(19,241)**	**–**
Share of profit after income tax	**74,799**	**42,637**	**34,812**	**15,231**	**7,192**
Other comprehensive loss	**(8)**	**(442)**	**–**	**–**	**–**
Distributions received/receivable	**(10,309)**	**(21,046)**	**(11,687)**	**(9,833)**	**(6,649)**
Return of capital	**(15,730)**	**–**	**–**	**(17,043)**	**–**
Closing balance	**212,859**	**321,171**	**236,426**	**139,154**	**165,971**
2016					
Net assets of associate	1,145,675	1,532,278	1,739,208	1,052,951	–
Group's share in %	14.3	14.3	10.7	16.1	–
Group's share in $	163,832	219,116	186,095	169,525	–
Other movements not accounted for under the equity method[1]	275	7,600	(2,794)	515	–
Carrying amount	164,107	226,716	183,301	170,040	–
Movements in carrying amounts:					
Opening balance	163,959	146,968	168,603	95,712	–
Investment	–	70,890	–	66,000	–
Share of profit after income tax	41,217	25,242	25,023	17,769	–
Other comprehensive income/(loss)	228	(181)	–	–	–
Distributions received/receivable	(9,121)	(16,203)	(10,325)	(9,441)	–
Return on capital	(32,176)	–	–	–	–
Closing balance	164,107	226,716	183,301	170,040	–

1 Other movements are primarily due to the funds issuing new units to external investors at a price above or below the underlying net assets of the fund or, for listed investments, where the Group has acquired units on market at a price different to the fund's NTA.

For personal use only

For personal use only

Charter Hall Property Trust	Charter Hall Office Trust $'000	Charter Hall Retail REIT $'000	Charter Hall Prime Office Fund $'000	Core Logistics Partnership $'000	Charter Hall Long WALE REIT $'000
2017					
Net assets of associate	**1,487,041**	**1,674,544**	**2,266,029**	**1,001,889**	**817,386**
Group's share in %	**14.3**	**18.6**	**9.9**	**13.8**	**20.0**
Group's share in $	**212,647**	**311,465**	**224,337**	**138,261**	**163,477**
Other movements not accounted for under the equity method[1]	**212**	**9,706**	**(1,309)**	**893**	**2,494**
Carrying amount	**212,859**	**321,171**	**223,028**	**139,154**	**165,971**
Movements in carrying amounts:					
Opening balance	**164,107**	**226,716**	**171,359**	**170,040**	**–**
Investment	**–**	**73,306**	**30,000**	**–**	**165,428**
Disposal	**–**	**–**	**–**	**(19,241)**	**–**
Share of profit after income tax	**74,799**	**42,637**	**32,606**	**15,231**	**7,192**
Other comprehensive loss	**(8)**	**(442)**	**–**	**–**	**–**
Distributions received/receivable	**(10,309)**	**(21,046)**	**(10,937)**	**(9,833)**	**(6,649)**
Return of capital	**(15,730)**	**–**	**–**	**(17,043)**	**–**
Closing balance	**212,859**	**321,171**	**223,028**	**139,154**	**165,971**
2016					
Net assets of associate	1,145,675	1,532,278	1,739,208	1,052,951	–
Group's share in %	14.3	14.3	10.0	16.1	–
Group's share in $	163,832	219,116	173,921	169,525	–
Other movements not accounted for under the equity method[1]	275	7,600	(2,562)	515	–
Carrying amount	164,107	226,716	171,359	170,040	–
Movements in carrying amounts:					
Opening balance	163,959	146,968	157,628	95,712	–
Investment	–	70,890	–	66,000	–
Share of profit after income tax	41,217	25,242	23,377	17,769	–
Other comprehensive income/(loss)	228	(181)	–	–	–
Distributions received/receivable	(9,121)	(16,203)	(9,646)	(9,441)	–
Disposal	(32,176)	–	–	–	–
Closing balance	164,107	226,716	171,359	170,040	–

1 Other movements are primarily due to the funds issuing new units to external investors at a price above or below the underlying net assets of the fund or, for listed investments, where the Group has acquired units on market at a price different to the fund's NTA.

28 Investments in associates continued

(f) Summarised financial information and movement in carrying amounts of other equity accounted associates

The following table shows the Group's share of the summarised profit and loss of equity accounted associates that are not material to the Group, and a reconciliation of the movement in the aggregated carrying amount of these investments.

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Aggregate amount of the Group's share of:				
Profit/(loss) from continuing operations	**18,138**	3,340	**12,687**	3,424
Total comprehensive income	**18,138**	3,340	**12,687**	3,424
Movements in aggregate carrying amount:				
Opening balance	**12,406**	5,799	**6,051**	–
Reclassification from material associates[1]	**94,801**	–	**46,336**	–
Investment	**19,990**	640	**12,161**	–
Share of profit after income tax	**18,138**	3,340	**12,687**	3,424
Distributions received/receivable	**(12,627)**	(1,497)	**(9,396)**	(1,497)
Return of capital	**(7,348)**	–	**–**	–
Transfer from investments in joint ventures	**17,219**	4,124	**17,219**	4,124
Closing balance	**142,579**	12,406	**85,058**	6,051

1 Charter Hall Prime Industrial Fund was reclassified from material associates during the year, as a result of the listing of the Charter Hall Long WALE REIT during the year ended 30 June 2017.

(g) Commitments and contingent liabilities of associates

Charter Hall Office Trust's (CHOT) capital expenditure contracted for at the reporting date but not recognised as liabilities was $18.1 million (2016: $16.3 million). In addition, CHOT's share of significant capital expenditure contracted for at the reporting date but not recognised as liabilities through joint venture entities was $12.1 million (2016: $21.1 million).

CHOT has a contingent liability for a performance fee payable on 30 April 2020. As at 30 June 2017 this is estimated to be $84.6 million. This amount is reflected in the 30 June 2017 CHOT unit price and reflects 30 June 2017 independent valuations. Valuation movements between 30 June 2017 and 30 April 2020 will impact the final amount payable. It is noted that the contingent liability of $84.6 million is in addition to the interim performance fee of $12.9 million paid in May 2017 on sold properties.

Charter Hall Retail REIT (CQR) has entered into contracts for the acquisition, construction and development of properties in Australia. The commitments of CQR total $203.3 million (2016: $28.0 million). These commitments have not been recognised as liabilities in the consolidated financial statements of CQR.

Charter Hall Prime Office Fund's capital expenditure contracted for at the reporting date but not recognised as liabilities was $85.2 million (2016: $83.8 million) relating to investment properties. These commitments include capital expenditure commitments of $10.6 million (2016: $25.2 million) relating to property development and $15.6 million relating to property settlements. In addition, the Fund's share of the committed expenditure through investments in financial assets at fair value is $110.0 million (2016: $360.2 million).

Core Logistics Partnership's capital expenditure contracted for at the reporting date but not recognised as liabilities was $33.1 million (2016: $92.4 million).

Charter Hall Long Wale REIT has a $49.4 million equity commitment to CH DC Fund being the balance owing on partially paid units. In addition, as at 30 June 2017, the REIT has a commitment under an unconditional agreement to acquire Bunnings, South Mackay QLD for $28.5 million.

Charter Hall Prime Industrial Fund's capital expenditure contracted for at the reporting date but not recognised as liabilities was $276.7 million (2016: $102.2 million). In addition, the Fund has a $91.2 million (2016: $96.0 million) equity commitment to CH DC Fund being the balance owing on partially paid units.

For personal use only

For personal use only

29 Investments in joint ventures

(a) Carrying amounts

Information relating to joint ventures is set out below. All joint ventures are incorporated and operate in Australia.

Unless otherwise noted all associates have a 30 June year end.

		Ownership interest		Carrying amount Charter Hall Group	
Charter Hall Group Name of entity	Principal activity	**2017 %**	2016 %	**2017 $'000**	2016 $'000
Unlisted					
Brisbane Square Wholesale Fund	Property investment	**16.8**	–	**99,594**	–
Charter Hall Prime Retail Fund	Property investment	**38.0**	–	**44,834**	–
Retail Partnership No.6 Trust	Property investment	**20.0**	20.0	**34,251**	32,249
Commercial and Industrial Property Pty Ltd	Property development	**50.0**	50.0	**19,450**	28,463
BP Fund 1[1]	Property investment	**8.4**	10.0	**28,443**	23,767
BP Fund 2[1]	Property investment	**13.2**	13.2	**13,793**	14,992
Long WALE Investment Partnership 2	Property investment	**10.0**	10.0	**10,108**	8,433
TTP Wholesale Fund (TTP)[1]	Property investment	**10.0**	10.0	**7,997**	7,603
CIP CH (Bringelly) Pty Limited	Property development	**50.0**	–	**–**	–
Long WALE Investment Partnership[2]	Property investment	**–**	50.0	**–**	165,246
CH DC Fund	Property development	**–**	26.0	**–**	4,603
				258,470	285,356

1 These funds comprise the Long WALE Hardware Partnership. During the period there was a $2.0 million capital distribution from BP Fund 2 which was settled by a simultaneous capital call in the BP Fund.

2 Reclassified from joint venture to associate on reduction of ownership to 5.0% and a change in voting arrangements. The reduction in ownership was settled by the sale of LWIP units to CLW for $152.2 million offset by acquisition of CLW units for $134.2 million with the balance settled in cash.

		Ownership interest		Carrying amount	
Charter Hall Property Trust Group Name of entity	Principal activity	**2017 %**	2016 %	**2017 $'000**	2016 $'000
Unlisted					
Brisbane Square Wholesale Fund	Property investment	**16.8**	–	**99,594**	–
Charter Hall Prime Retail Fund	Property investment	**38.0**	–	**44,834**	–
Retail Partnership No.6 Trust	Property investment	**20.0**	20.0	**34,251**	32,249
BP Fund 1[1]	Property investment	**8.4**	10.0	**28,443**	23,767
BP Fund 2[1]	Property investment	**13.2**	13.2	**13,793**	14,992
Long WALE Investment Partnership 2	Property investment	**10.0**	10.0	**10,108**	8,433
TTP Wholesale Fund (TTP)[1]	Property investment	**10.0**	10.0	**7,997**	7,603
Long WALE Investment Partnership[2]	Property investment	**–**	50.0	**–**	165,246
CH DC Fund	Property development	**–**	26.0	**–**	4,603
				239,020	256,893

1 These funds comprise the Long WALE Hardware Partnership. During the period there was a $2.0 million capital distribution from BP Fund 2 which was settled by a simultaneous capital call in the BP Fund.

2 Reclassified from joint venture to associate on reduction of ownership to 5.0% and a change in voting arrangements. The reduction in ownership was settled by the sale of LWIP units to CLW for $152.2 million offset by acquisition of CLW units for $134.2 million with the balance settled in cash.

29 Investments in joint ventures continued

(b) Summarised financial information and movements in carrying amounts

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Movements in aggregate carrying amount:				
Opening balance	**285,356**	257,885	**256,893**	227,867
Investment	**149,679**	52,334	**149,679**	22,945
Share of profit after income tax	**14,378**	45,255	**12,883**	42,106
Distributions received/receivable	**(8,500)**	(20,940)	**(8,486)**	(16,236)
Impairment of carrying amount	**(10,494)**	–	**–**	–
Return of capital	**(1,973)**	(198)	**(1,973)**	(198)
Disposal of units	**(152,757)**	(44,856)	**(152,757)**	(15,467)
Transfer to investments in associates	**(17,219)**	(4,124)	**(17,219)**	(4,124)
Closing balance	**258,470**	285,356	**239,020**	256,893

The Group's investment in Commercial and Industrial Property Pty Ltd was impaired to its recoverable amount of $19.5 million, which was determined by reference to the investment's fair value less costs of disposal. The main valuation inputs used were an EBIT of $8.9 million and earnings multiple of 8.1 times.

(c) Commitments and contingent liabilities of joint ventures

BP Fund 1's capital commitments contracted for at the reporting date but not recognised as liabilities was $178.3 million (2016: $39.6 million) estimated to settle in September 2017.

BP Fund 2's capital commitments contracted for at the reporting date but not recognised as liabilities was $70.9 million (2016: $nil) estimated to settle in September 2017.

30 Interests in unconsolidated structured entities

The Charter Hall Group considers its investments in associates and joint ventures to be unconsolidated structured entities. An unconsolidated structured entity is an entity where the Group's voting rights are not the sole factor in determining whether control over an entity exists. Where the Group determines that control over an entity does not exist, the entity is recognised as an associate or joint venture of the Group for reporting purposes.

The activity and objective of the unconsolidated structured entities of the Group include property investment for annuity income and medium to long-term capital growth and/or development profit.

For personal use only

The aggregate of all the Group's interests and maximum exposure to loss in unconsolidated structured entities, being the Group's interests in associates and joint ventures, are included in the table below:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Current assets				
Trade receivables	**1,025**	508	**–**	–
Distributions receivable	**27,432**	24,379	**26,344**	21,768
Loans to associates and joint ventures	**9,250**	6,500	**–**	–
Investments accounted for using the equity method	**144**	–	**–**	–
Total current assets	**37,851**	31,387	**26,344**	21,768
Non-current assets				
Investments in associates at fair value through profit or loss	**29,690**	208	**29,691**	208
Investments accounted for using the equity method	**1,477,295**	1,136,727	**1,376,432**	1,041,502
Total non-current assets	**1,506,985**	1,136,935	**1,406,123**	1,041,710
Total carrying amount of interests in unconsolidated structured entities	**1,544,836**	1,168,322	**1,432,467**	1,063,478
Total funds under management in unconsolidated structured entities	**18,388,650**	14,462,645	**18,375,700**	14,294,852

There are no additional arrangements that would expose the Charter Hall Group or Charter Hall Property Trust Group to losses beyond the carrying amounts.

During the year, the Charter Hall Group earned fees from structured entities in its capacity as investment manager. Refer to Note 26 for further information.

No financial support has been provided to the funds beyond the loans disclosed in the above table.

31 Commitments

(a) Lease commitments – Group as lessee

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Due within one year	**3,445**	3,943	**–**	–
Due between one and five years	**14,372**	14,186	**–**	–
Over five years	**6,411**	10,353	**–**	–
	24,228	28,482	**–**	–

Commitments are payable in relation to non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities.

For personal use only

31 Commitments continued

Capital commitments

Charter Hall Group

The Group had no contracted capital commitments as at 30 June 2017 (30 June 2016: $nil).

Charter Hall Property Trust Group

The Trust Group had no contracted capital commitments as at 30 June 2017 (30 June 2016: $nil).

32 Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2017 (30 June 2016: $nil) other than the bank guarantees of $14.3 million provided for under the bank facility (refer to Note 18(a)).

33 Security-based benefits expense

(a) Charter Hall – Performance Rights and Options Plan (PROP)

The performance rights and options are unquoted securities and conversion to stapled securities and vesting to executives are subject to service and performance conditions which are discussed in the Remuneration Report.

Charter Hall Group and Charter Hall Property Trust Group	2014 Number	2015 Number	2016 Number	**2017 Number**	**Total Number**
Performance rights					
Rights issued 22/11/13	1,422,660	–	–	**–**	**1,422,660**
Rights issued 19/12/14	–	1,051,804	–	**–**	**1,051,804**
Rights issued 30/11/15	–	–	1,085,276	**–**	**1,085,276**
Rights issued 25/11/16	–	–	–	**998,453**	**998,453**
Performance rights issued	1,422,660	1,051,804	1,085,276	**998,453**	**4,558,193**
Number of rights forfeited/lapsed					
Prior years	(131,633)	(72,713)	(54,138)	**–**	**(258,484)**
Current year	(845,509)	(60,851)	(151,443)	**(121,270)**	**(1,179,073)**
Number of rights vested					
Prior years	–	–	–	**–**	**–**
Current year	(445,518)	–	–	**–**	**(445,518)**
Closing balance	–	918,240	879,695	**877,183**	**2,675,118**
Service rights					
Rights issued 22/11/13	403,582	–	–	**–**	**403,582**
Rights issued 19/12/14	–	554,401	–	**–**	**554,401**
Rights issued 30/11/15	–	–	409,195	**–**	**409,195**
Rights issued 25/11/16	–	–	–	**344,548**	**344,548**
Service rights issued	403,582	554,401	409,195	**344,548**	**1,711,726**
Number of rights forfeited/lapsed					
Prior years	(4,699)	–	–	**–**	**(4,699)**
Current year	–	–	(10,422)	**(16,616)**	**(27,038)**
Number of rights vested					
Prior years	(398,883)	(244,306)	(19,295)	**–**	**(662,484)**
Current year	–	(244,305)	(200,114)	**–**	**(444,419)**
Closing balance	–	65,790	179,364	**327,932**	**573,086**

Financial Statements

For personal use only

(b) PROP expense

Total expenses related to the PROP recognised during the year as part of employee benefit expense were as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Performance rights and option plan	**1,414**	2,081	**–**	–

All PROP expenses were recognised in operating expenses during the year (2016: $0.7 million of operating expenses and $1.4 million of non-operating expenses).

(c) Option inputs

The Black-Scholes or Monte Carlo method, as applicable, is utilised for valuation and accounting purposes. The model inputs for the PROP issued during FY 2014 through FY 2017 to assess the fair value are as follows:

Performance rights

Grant date	20/11/2013	20/11/2013	19/12/2014	30/11/2015	25/11/2016
Stapled security price at grant date	$ 3.68	$ 3.68	$ 4.68	$ 4.47	$ 4.55
Opening TSR measurement price	$ 2.34	$ 3.89	$ 4.23	$ 4.64	$ 5.11
Fair value of right	$ 1.42	$ 1.11	$ 2.09	$ 1.41	$ 1.39
Expected price volatility	30.4%	30.4%	30.4%	24.0%	21.2%
Risk-free interest rate	2.9%	3.0%	2.5%	2.1%	1.9%

Service rights

Grant date	20/11/2013	19/12/2014	19/12/2014	30/11/2015	25/11/2016
Stapled security price at grant date	$ 3.68	$ 4.68	$ 4.68	$ 4.47	$ 4.55
Fair value of right	$ 3.42	$ 4.28	$ 4.36	$ 4.37	$ 4.26
Expected price volatility	27.4%	26.5%	24.6%	25.4%	21.8%
Risk-free interest rate	2.6%	2.5%	2.5%	2.0%	1.8%

(d) Charter Hall General Employee Security Plan (GESP)

During the year, eligible employees received up to $1,000 (2016: $1,000) in stapled securities which vested immediately on issue but are held in trust until the earlier of the completion of three years' service or termination. An expense of $350,000 (2016: $325,000) was recognised in relation to this plan during the year.

34 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity of the Charter Hall Group, being Charter Hall Limited, and the Charter Hall Property Trust Group, being the Charter Hall Property Trust, show the following aggregate amounts:

	Charter Hall Group		Charter Hall Property Trust Group	
Balance sheet	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Current assets	**8,986**	8,036	**62,631**	56,276
Total assets	**177,539**	204,671	**1,300,926**	1,081,246
Current liabilities	**85,899**	116,507	**73,166**	56,557
Total liabilities	**85,899**	116,507	**73,166**	56,557
Shareholders' equity				
Issued capital	**232,123**	204,049	**1,456,853**	1,201,359
Accumulated losses	**(140,483)**	(115,884)	**(229,093)**	(176,670)
Net equity	**91,640**	88,165	**1,227,760**	1,024,689
Profit/(loss) for the year	**20,013**	(3,572)	**52,729**	58,721
Total comprehensive profit/(loss) for the year	**20,013**	(3,572)	**52,729**	58,721

34 Parent entity financial information continued

(a) Summary financial information continued

Notwithstanding the net current liability, Charter Hall Limited has been prepared on a going concern basis. Charter Hall Limited has net assets of $91.6 million and substantial cash and cash equivalents, held within Charter Hall Holdings Pty Ltd (CHH) with which Charter Hall Limited is party to a deed of cross guarantee (refer to note 35), to support liquidity.

Notwithstanding the net current liability, Charter Hall Property Trust has been prepared on a going concern basis. Charter Hall Property Trust has total net assets of $1.2 billion, and liquidity through the inter-staple loan with Charter Hall Limited.

(b) Contingent liabilities of the parent entity

Charter Hall Limited and Charter Hall Property Trust had no contingent liabilities as at 30 June 2017 (30 June 2016: $nil) other than the bank guarantees of $14.3 million provided for under the bank facility held by Charter Hall Property Trust (refer to Note 18(a)).

(c) Contractual commitments

As at 30 June 2017, Charter Hall Limited and Charter Hall Property Trust had no contractual commitments (2016: $nil).

35 Deed of cross guarantee

Charter Hall Group

Charter Hall Limited and its wholly owned subsidiary, Charter Hall Holdings Pty Ltd (CHH), are parties to a deed of cross guarantee under which each company guarantees the debts of the other. By entering into the deed, CHH has been relieved from the requirement to prepare financial statements and a directors' report under ASIC Instrument 2016/785 issued by the Australian Securities and Investments Commission.

(a) Consolidated statement of comprehensive income and summary of movements in consolidated accumulated losses

The above companies represent a 'closed group' for the purposes of the Instrument and, as there are no other parties to the deed of cross guarantee that are controlled by Charter Hall Limited, they also represent the 'extended closed group'.

Set out as follows is a consolidated statement of comprehensive income and a summary of movements in consolidated accumulated losses for the year of the closed group consisting of Charter Hall Limited and Charter Hall Holdings Pty Ltd.

	2017 $'000	Restated 2016 $'000
Statement of comprehensive income		
Revenue	**205,729**	145,055
Depreciation	**(3,475)**	(2,604)
Finance costs	**(9,947)**	(12,937)
Foreign exchange (loss)/gain	**(156)**	153
Share of net gain of associates accounted for using the equity method	**2,493**	3,066
Amortisation and impairment of intangibles	**(5,142)**	(8,517)
Other expenses	**(131,154)**	(106,217)
Profit/(loss) before income tax	**58,348**	17,999
Income tax benefit	**(23,614)**	545
Profit/(loss) for the year	**34,734**	18,544
Summary of movements in consolidated accumulated losses		
Accumulated losses at the beginning of the financial year	**(99,557)**	(118,101)
Profit for the year	**34,734**	18,544
Accumulated losses at the end of the financial year	**(64,823)**	(99,557)

Financial Report

For personal use only

(b) Balance sheet

Set out below is a consolidated balance sheet of the closed group consisting of Charter Hall Limited and Charter Hall Holdings Pty Ltd.

	2017 $'000	Restated 2016 $'000
Assets		
Current assets		
Cash and cash equivalents	**117,466**	92,912
Trade and other receivables	**44,756**	35,989
Total current assets	**162,222**	128,901
Non-current assets		
Trade and other receivables	**824**	829
Investments accounted for using the equity method	**59,078**	34,819
Investment in associates at fair value through profit or loss	**15,074**	15,074
Investments in controlled entities	**55,662**	49,662
Property, plant and equipment	**18,764**	14,855
Intangible assets	**65,400**	69,743
Total non-current assets	**214,802**	195,847
Total assets	**377,024**	324,748
Liabilities		
Current liabilities		
Trade and other payables	**46,695**	25,000
Provisions	**1,892**	1,680
Total current liabilities	**48,587**	26,680
Non-current liabilities		
Trade and other payables	**6,479**	5,193
Loans from Charter Hall Property Trust	**129,665**	158,398
Deferred tax liabilities	**7,358**	4,048
Provisions	**1,303**	1,334
Total non-current liabilities	**144,805**	179,838
Total liabilities	**193,392**	206,518
Net assets	**183,633**	118,230
Equity		
Contributed equity	**291,405**	263,320
Reserves	**(42,948)**	(45,533)
Accumulated losses	**(64,824)**	(99,557)
Total equity	**183,633**	118,230

36 Events occurring after the reporting date

The following event has occurred subsequent to 30 June 2017:

- In August 2017, the CHPT $125 million debt facility was extended by two years with the maturity date changing to August 2020.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

(a) The Group's operations in future financial years; or

(b) The results of those operations in future financial years; or

(c) The Group's state of affairs in future financial years.

DIRECTORS' DECLARATION TO SECURITYHOLDERS

FOR THE YEAR ENDED 30 JUNE 2017

In the opinion of the Directors of Charter Hall Limited (Company), and the Directors of the Responsible Entity of Charter Hall Property Trust (Trust), Charter Hall Funds Management Limited (collectively referred to as the Directors):

(a) the financial statements and notes of Charter Hall Limited and its controlled entities including Charter Hall Property Trust and its controlled entities (Charter Hall Group) and Charter Hall Property Trust and its controlled entities (Charter Hall Property Trust Group) set out on pages 53 to 103 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 Charter Hall Group's and Charter Hall Property Trust Group's financial position as at 30 June 2017 and of their performance for the year ended on that date; and

(b) there are reasonable grounds to believe that both Charter Hall Limited and the Charter Hall Property Trust will be able to pay their debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 35 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 35.

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

The Directors have been given the declarations by the Managing Director and Group CEO and Joint Acting Chief Financial Officers required by section 295A of the *Corporations Act 2001*.

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



David Clarke
Chair

Sydney
23 August 2017

For personal use only

For personal use only



Independent auditor's report

To the securityholders of Charter Hall Limited and Charter Hall Property Trust

Report on the audit of the financial reports

Our opinion

In our opinion:

The accompanying financial reports of Charter Hall Group and Charter Hall Property Trust Group are in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of Charter Hall Group's and Charter Hall Property Trust Group's financial positions as at 30 June 2017 and of their financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

We have audited the accompanying financial reports of Charter Hall Group and Charter Hall Property Trust Group which comprise:

- the consolidated balance sheets as at 30 June 2017
- the consolidated statements of comprehensive income for the year then ended
- the consolidated statement of changes in equity – Charter Hall Group for the year then ended
- the consolidated statement of changes in equity – Charter Hall Property Trust Group for the year then ended
- the consolidated cash flow statements for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration for Charter Hall Group and Charter Hall Property Trust Group.

The Charter Hall Group comprises Charter Hall Limited and the entities it controlled at year's end or from time to time during the financial year and Charter Hall Property Trust and the entities it controlled at year's end or from time to time during the financial year. The Charter Hall Property Trust Group comprises Charter Hall Property Trust and the entities it controlled at year's end or from time to time during the financial year.

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 reports* section of our report.

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

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

For personal use only

Independence

We are independent of Charter Hall Group and Charter Hall Property Trust 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* (the Code) that are relevant to our audit of the financial reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 reports as a whole, taking into account the operational and management structure of Charter Hall Group and Charter Hall Property Trust Group, their accounting processes and controls and the industry in which they operate.



Materiality

- For the purpose of our audit of Charter Hall Group we used overall materiality of $7.5 million, which represents approximately 5% of Charter Hall 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 (an adjusted profit metric) as the benchmark because, in our view, it is a generally accepted industry metric against which the performance of Charter Hall Group is regularly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit-related materiality thresholds.

Audit Scope

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The group audit team identified separate components of Charter Hall Group and Charter Hall Property Trust

For personal use only



Group representing individually financially significant equity accounted investments and instructed component audit teams to perform audit procedures on those components.

- At the group level, procedures were performed over group transactions, other financial statement line items and financial report disclosures.
- The work performed by component audit teams, together with the additional procedures performed at the group level provided us with sufficient evidence for our opinion on the financial reports as a whole.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Investments accounted for using the equity method *(Refer to note 11)* Charter Hall Group and Charter Hall Property Trust Group invest in certain underlying funds managed by the Charter Hall Group. These funds comprise listed and unlisted funds which invest in a range of office, industrial, retail and diversified property portfolios. These investments are typically classified as Associates or Joint Ventures as the investor is considered to have significant influence or joint control. Charter Hall Group also holds an equity accounted investment in an unlisted property development company, Commercial and Industrial Property Pty Limited (CIP). Investments in Associates and Joint Ventures contribute a significant proportion of total income and total assets. Given the significance of these investments to the results and balance sheets, we consider this to be a key audit matter. These investments are presented in the Consolidated Statements of Comprehensive Income and Consolidated Balance Sheets respectively as follows: • *Share of net profit of investments accounted for using the equity method* (Charter Hall Group $207 million and Charter Hall Property Trust Group $198 million) • *Investments accounted for using the equity method* (Charter Hall Group $1,477 million and Charter Hall Property Trust Group $1,386 million).	To assess the carrying amount and classification of *Investments accounted for using the equity method* our audit included the following procedures: • Updating our understanding of market conditions relating to the investments and discussing with management the particular circumstances affecting the investments • Reperforming the equity method of accounting calculations for a sample of material investments by reference to underlying investee financial information • For a sample of material acquisitions made during the year, we agreed transaction details to appropriate source documents and considered the relevant accounting classification of the investment in accordance with Australian Accounting Standards • Assessed the carrying value of a sample of equity accounted investments for impairment indicators by reference to the investor's share of the investee's net assets or market capitalisation for listed investments as appropriate. Together with PwC internal valuation experts we considered the Group's impairment assessment of its investment in CIP and assessed the key estimates and assumptions adopted by the Group in performing

For personal use only

Key audit matter	*How our audit addressed the key audit matter*
Australian Accounting Standards require that these investments are initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's total comprehensive income and distributions.	that assessment.
Revenue recognition - Charter Hall Group *(Refer to note 4)* Charter Hall Group revenue for the year ended 30 June 2017 was $213 million. This revenue is substantially derived from funds management activities and comprises recurring and non-recurring fee revenue. Recurring fee revenue includes fund management fees, property management fees and expense recoveries. Non-recurring fee revenue includes transaction and performance fees. We considered revenue recognition to be a key audit matter due to the: • increased judgement and complexity in relation to the recognition and measurement of performance fees • financial significance of revenue to the Charter Hall Group results.	Our procedures included evaluating the design and implementation of relevant controls relating to the recognition and measurement of revenue. We recalculated revenue for a sample of fees based on management agreements or trust constitutions and traced a sample of receipts to bank statements as appropriate.
Intangible assets – management rights – Charter Hall Group *(Refer to note 13)* Charter Hall Group's intangible assets comprise management rights in relation to four of the Group's managed funds. These assets had a carrying value of $65 million at 30 June 2017. Other than the Charter Hall Office Trust management rights, these management rights are considered to have indefinite useful lives and accordingly an annual impairment test is required by Australian Accounting Standards. Charter Hall Group performed an impairment test for each of the management rights assets with indefinite useful lives by calculating the value in use of each asset. These tests require judgement in relation to key assumptions which are applied to future revenue forecasts. The key assumptions used include growth rates, discount rates and terminal value multipliers. As a	For a sample of impairment tests performed by the Charter Hall Group over management rights assets with indefinite useful lives, our audit included the following procedures: • We evaluated cash flow forecasts and the process by which they were developed, including performing tests over the mathematical accuracy of the underlying calculations and comparing forecasts to approved budgets • We compared the current year (2017) results with figures included in the forecasts made in the prior period (2016) to assess the historical reliability of management's forecasting process • We obtained input from PwC valuation experts and considered the methodology applied and assessed the appropriateness of key

For personal use only

Key audit matter	How our audit addressed the key audit matter
result of the judgement required in determining key assumptions, we considered this to be a key audit matter. The impairment tests performed by Charter Hall Group at 30 June 2017 supported the carrying value of each management rights asset. The Charter Hall Group also performed an assessment of the carrying amount of the management rights in relation to Charter Hall Office Trust for impairment indicators at 30 June 2017 and determined that there were no impairment indicators.	assumptions used. We also considered whether there were any impairment indicators in relation to the Group's management rights held over the Charter Hall Office Trust by reference to the underlying performance of the Fund and related fee revenue.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect other information which will be included in the Annual Report to be made available to us after the date of this auditor's report, including the Chair's Report, MD and Group CEO's letter, Corporate Governance Statement, Securityholder Analysis and other information on the performance of the Group for the year.

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 identified above 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 as identified above, 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 reports

The directors of Charter Hall Limited and the directors of Charter Hall Funds Management Limited, the Responsible Entity of Charter Hall Property Trust (collectively referred to as "the directors") are responsible for the preparation of financial reports that give 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 financial reports that give a true and fair view and are free from material misstatement, whether due to fraud or error.

For personal use only

In preparing the financial reports, the directors are responsible for assessing the groups' ability 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 Groups or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial reports

Our objectives are to obtain reasonable assurance about whether the financial reports as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 35 to 49 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Charter Hall Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of Charter Hall Limited are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Wayne Andrews
Partner

Sydney
23 August 2017

For personal use only

A. Distribution of equity stapled securityholders as at 26 September 2017

Range	Stapled Securities held	% of issued stapled securities	No. of Holders
100,001 and Over	447,770,271	96.13	56
50,001 to 100,000	2,805,002	0.60	42
10,001 to 50,000	7,254,256	1.56	387
5,001 to 10,000	3,896,426	0.84	539
1,001 to 5,000	3,638,577	0.78	1,273
1 to 1,000	412,599	0.09	1,165
Total	**465,777,131**	**100.00**	**3,462**
Unmarketable	3,274	0.00	336

B. Top 20 registered equity securityholders as at 26 September 2017

Rank	Name	A/C designation	Stapled securities held	%IC of issued securities
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		170,332,331	36.57
2	J P MORGAN NOMINEES AUSTRALIA LIMITED		121,758,581	26.14
3	CITICORP NOMINEES PTY LIMITED		45,649,429	9.80
4	NATIONAL NOMINEES LIMITED		43,109,586	9.26
5	BNP PARIBAS NOMINEES PTY LTD	<AGENCY LENDING DRP A/C>	18,155,801	3.90
6	BNP PARIBAS NOMS PTY LTD	<DRP>	13,387,803	2.87
7	CITICORP NOMINEES PTY LIMITED	<COLONIAL FIRST STATE INV A/C>	5,140,251	1.10
8	AMP LIFE LIMITED		4,518,097	0.97
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	<NT-COMNWLTH SUPER CORP A/C>	3,859,101	0.83
10	MUTUAL TRUST PTY LTD		1,748,021	0.38
11	MILTON CORPORATION LIMITED		1,617,000	0.35
12	BNP PARIBAS NOMS (NZ) LTD	<DRP>	1,465,775	0.31
13	PORTMIST PTY LIMITED		1,441,773	0.31
14	IOOF INVESTMENT MANAGEMENT LIMITED	<IPS SUPER A/C>	1,371,554	0.29
15	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	<BKMINI A/C>	1,298,788	0.28
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA		1,198,456	0.26
17	BOND STREET CUSTODIANS LIMITED	<ENH PROPERTY SECURITIES A/C>	1,121,573	0.24
18	SBN NOMINEES PTY LIMITED	<10004 ACCOUNT>	868,800	0.19
19	UBS NOMINEES PTY LTD		767,259	0.16
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3		726,994	0.16
Total			**439,536,973**	**94.37**
Balance of register			**26,240,158**	**5.63**
Grand total			**465,777,131**	**100.00**

C. Substantial securityholder notices as at 26 September 2017

Ordinary securities	Date of change	Stapled securities held	% securities held
Cohen & Steers Inc and bodies controlled by Cohen & Steer, Inc.	8 Sep 17	23,518,073	5.05
The Vanguard Group	23 Sep 2016	24,384,021	5.91
Commonwealth Bank of Australia	23 Sep 2016	24,252,576	5.87
FIL Limited	23 Jun 2016	36,777,962	8.91

How do I invest in Charter Hall?

Charter Hall Group securities are listed on the Australian Securities Exchange (ASX:CHC).

Securityholders will need to use the services of a stockbroker or an online broking facility to invest in Charter Hall.

Where can I find more information about Charter Hall?

Charter Hall's website, www.charterhall.com.au contains extensive information on our Board and management team, corporate governance, sustainability, our property portfolio and all investor communications including distribution and tax information, reports and presentations. The website also provides information on the broader Charter Hall Group including other managed funds available for investment. You can also 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 and subscribe to updates.

Can I receive my Annual Report electronically?

Charter Hall provides its annual report in both PDF and online formats (HTML). You can elect via the Investor Login facility on our website to receive notification that this report is available online. Alternatively, you can elect to receive the report in hard copy.

How do I receive payment of my distribution?

Charter Hall Group 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 it 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 Group 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, 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 using the Investor Login facility on our website.

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

At the end of each financial year, we issue securityholders with an Annual Taxation Statement. This statement includes information required to complete your tax return. The distributions paid in February and August are required to be included in your tax return for the financial year the income was earned, that is, the distribution income paid in August 2017 should be included in your 2017 financial year tax return.

How do I make a complaint?

Securityholders wishing to lodge a complaint should do so in writing and forward it to the Compliance Manager, Charter Hall Group at the address shown in the Directory. In the event that a complaint cannot be resolved within a reasonable timeframe (usually 45 days) or you are not satisfied with our response, you can seek assistance from the Financial Ombudsman Service (FOS), an independent dispute resolution scheme available to those investors who have first raised their complaint with us and who remain dissatisfied. FOS's contact details are below:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

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

Sovereign Offset Digital – Indigo is FSC certified containing fibre sourced from responsible forestry practices and is manufactured carbon neutral. Made with elemental chlorine free pulps and manufactured in an ISO 14001 EMS accredited facility.

For personal use only

For personal use only

CONTACT DETAILS

Registry

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

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

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

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

Investor Relations

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

Charter Hall Group
GPO Box 2704
Sydney NSW 2001

Tel: 1300 365 585 (local call cost)
+61 2 8651 9000 (outside Australia)
Fax: +61 2 9221 4655

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

CORPORATE DIRECTORY

Directors

David Clarke (Chair), Anne Brennan, Philip Garling, David Harrison, Karen Moses and David Ross

Company Secretary

Mark Bryant

ASX Code

Charter Hall Group stapled securities are listed on the Australian Securities Exchange (ASX: CHC).

Principal registered office in Australia

Level 20, No.1 Martin Place
Sydney NSW 2000

Tel: +61 2 8651 9000

Auditor

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

Important notice

This Annual Report has been prepared and issued by Charter Hall Limited (ABN 57 113 531 150) and Charter Hall Funds Management Limited (ABN 31 082 991 786 AFSL 262861) (CHFML) as Responsible Entity of the Charter Hall Property Trust (together, the Charter Hall Group or the Group). The information contained in this report has been compiled to comply with legal and regulatory requirements and to assist the recipient in assessing the performance of the Group independently and does not relate to, and is not relevant for, any other purpose.

This report is not intended to be and does not constitute an offer or a recommendation to acquire any securities in the Charter Hall Group. This report does not take into account the personal objectives, financial situation or needs of any investor. Before investing in Charter Hall Group 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 the Group. 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, the Group does 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 Charter Hall Group is not to be taken as constituting the giving of investment, legal or tax advice by the Charter Hall Group nor any of their related bodies corporate, directors or employees to any such person. Neither the Charter Hall Group, their 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 Charter Hall Group or the matters contained in this report, is accurate or complete.

CHFML does not receive fees in respect of the general financial product advice it may provide; however, entities within the Charter Hall Group receive fees for operating the Charter Hall Property Trust in accordance with its constitution. Entities within the Group may also receive fees for managing the assets of, and providing resources to the Charter Hall Property Trust. All information herein is current as at 30 June 2016 unless otherwise stated. All references to dollars ($) or A$ are Australian Dollars unless otherwise stated.

Information regarding US Investors/US Persons:

Each person that holds Charter Hall Group securities that is in the United States (US) or is a US Person is required to be a Qualified Institutional Buyer/Qualified Purchaser (QIB/QP) at the time of the acquisition of any Charter Hall Group securities, and is required to make the representations in the confirmation letter or subscription agreement as of the time it acquired the applicable securities.

The securities can only be resold or transferred in a regular brokered transaction on the ASX in accordance with Rule 903 or 904 of Regulation S, where neither it nor any person acting on its behalf knows or has reason to know, that the sale has been prearranged with, or that the purchaser is, in the United States or a US Person (e.g. no prearranged trades ('special crossing') with US Persons or other off-market transactions). To the maximum extent permitted by law, the Charter Hall Group reserves the right to (i) request any person that they deem to be in the United States or a US Person, who was not at the time of acquisition of the securities a QIB/QP, to sell its securities, (ii) refuse to record any subsequent sale or transfer of securities to a person in the United States or a US Person, and (iii) take such other action as they deem necessary or appropriate to enable the Charter Hall Group to maintain the exception from registration under Section 3(c)(7) of the Investment Company Act.

If you are not the beneficial owner of securities in the Charter Hall Group, you must pass this information to the beneficial owner of the securities.

Complaints handling

A formal complaints handling procedure is in place for the Group. CHFML is a member of the Financial Ombudsman Service (FOS). Complaints should in the first instance be directed to CHFML.

If you have any enquiries or complaints, please contact the Compliance Manager on +61 2 8651 9000.

© Charter Hall

CREATED BY DESIGNATE

For personal use only

www.charterhall.com.au

Charter Hall