

APPENDIX 4D
Financial Report
for the half year ended 31 December 2018

Name of Entity:

The Charter Hall Group (CHC) - comprising the stapling of ordinary shares in Charter Hall Limited (CHL) (ACN 113 531 150) and units in Charter Hall Property Trust (CHPT) (ARSN: 113 339 147)

The Appendix 4D should be read in conjunction with the interim financial report of the Charter Hall Group for the half year ended 31 December 2018.

Results for announcement to the market

	Half Year Ended 31 December 2018 \$m	Half Year Ended 31 December 2017 \$m	Variance (%)
Revenue ¹	156.0	130.5	19.5
Profit after tax attributable to stapled securityholders of Charter Hall Group	133.5	120.6	10.7
Operating earnings attributable to stapled securityholders ²	107.5	95.1	13.0

¹ Gross revenue does not include share of net profits of associates and joint ventures of \$84.1 million (2017: \$77.0 million).

² Operating earnings is a financial measure which represents statutory profit after tax adjusted for proportionately consolidated fair value adjustments, gains or losses on sale of investments, amortisation and/or impairment of intangible assets, performance fee expenses, non-operating 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.

A reconciliation of the Group's operating earnings to statutory profit is provided in Note 3 of the interim financial report.

	Half Year Ended 31 December 2018 cps	Half Year Ended 31 December 2017 cps	Variance (%)
Basic statutory earnings per stapled security attributable to stapled securityholders	28.7	25.9	10.7
Diluted statutory earnings per stapled security attributable to stapled securityholders	28.5	25.8	10.7
Operating earnings per stapled security attributable to stapled securityholders	23.1	20.4	13.0

Dividends and distributions	Half Year Ended 31 December 2018	Half Year Ended 31 December 2017
Interim franked dividend and distribution in respect of a:		
CHPT unit	8.3¢	9.4¢
CHL share	8.2¢	6.2¢
Total	16.5¢	15.6¢
Record date for determining entitlements to the dividend/distribution	28 December 2018	
Payment date	28 February 2019	

Results for announcement to the market (continued)

Net Tangible Assets

	As at 31 December 2018	As at 30 June 2018
Net tangible assets (NTA) per stapled security ¹	\$3.82	\$3.82

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

The number of securities on issue at 31 December 2018 is 465.8 million (30 June 2018: 465.8 million).

Control gained or lost over entities during the half year

The following changes in control occurred within the Group during the half year:

- Burleigh Waters Trust (wholly owned entity established on 06 July 2018).
- CHOF5 Hassall Street Trust (wholly owned entity established on 09 July 2018).
- CHOF5 Westmead Trust (wholly owned entity established on 09 July 2018).
- Deep Value Partnership No. 1 (wholly owned entity established on 19 July 2018).
- Deep Value Partnership No. 2 (wholly owned entity established on 19 July 2018).
- CHSSF Brisbane Trust (wholly owned entity established on 19 July 2018).
- DCSF Derwent Park Trust (part owned entity established on 17 August 2018).
- DCSF Festival Towers Trust (part owned entity established on 18 July 2018).
- DVP Coburg Trust (wholly owned entity established on 30 October 2018).
- DVP2 Coburg Trust (wholly owned entity established on 11 December 2018).
- Folkestone Limited (wholly owned entity acquired on 7 November 2018).
- Charter Hall FLK Funds Management Ltd (formerly Folkestone Funds Management Limited) (wholly owned entity acquired on 7 November 2018).
- Charter Hall Social Infrastructure Limited (formerly Folkestone Investment Management Ltd) (wholly owned entity acquired on 7 November 2018).
- Folkestone Seniors Living Management Ltd (wholly owned entity acquired on 7 November 2018).
- Equity Real Estate Partners Pty Ltd (wholly owned entity acquired on 7 November 2018).
- The Ranges Holdings Karratha Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Millers Road (Altona) Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Charter Hall Property Securities Management Limited (formerly Folkestone Maxim Asset Management Limited) (wholly owned entity acquired on 7 November 2018).
- Folkestone No. 2 Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone No. 3 Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone No: 5 Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone Nunawading Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone No: 7 Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone No: 8 Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Corporate Square Wollongong Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone No: 10 Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone Real Estate Services Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone SI 1 Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone SI 2 Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone Knoxfield Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone South Dural Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Millers Junction Fund (wholly owned entity acquired on 7 November 2018).
- Folkestone Hornsby Development Fund (wholly owned entity acquired on 7 November 2018).
- Folkestone Property Management Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone Geelong Development Fund (wholly owned entity acquired on 7 November 2018).
- Folkestone Commerce Park Fund (wholly owned entity acquired on 7 November 2018).
- Folkestone South Dural Development Fund (wholly owned entity acquired on 7 November 2018).
- Folkestone Green Square Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone Chatswood Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone Seniors Living Fund No. 2 (wholly owned entity acquired on 7 November 2018).
- Folkestone Hadfield Development Fund (wholly owned entity acquired on 7 November 2018).
- Folkestone Gisborne Land Pty Ltd (wholly owned entity acquired on 7 November 2018).
- Folkestone Gisborne Land Trust (wholly owned entity acquired on 7 November 2018)

Results for announcement to the market (continued)

Details of Associates and Joint Venture entities

Refer attached interim financial report (Note 8: Investments in associates and joint ventures).

Other significant information

For additional information regarding the results of Charter Hall Group for the half year ended 31 December 2018 please refer to the 1H FY19 Results – ASX Release and the 2019 Half Year Results Presentation lodged with the ASX. Attached with this Appendix 4D is a copy of the interim financial report for the half year ended 31 December 2018.

Accounting standards used by foreign entities

International Financial Reporting Standards.

Segment results

Refer attached interim financial report (Note 3: Segment information).

Other Factors

Refer to other significant information (above).

Audit

This report is based on accounts to which one of the following applies: (tick one)

☐	The accounts have been audited. (refer attached financial statements)	☒	The accounts have been subject to review. (refer attached financial statements)
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed.

Charter Hall Group

Interim Financial Report and other information for the half year ended 31 December 2018

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)

Important notice

This interim financial report has been prepared and issued by Charter Hall Limited (ACN 113 531 150) and Charter Hall Funds Management Limited (ACN 082 991 786, AFSL 262861) (CHFML) as Responsible Entity of the Charter Hall Property Trust (ARSN 113 339 147) (together, the Charter Hall Group or 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. 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, its related bodies corporate, its directors or employees to any such person. Each recipient should consult their own counsel, accountant, and other advisers as to legal, tax, business, financial and other considerations in relation to the Charter Hall Group.

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.

Historical performance is not a reliable indicator of future performance. Due care and attention have been exercised in the preparation of forecast information; however, forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of the Group. Actual results may vary from any forecasts, and any variation may be materially positive or negative.

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 31 December 2018 unless otherwise stated. All references to dollars (\$) or A\$ are Australian dollars unless otherwise stated.

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Directors' Report

for the half year ended 31 December 2018

The Directors of Charter Hall Limited and the Directors of Charter Hall Funds Management Limited, the Responsible Entity (RE) of the Charter Hall Property Trust, present their report together with the consolidated interim financial report of the Charter Hall Group (Group or CHC) and the consolidated interim financial report of the Charter Hall Property Trust Group (CHPT) for the half year ended 31 December 2018, and the Independent Auditor's Report thereon. The interim 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 CHPT 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 half year and up to the date of this report.

- 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
- Gregory Paramor - Non-Executive Independent Director (appointed 30 November 2018)
- David Ross - Non-Executive Independent Director

Principal activities

During the half 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 half year.

Distributions/Dividends - Charter Hall Group

Distributions/dividends paid/declared to stapled securityholders during the half year were as follows:

	31 Dec 2018 \$'m	31 Dec 2017 \$'m
Interim ordinary dividend of 8.2 cents and interim ordinary distribution of 8.3 cents per stapled security for the six months ended 31 December 2018 to be paid on 28 February 2019	76.9	-
Interim ordinary dividend of 6.2 cents and interim ordinary distribution of 9.4 cents per stapled security for the six months ended 31 December 2017 paid on 28 February 2018	-	72.7
Total distributions/dividends paid and payable to stapled securityholders	76.9	72.7

Review and results of operations

The Group recorded a statutory profit after tax attributable to stapled securityholders for the half year to 31 December 2018 of \$133.5 million compared to \$120.6 million for the half year to 31 December 2017.

Operating earnings amounted to \$107.5 million for the half year to 31 December 2018, compared to \$95.1 million for the half year ended 31 December 2017, an increase of 13.0%. Operating earnings before interest, tax, depreciation and amortisation (EBITDA) is used by the Board in assessing the performance of and allocating resources to its operating segments. EBITDA amounted to \$134.2 million for the half year to 31 December 2018, compared to \$112.8 million for the half year ended 31 December 2017, an increase of 19.0%. EBITDA is split between property investments of \$52.1 million (31 December 2017: \$50.2 million) and property funds management of \$82.1 million (31 December 2017: \$62.6 million).

Directors' Report (continued)

for the half year ended 31 December 2018

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

	31 Dec 2018 \$'m	31 Dec 2017 \$'m
Operating earnings attributable to stapled securityholders	107.5	95.1
Realised and unrealised gains/(losses) on derivatives ¹	(6.7)	0.5
Net fair value movements on investments and property ¹	48.7	48.6
Amortisation of intangibles	(1.7)	(1.4)
Non-operating deferred income tax benefit	-	0.3
Loss on disposal of property investments ¹	(0.4)	(0.5)
Performance fees expense ¹	(4.6)	(15.9)
Other ¹	(9.3)	(6.1)
Statutory profit after tax attributable to stapled securityholders	133.5	120.6
Statutory profit attributable to Charter Hall Direct Diversified Consumer Staples Fund (non-controlling interest)	0.1	0.2
Statutory profit after tax	133.6	120.8

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

The 31 December 2018 half-year financial results with comparatives are summarised as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Revenue (\$ million) ¹	156.0	130.5	17.2	11.7
Statutory profit after tax for stapled securityholders (\$ million)	133.5	120.6	84.6	81.2
Statutory earnings per stapled security (EPS) (cents)	28.7	25.9	18.2	17.4
Operating earnings for stapled securityholders (\$ million) ²	107.5	95.1	n/a	n/a
Operating earnings per stapled security (cents) ²	23.1	20.4	n/a	n/a
Distributions/dividends to stapled securityholders (\$ million)	76.9	72.7	38.7	43.8
Distribution/dividend per stapled security (cents)	16.5	15.6	8.3	9.4
	31 Dec 2018	30 Jun 2018	31 Dec 2018	30 Jun 2018
Total assets (\$ million)	2,370.1	2,013.6	2,031.7	1,724.5
Total liabilities (\$ million)	446.6	155.4	328.3	73.3
Total net assets (\$ million)	1,923.5	1,858.2	1,703.4	1,651.2
Net assets attributable to non-controlling interest (\$ million) ³	43.9	35.6	43.9	35.6
Net assets attributable to stapled securityholders (\$ million)	1,879.6	1,822.6	1,659.5	1,615.6
Stapled securities on issue (million)	465.8	465.8	465.8	465.8
Net assets per stapled security (\$)	4.04	3.91	3.56	3.47
Net tangible assets (NTA) attributable to stapled securityholders (\$ million) ⁴	1,779.1	1,777.1	1,659.5	1,615.6
NTA per stapled security (\$) ⁴	3.82	3.82	3.56	3.47
Balance sheet gearing ⁵	5.5%	0.00%	n/a	n/a
Funds under management (FUM) (\$ billion)	28.4	23.2	n/a	n/a

¹ Gross revenue does not include share of net profits of associates and joint ventures of \$84.1 million (31 December 2017: \$77.0 million).

² Excludes fair value adjustments, gains or losses on the sale of investments, amortisation and/or impairment of intangible assets, performance fees expense, non-operating deferred tax expense and other unrealised or one-off items.

³ Represents the 49.0% (30 June 2018: 38.7%) non-controlling interest share of the Charter Hall Direct Diversified Consumer Staples Fund (DCSF).

⁴ Net tangible assets (NTA) attributable to stapled securityholders and NTA per stapled security (\$) are calculated using assets less liabilities, net of intangible assets and related deferred tax and non-controlling interests in DCSF.

⁵ Gearing is calculated as interest bearing debt drawn (excluding subsequent hedged foreign exchange movements and DCSF) net of cash, divided by total assets net of cash, derivative assets and DCSF.

Directors' Report (continued)

for the half year ended 31 December 2018

Property Investment

Property Investment provides the Group with yields from its co-investments in Group funds. Property Investment contributed \$52.1 million in EBITDA to the Group.

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

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

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

	Ownership stake (%)	Charter Hall investment (\$m)	31 Dec 2018 Charter Hall investment income ¹ (\$m)	Weighted average lease expiry (years)	Weighted average market cap rate (%)	Weighted average discount rate (%)	Weighted Average rental reviews (%)	31 Dec 2018 Charter Hall investment yield ² (%)
Office		637.3	17.4	5.7	5.2%	6.7%	3.8%	5.6%
Charter Hall Prime Office Fund (CPOF)	7.6	268.7	6.3	6.6	5.2%	6.7%	3.8%	4.9%
Charter Hall Office Trust (CHOT)	15.7	251.9	7.1	4.4	5.1%	6.6%	3.9%	5.8%
Brisbane Square Wholesale Fund (BSWF)	16.8	104.7	3.5	8.1	5.7%	6.9%	3.7%	6.9%
Charter Hall Counter Cyclical Trust (CCT)	5.0	11.7	0.5	4.9	5.8%	6.7%	3.7%	8.9%
Charter Hall Direct PFA Fund (PFA)	0.1	0.3	-	8.6	6.3%	7.2%	3.5%	7.1%
Industrial		259.0	8.5	9.7	5.7%	7.0%	3.0%	5.8%
Charter Hall Prime Industrial Fund (CPIF)	5.1	124.5	3.3	9.1	5.8%	7.1%	3.0%	5.5%
Core Logistics Partnership Trust (CLP)	9.2	103.0	4.2	10.0	5.7%	6.9%	3.0%	5.9%
Charter Hall Direct Industrial Fund No.4 (DIF4)	14.1	31.5	1.0	11.0	5.8%	7.4%	2.8%	6.2%
Retail		518.7	17.0	6.4	5.9%	7.2%	3.9%	6.5%
Charter Hall Retail REIT (CQR) ³	17.7	310.4	11.3	6.5	6.1%	7.3%	4.1%	7.2%
Long WALE Hardware Partnership (LWHP)	13.5	93.4	2.3	8.8	5.4%	7.0%	2.9%	5.1%
Charter Hall Prime Retail Fund (CPRF)	29.4	59.5	1.7	5.1	5.8%	7.2%	4.5%	5.9%
Retail Partnership No. 6 Trust (RP6) ³	20.0	37.4	0.9	5.3	5.6%	7.3%	3.7%	5.1%
Long WALE Investment Partnership 2 (LWIP2) ⁴	10.0	10.9	0.3	16.7	5.8%	7.3%	2.2%	6.6%
Retail Partnership No. 2 (RP2) ³	5.0	6.6	0.2	4.6	5.8%	7.3%	4.3%	6.2%
Long WALE Investment Partnership (LWIP) ⁴	0.1	0.5	0.3	15.6	5.8%	7.2%	2.2%	6.6%
Diversified		290.6	8.4	10.8	6.2%	7.4%	3.0%	6.0%
Charter Hall Long WALE REIT (CLW)	19.0	217.6	6.2	12.6	6.2%	7.3%	2.8%	6.3%
Charter Hall Direct Diversified Consumer Staples Fund (DCSF) ⁵	51.0	45.7	1.6	8.1	6.3%	7.6%	3.1%	6.0%
Deep Value Partnership (DVP)	50.5	27.3	0.6	1.9	6.5%	7.5%	4.0%	4.4%
Social Infrastructure		115.7	1.2	9.5	6.4%	n/a	2.4%	7.4%
Charter Hall Education Trust (CQE)	15.3	115.7	1.2	9.5	6.4%	n/a	2.4%	7.4%
Property investment - subtotal		1,821.3	52.5	7.5	5.7%	7.0%	3.5%	6.0%
Other investments		22.4	0.1					
Total		1,843.7	52.6					

¹ Charter Hall Group property investment earnings, 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 mark-to-market movements in NTA during the year.

³ Average rent reviews is contracted weighted average rent increases of specialty tenants.

⁴ The LWIP and LWIP2 rental increase is CPI, uncapped.

⁵ DCSF adjusted for non-controlling interest share of 49.0%.

Directors' Report (continued)

for the half year ended 31 December 2018

Property Funds Management

The Property Funds Management business provides investment management, asset management, property management, development management, leasing and transaction services for the Group's \$28.4 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 \$82.1 million in EBITDA to the Group.

During the half year, total funds under management increased by \$5.2 billion to \$28.4 billion. The growth comprised development capital expenditure, net valuation uplifts, along with the acquisition of approximately \$3.1 billion and divestment of approximately \$0.7 billion of property.

Significant changes in the state of affairs

On 7 November 2018, the Group acquired 100% of the shares in Folkestone Limited. Folkestone shareholders received from Charter Hall \$1.354 cash per share, which equates to a purchase consideration of \$205.0 million. Charter Hall also issued 1.5 million CHC service rights to FLK management which vest over 3 years.

Matters subsequent to the end of the period

No matter or circumstance has arisen since 31 December 2018 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.

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 8.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument (Rounding in Financial/Directors' Reports) 2016/191, 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 22 February 2019. The Directors have the power to amend and re-issue the Financial Statements.



David Clarke
Chair
Sydney
22 February 2019



Auditor's Independence Declaration

As lead auditor for the review of Charter Hall Limited and Charter Hall Property Trust for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Charter Hall Limited and Charter Hall Property Trust and the entities they controlled during the period.

A handwritten signature in black ink, appearing to read 'E A Barron'.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
22 February 2019

Consolidated Statements of Comprehensive Income

for the half year ended 31 December 2018

	Note	Charter Hall Group		Charter Hall Property Trust Group	
		31 Dec 2018 \$'m	31 Dec 2017 \$'m	31 Dec 2018 \$'m	31 Dec 2017 \$'m
Income					
Revenue	4	156.0	130.5	17.2	11.7
Share of net profit of investments accounted for using the equity method		84.1	77.0	77.3	73.2
Net gain on sale of investments		-	-	0.3	-
Net gain on investment in associates at fair value		1.3	0.8	1.3	0.8
Total income		241.4	208.3	96.1	85.7
Expenses					
Investment property expenses		(0.6)	(0.4)	(0.7)	(0.5)
Depreciation		(2.4)	(1.9)	-	-
Finance costs		(5.0)	(1.0)	(5.2)	(0.9)
Net losses from derivative financial instruments		(1.6)	-	(1.6)	-
Foreign exchange losses		-	(0.1)	-	(0.1)
Net fair value adjustments on investment properties	9	(2.0)	(1.9)	(2.0)	(1.9)
Amortisation of intangibles		(1.7)	(1.4)	-	-
Asset management fees		-	-	(1.4)	(0.8)
Employee costs		(58.0)	(52.5)	-	-
Administration and other expenses		(15.0)	(12.0)	(0.5)	(0.1)
Total expenses		(86.4)	(71.2)	(11.4)	(4.3)
Profit before tax		155.0	137.1	84.7	81.4
Income tax expense		(21.4)	(16.3)	-	-
Profit after tax		133.6	120.8	84.7	81.4
Profit after tax attributable to:					
Equity holders of Charter Hall Limited		48.9	39.4	-	-
Equity holders of Charter Hall Property Trust (non-controlling interest)		84.6	81.2	84.6	81.2
Profit after tax attributable to stapled securityholders of Charter Hall Group		133.5	120.6	84.6	81.2
Profit attributable to Charter Hall Direct Diversified Consumer Staples Fund (non-controlling interest)		0.1	0.2	0.1	0.2
Profit after tax		133.6	120.8	84.7	81.4

Consolidated Statements of Comprehensive Income (continued)

for the half year ended 31 December 2018

	Charter Hall Group		Charter Hall Property Trust Group	
	31 Dec 2018 \$'m	31 Dec 2017 \$'m	31 Dec 2018 \$'m	31 Dec 2017 \$'m
Note				
Profit after tax	133.6	120.8	84.7	81.4
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	0.2	(0.4)	0.2	(0.4)
Changes in the fair value of cash flow hedges	2.3	-	2.3	-
Equity accounted fair value movements in other comprehensive income	0.6	(0.2)	0.4	(0.2)
Other comprehensive income	3.1	(0.6)	2.9	(0.6)
Total comprehensive income	136.7	120.2	87.6	80.8
Total comprehensive income attributable to				
Equity holders of Charter Hall Limited	49.1	39.4	-	-
Equity holders of Charter Hall Property Trust (non-controlling interest)	87.5	80.6	87.5	80.6
Total comprehensive income attributable to stapled securityholders of Charter Hall Group	136.6	120.0	87.5	80.6
Total comprehensive income attributable to Charter Hall Direct Diversified Consumer Staples Fund (non-controlling interest)	0.1	0.2	0.1	0.2
Total comprehensive income for the half year	136.7	120.2	87.6	80.8
Basic earnings per stapled security (cents) attributable to:				
Equity holders of Charter Hall Limited	10.5	8.5	n/a	n/a
Equity holders of Charter Hall Property Trust (non-controlling interest)	18.2	17.4	18.2	17.4
Basic earnings per stapled security (cents) attributable to stapled securityholders of Charter Hall Group	28.7	25.9	n/a	n/a
Diluted earnings per stapled security (cents) attributable to:				
Equity holders of Charter Hall Limited	10.4	8.5	n/a	n/a
Equity holders of Charter Hall Property Trust (non-controlling interest)	18.1	17.3	18.1	17.3
Diluted earnings per stapled security (cents) attributable to stapled securityholders of Charter Hall Group	28.5	25.8	n/a	n/a

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

Consolidated Balance Sheets

as at 31 December 2018

	Note	Charter Hall Group		Charter Hall Property Trust Group	
		31 Dec 2018 \$'m	30 Jun 2018 \$'m	31 Dec 2018 \$'m	30 Jun 2018 \$'m
Assets					
<i>Current assets</i>					
Cash and cash equivalents		115.0	94.9	19.3	32.8
Receivables and other assets		82.7	98.9	39.4	50.4
Fair value of bonds commitment		-	2.2	-	2.2
Assets classified as held for sale		-	17.7	-	-
Total current assets		197.7	213.7	58.7	85.4
Receivables and other assets		36.5	-	238.9	-
Investments in associates at fair value through profit or loss	8	32.2	32.4	32.2	32.4
Inventories		36.8	1.8	-	-
Investments accounted for using the equity method	8	1,765.8	1,617.1	1,557.1	1,543.3
Investment properties	9	120.7	63.4	120.7	63.4
Intangible assets	10	134.4	62.7	-	-
Property, plant and equipment		20.3	20.9	-	-
Deferred tax assets		1.6	1.6	-	-
Derivative financial instruments		24.1	-	24.1	-
Total non-current assets		2,172.4	1,799.9	1,973.0	1,639.1
Total assets		2,370.1	2,013.6	2,031.7	1,724.5
Liabilities					
<i>Current liabilities</i>					
Trade and other payables		111.2	112.7	47.0	50.6
Current tax liabilities		3.8	15.3	-	-
Provisions		2.1	1.5	-	-
Borrowings	11	5.9	-	-	-
Total current liabilities		123.0	129.5	47.0	50.6
<i>Non-current liabilities</i>					
Trade and other payables		4.8	5.3	-	17.7
Provisions		1.9	1.6	-	-
Derivative financial instruments		-	1.4	-	1.4
Borrowings	11	281.3	3.6	281.3	3.6
Net deferred tax liabilities		35.6	14.0	-	-
Total non-current liabilities		323.6	25.9	281.3	22.7
Total liabilities		446.6	155.4	328.3	73.3
Net assets		1,923.5	1,858.2	1,703.4	1,651.2
Equity					
<i>Equity holders of Charter Hall Limited</i>					
Contributed equity	12(a)	286.6	285.7	-	-
Reserves		(43.6)	(45.1)	-	-
Accumulated losses		(22.9)	(33.6)	-	-
Parent entity interest		220.1	207.0	-	-
<i>Equity holders of Charter Hall Property Trust</i>					
Contributed equity	12(a)	1,448.6	1,453.5	1,448.6	1,453.5
Reserves		3.8	0.9	3.8	0.9
Accumulated profit		207.1	161.2	207.1	161.2
Equity holders of Charter Hall Property Trust (non-controlling interest)		1,659.5	1,615.6	1,659.5	1,615.6
Non-controlling interest in Charter Hall Direct Diversified Consumer Staples Fund		43.9	35.6	43.9	35.6
Total equity		1,923.5	1,858.2	1,703.4	1,651.2

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

Consolidated Statement of Changes in Equity – Charter Hall Group

for the half year ended 31 December 2018

	Note	Attributable to the owners of Charter Hall Limited				Non-controlling interest \$'m	Charter Hall Group
		Contributed equity	Reserves \$'m	Accumulated profit/(losses) \$'m	Total \$'m		Total equity \$'m
Balance at 1 July 2017		285.0	(44.6)	(54.1)	186.3	1,536.0	1,722.3
Profit for the half year		-	-	39.4	39.4	81.4	120.8
Other comprehensive income		-	-	-	-	(0.6)	(0.6)
Total comprehensive income		-	-	39.4	39.4	80.8	120.2
<i>Transactions with equity holders in their capacity as equity holders:</i>							
Contributions of equity, net of issue costs 12(b)		-	-	-	-	17.2	17.2
Buyback and issuance of securities for exercised performance rights		(0.4)	(3.9)	-	(4.3)	(3.3)	(7.6)
Tax recognised direct to equity		1.1	(0.4)	-	0.7	-	0.7
Transfer due to deferred compensation payable in service rights		-	1.5	-	1.5	-	1.5
Distribution provided for or paid 6		-	-	(28.9)	(28.9)	(43.9)	(72.8)
Security-based benefit expense		-	0.9	-	0.9	-	0.9
Transfer unvested securities to accumulated losses		-	-	-	-	(0.1)	(0.1)
		0.7	(1.9)	(28.9)	(30.1)	(30.1)	(60.2)
Balance at 31 December 2017		285.7	(46.5)	(43.6)	195.6	1,586.7	1,782.3
Balance at 1 July 2018		285.7	(45.1)	(33.6)	207.0	1,651.2	1,858.2
Profit for the half year		-	-	48.9	48.9	84.7	133.6
Other comprehensive income		-	0.2	-	0.2	2.9	3.1
Total comprehensive income		-	0.2	48.9	49.1	87.6	136.7
<i>Transactions with equity holders in their capacity as equity holders:</i>							
Contributions of equity, net of issue costs		-	-	-	-	9.8	9.8
Buyback and issuance of securities for exercised performance rights		(0.7)	(2.5)	-	(3.2)	(4.9)	(8.1)
Tax recognised direct to equity		1.6	(0.7)	-	0.9	-	0.9
Transfer due to deferred compensation payable in service rights		-	2.0	-	2.0	-	2.0
Dividend/distribution provided for or paid 6		-	-	(38.2)	(38.2)	(40.3)	(78.5)
Security-based benefit expense		-	2.5	-	2.5	-	2.5
Transactions with non-controlling interests		-	-	-	-	-	-
		0.9	1.3	(38.2)	(36.0)	(35.4)	(71.4)
Balance at 31 December 2018		286.6	(43.6)	(22.9)	220.1	1,703.4	1,923.5

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 half year ended 31 December 2018

Attributable to the owners of the Charter Hall Property Trust Group						
Note	Contributed equity \$'m	Reserves \$'m	Accumulated profit/(losses) \$'m	Total \$'m	Non-controlling interest \$'m	Total equity \$'m
Balance at 1 July 2017	1,456.9	(0.5)	79.6	1,536.0	-	1,536.0
Profit for the half year	-	-	81.2	81.2	0.2	81.4
Other comprehensive income	-	(0.6)	-	(0.6)	-	(0.6)
Total comprehensive income/(loss)	-	(0.6)	81.2	80.6	0.2	80.8
<i>Transactions with equity holders in their capacity as equity holders:</i>						
Contributions of equity, net of issue costs 12(b)	(0.1)	-	-	(0.1)	17.3	17.2
Buyback and issuance of securities for exercised performance rights	(3.3)	-	-	(3.3)	-	(3.3)
Distribution provided for or paid 6	-	-	(43.8)	(43.8)	(0.1)	(43.9)
Transactions with non-controlling interest	-	-	0.6	0.6	(0.7)	(0.1)
	(3.4)	-	(43.2)	(46.6)	16.5	(30.1)
Balance at 31 December 2017	1,453.5	(1.1)	117.6	1,570.0	16.7	1,586.7
Balance at 1 July 2018	1,453.5	0.9	161.2	1,615.6	35.6	1,651.2
Profit for the half year	-	-	84.6	84.6	0.1	84.7
Other comprehensive income	-	2.9	-	2.9	-	2.9
Total comprehensive income	-	2.9	84.6	87.5	0.1	87.6
<i>Transactions with equity holders in their capacity as equity holders:</i>						
Contributions of equity, net of issue costs	-	-	-	-	9.8	9.8
Buyback and issuance of securities for exercised performance rights	(4.9)	-	-	(4.9)	-	(4.9)
Distribution provided for or paid 6	-	-	(38.7)	(38.7)	(1.6)	(40.3)
Transactions with non-controlling interest	-	-	-	-	-	-
	(4.9)	-	(38.7)	(43.6)	8.2	(35.4)
Balance at 31 December 2018	1,448.6	3.8	207.1	1,659.5	43.9	1,703.4

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

Consolidated Cash Flow Statements

for the half year ended 31 December 2018

	Charter Hall Group		Charter Hall Property Trust Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Note	\$'m	\$'m	\$'m	\$'m
Cash flows from operating activities				
Receipts from customers (inclusive of GST)	142.2	115.8	4.4	7.0
Payments to suppliers and employees (inclusive of GST)	(100.1)	(87.1)	(1.1)	(1.6)
Tax paid	(32.0)	(20.2)	-	-
Interest received	2.9	1.3	1.3	0.1
Interest paid	(1.0)	(1.4)	(1.0)	(1.4)
Distributions and dividends from investments	59.1	44.8	44.2	42.6
Net cash inflow from operating activities	71.1	53.2	47.8	46.7
Cash flows from investing activities				
Payments for property, plant and equipment (net of lease incentive received)	(1.8)	(2.9)	-	-
Proceeds on disposal of investment properties	-	5.5	-	5.5
Payments for investment properties	(58.8)	(28.5)	(58.8)	(28.5)
Payment for acquisition of subsidiary (net of cash acquired)	(192.1)	-	-	-
Investments in associates and joint ventures	(98.7)	(70.6)	(76.6)	(70.6)
Proceeds on disposal and return of capital from investments in associates and joint ventures	115.9	14.1	98.6	10.7
Loans to associates, joint ventures and related parties	-	-	(355.7)	(106.8)
Repayments of loans to associates, joint ventures and related parties	27.4	0.8	123.4	167.9
Net cash outflow from investing activities	(208.1)	(81.6)	(269.1)	(21.8)
Cash flows from financing activities				
Proceeds from buy back of stapled securities	(8.3)	(7.7)	(7.2)	(6.8)
Proceeds from borrowings (net of borrowing costs)	262.0	26.5	262.0	26.5
Repayment of borrowings	(26.9)	(21.1)	(2.9)	(21.1)
Borrowing costs paid	(4.1)	(0.1)	(4.1)	(0.1)
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control	11.3	17.0	11.3	17.0
Distributions to non-controlling interests	(1.5)	-	(1.5)	-
Distributions paid to stapled securityholders	(75.4)	(72.7)	(49.8)	(72.7)
Net cash inflow/(outflow) from financing activities	157.1	(58.1)	207.8	(57.2)
Net increase/(decrease) in cash and cash equivalents	20.1	(86.5)	(13.5)	(32.3)
Cash and cash equivalents at the beginning of the half year	94.9	174.4	32.8	53.4
Effects of exchange rate changes on cash and cash equivalents	-	(0.5)	-	(0.5)
Cash and cash equivalents at the end of the half year	115.0	87.4	19.3	20.6

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

Notes to the consolidated financial statements

for the half year ended 31 December 2018

1 Summary of significant accounting policies

The interim financial report does not include all notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Charter Hall Group during the half year ended 31 December 2018, in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

(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.

New and amended standards adopted

The Group adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. The adoption of these standards has no material impact on the Group's financial position or results and no retrospective adjustments are required.

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

AASB16 *Leases* 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 and liability in relation to most operating leases. Management's assessment identified that the impact on the Group's office operating lease commitments will be the recognition of a right-of-use asset and a corresponding lease liability. Management is progressing with its transition plans.

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 and inventory

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 or by using the equity method. The Group 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.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

2 Critical accounting estimates and judgements (continued)

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.

Investment property is measured at fair value taking into account the Group's ability to generate economic benefits by using the asset in its highest and best use. Internal and external valuations are obtained to support the carrying value of investment properties. See Note 9 for further details.

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell. The key assumptions require the use of management judgement and are reviewed annually. These key assumptions are the variables affecting the estimated costs to develop and sell and the expected selling price. Any reassessment of cost to develop and sell or selling price in a particular year will affect the cost of goods sold.

(b) Performance fee recognition

Critical judgements and estimates are made by the Group in respect of recognising performance fee revenue. Performance fee revenue is recognised to the extent that it is highly probable that the amount of variable consideration recognised will not be significantly reversed when the uncertainty is resolved. Detailed calculations and an assessment of the risks associated with the recognition of the fee are completed to inform the assessment of the appropriate revenue to recognise. Key risks include the period remaining from balance sheet date to performance fee crystallisation date and the degree of probability that any potential fee may unwind during that period. Key drivers of performance fees are assessed based on historic data and prevailing economic conditions to inform judgements on the extent to which the fee can be reliably estimated.

(c) Intangible assets

Critical judgements and estimates are made by the 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 10 for further details.

Critical judgements are also made in assessing the manner in which the cost of indefinite life intangible assets is expected to be recovered and in recognising a corresponding deferred tax liability.

(d) Goodwill

Management regularly reviews goodwill for signs of impairment and tests for impairment at least annually. Where indicators of impairment are identified, the Group determines a recoverable amount of the cash generating unit. 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.

(e) Deferred tax assets

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.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

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 proportionately consolidated fair value adjustments, gains or losses on sale of investments, amortisation and/or impairment of intangible assets, performance fee expenses, non-operating tax expense and other unrealised or one-off items. Operating earnings is the primary measure of the Group's underlying and recurring earnings. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate dividend and distribution to declare.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA) is used by the Board in assessing the performance of and allocating resources to its operating segments.

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 investment management services and property services.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

3 Segment information (continued)

(b) Operating segments

The operating segments provided to the Board for the half year ended 31 December 2018 are as follows:

	Property Investments \$'m	Property Funds Management \$'m	Total \$'m
31 December 2018			
Property Investment earnings	52.6	-	52.6
Investment management revenue	-	106.2	106.2
Property services revenue	-	21.4	21.4
Total income	52.6	127.6	180.2
Net operating expenses	(0.5)	(32.9)	(33.4)
Corporate expenses	-	(12.6)	(12.6)
EBITDA	52.1	82.1	134.2
Depreciation			(2.4)
Net interest expense			(2.9)
Operating earnings before tax			128.9
Income tax expense			(21.4)
Operating earnings attributable to stapled securityholders			107.5
Basic weighted average number of securities ('m)			465.8
Operating earnings per stapled security (cents)			23.1

	Property Investments \$'m	Property Funds Management \$'m	Total \$'m
31 December 2017			
Property Investment earnings	50.7	-	50.7
Investment management revenue	-	82.2	82.2
Property services revenue	-	25.3	25.3
Total income	50.7	107.5	158.2
Net operating expenses	(0.5)	(33.0)	(33.5)
Corporate expenses	-	(11.9)	(11.9)
EBITDA	50.2	62.6	112.8
Depreciation			(1.9)
Net interest income			0.8
Operating earnings before tax			111.7
Income tax expense			(16.6)
Operating earnings attributable to stapled securityholders			95.1
Basic weighted average number of securities ('m)			465.8
Operating earnings per stapled security (cents)			20.4

Refer to Note 7 for statutory earnings per stapled security figures.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

3 Segment information (continued)

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

	31 Dec 2018	31 Dec 2017
	\$'m	\$'m
Operating earnings attributable to stapled securityholders	107.5	95.1
Realised and unrealised gains/(losses) on derivatives ¹	(6.7)	0.5
Net fair value movements on equity accounted investments ¹	48.7	48.6
Amortisation of intangibles	(1.7)	(1.4)
Non-operating income tax benefit	-	0.3
Loss on disposal of property investments ¹	(0.4)	(0.5)
Performance fees expense ¹	(4.6)	(15.9)
Other ¹	(9.3)	(6.1)
Statutory profit after tax attributable to stapled securityholders	133.5	120.6

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

	31 Dec 2018	31 Dec 2017
Basic weighted average number of securities per Note 7	465,777,131	465,777,131
Operating earnings per stapled security (OEPS)	23.1 cents	20.4 cents

Refer to Note 7 for statutory earnings per stapled security figures.

(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

	31 Dec 2018	31 Dec 2017
	\$'m	\$'m
EBITDA – property investments	52.1	50.2
Add: non-operating equity accounted profit	33.1	29.4
Less: distributions in operating income	(1.1)	(1.2)
Add: equity accounted development profit	1.1	-
Add: net gain on investment in associates at fair value	1.3	0.8
Add: net operating expenses	0.5	0.5
Less: net rental income	(1.6)	(1.9)
	85.4	77.8
Share of net profit of investments accounted for using the equity method	84.1	77.0
Net gain on investment in associates at fair value	1.3	0.8
	85.4	77.8

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

	31 Dec 2018	31 Dec 2017
	\$'m	\$'m
Property funds management revenue	127.6	107.5
Add: recovery of property and fund-related expenses	22.5	17.6
Add: interest income	2.3	1.7
Add: distributions received for investments accounted for at fair value	1.1	1.2
Add: rental income	3.9	2.5
Less: equity accounted development profit and interest income from developments	(1.4)	-
Revenue per statement of comprehensive income	156.0	130.5

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.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

4 Revenue

	Charter Hall Group		Charter Hall Property Trust Group	
	31 Dec 2018 \$'m	31 Dec 2017 \$'m	31 Dec 2018 \$'m	31 Dec 2017 \$'m
Gross rental income	3.9	2.5	3.9	2.5
Investment management revenue ¹	104.8	82.2	-	-
Property services revenue ¹	21.4	25.3	-	-
	130.1	110.0	3.9	2.5
<i>Other revenue</i>				
Recovery of property and fund-related expenses	22.5	17.6	-	-
Interest	2.3	1.7	6.2	2.8
Distributions/Dividends ²	1.1	1.2	1.9	1.2
Other investment-related revenue	-	-	5.2	5.2
Total other revenue	25.9	20.5	13.3	9.2
Total revenue ³	156.0	130.5	17.2	11.7

¹ Revenue from the Group's property and funds management business is categorised into the two main lines of operations, being investment management and property services.

² Represents the distribution of income from investments in associates accounted for at fair value by the Group and Charter Hall Property Trust Group.

³ Revenue excludes share of net profits of equity accounted associates and joint ventures.

5 Business combination

On 7 November 2018, the Group acquired 100% of the issued shares in Folkestone Limited (ASX: FLK, delisted 8 November 2018). Folkestone shareholders received from Charter Hall \$1.354 cash per share, which equates to a purchase consideration of \$205.0 million. Charter Hall also issued 1.5 million CHC service rights to FLK management which vest over 3 years.

Details of the purchase consideration, the provisional fair value of net assets acquired and goodwill are as follows:

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

5 Business combination (continued)

	Charter Hall Group	
	Note	\$'m
Purchase consideration - cash paid		205.0
The fair value of the assets and liabilities recognised as a result of the acquisition are as follows:		
Assets		
Cash and cash equivalents		12.9
Loans to associated entities		30.0
Receivables		3.1
Inventories		28.5
Investment in equity accounted investments	8	111.0
Other financial assets		2.2
Management rights	10	57.3
Liabilities		
Payables		(9.4)
Short term borrowings		(19.9)
Employee benefit obligations		(1.1)
Long term borrowings		(10.0)
Net deferred tax liabilities		(15.7)
Net identifiable assets acquired		188.9
Add: goodwill		16.1
		205.0

(a) Goodwill

Goodwill is attributable to the leading position in social infrastructure, expected synergies and the increased diversity of sources of equity available to the Group following the acquisition of Folkestone Limited.

(b) Revenue and profit contribution

FLK contributed revenues of \$2.5 million and net profit of \$3.4 million to the Group for the period 7 November 2018 to 31 December 2018. If the acquisition had occurred on 1 July 2018, total revenue for the Group, combining Charter Hall and Folkestone, would have been \$163.5 million and net profit would have been \$139.1 million, excluding fair value adjustments relating to the business combination.

(c) Acquisition related costs

Acquisition-related costs of \$1.8 million are included in administration and other expenses in profit or loss.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

6 Distributions/Dividends paid and payable

	Charter Hall Group		Charter Hall Property Trust Group	
	31 Dec 2018 \$'m	31 Dec 2017 \$'m	31 Dec 2018 \$'m	31 Dec 2017 \$'m
Ordinary stapled securities				
Interim ordinary dividend of 8.2 cents and interim ordinary distribution of 8.3 cents per stapled security for the six months ended 31 December 2018 payable on 28 February 2019	76.9	-	38.7	-
Interim ordinary dividend of 6.2 cents and interim ordinary distribution of 9.4 cents per stapled security for the six months ended 31 December 2017 paid on 28 February 2018	-	72.7	-	43.8
Total distributions/dividends paid and payable to stapled securityholders	76.9	72.7	38.7	43.8
Distributions paid and payable to DCSF non-controlling interests	1.6	0.1	1.6	0.1
Total distributions/dividends paid and payable	78.5	72.8	40.3	43.9

Franking credits available in the parent entity on a tax rate of 30% (30 June 2018: 30%) are \$49.8 million (30 June 2018: \$35.7 million). These amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the reporting period.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

7 Earnings per stapled security

	Charter Hall Group		Charter Hall Property Trust Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	Cents	Cents	Cents	Cents
(a) Basic earnings per stapled security attributable to:				
Equity holders of Charter Hall Limited	10.5	8.5	n/a	n/a
Equity holders of Charter Hall Property Trust (non-controlling interest)	18.2	17.4	18.2	17.4
Stapled securityholders of Charter Hall Group	28.7	25.9	n/a	n/a
(b) Diluted earnings per stapled security attributable to:				
Equity holders of Charter Hall Limited	10.4	8.5	n/a	n/a
Equity holders of Charter Hall Property Trust (non-controlling interest)	18.1	17.3	18.1	17.3
Stapled securityholders of Charter Hall Group	28.5	25.8	n/a	n/a
	\$'m	\$'m	\$'m	\$'m
(c) Earnings used in calculating earnings per stapled security				
Profit attributable to equity holders of Charter Hall Limited	48.9	39.4	n/a	n/a
Profit attributable to the ordinary stapled securityholders of the Group used in calculating basic and diluted earnings per stapled security	133.5	120.6	84.6	81.2
	Number	Number	Number	Number
(d) Weighted average number of stapled securities used as the denominator				
Weighted average number of ordinary stapled securities	465,777,131	465,777,131	465,777,131	465,777,131
Adjustments for calculation of diluted earnings per stapled security:				
Performance rights	2,130,914	2,217,370	2,130,914	2,217,370
Service rights	626,003	360,437	626,003	360,437
Weighted average number of ordinary stapled securities and potential ordinary stapled securities	468,534,048	468,354,938	468,534,048	468,354,938

(e) Information concerning the classification of securities

Performance rights and 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 performance and/or service conditions.

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

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

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

8 Investments in associates and joint ventures

		OWNERSHIP INTEREST			
Charter Hall Group		31 Dec 2018	30 Jun 2018	31 Dec 2018	30 Jun 2018
Name of entity	Principal Activity	%	%	\$'m	\$'m
Accounted for at fair value through profit or loss: ¹					
<i>Unlisted</i>					
Charter Hall Direct Industrial Fund No.4	Property investment	14.1	16.4	31.5	30.8
Other associates	Property investment			0.7	1.6
Total fair value through profit or loss associates				32.2	32.4
Equity accounted					
<i>Unlisted</i>					
Charter Hall Prime Office Fund	Property investment	7.6	8.4	268.7	258.8
Charter Hall Office Trust ²	Property investment	15.7	15.7	251.9	246.4
Charter Hall Prime Industrial Fund	Property investment	5.1	5.9	124.5	121.0
Brisbane Square Wholesale Fund	Property investment	16.8	16.8	104.7	102.1
Charter Hall Core Logistics Partnership	Property investment	9.2	13.8	103.0	148.8
BP Fund	Property investment	12.8	11.9	62.4	54.7
Charter Hall Prime Retail Fund	Property investment	29.4	38.0	59.5	45.7
Retail Partnership No. 6 Trust	Property investment	20.0	20.0	37.4	36.7
Deep Value Partnership	Property investment	50.5	-	27.3	-
BP Fund 2	Property investment	17.5	17.6	25.5	25.4
<i>Listed</i>					
Charter Hall Retail REIT ³	Property investment	17.7	18.7	310.4	327.6
Charter Hall Long WALE REIT ⁴	Property investment	19.0	20.4	217.6	195.2
Charter Hall Education Trust ⁵	Property investment	15.3	-	115.7	-
Other associates	Property investment/ development			55.6	54.7
Total equity accounted investments				1,765.8	1,617.1
Total investments in associates and joint ventures				1,798.0	1,649.5

¹ These investments comprise units in unlisted Charter Hall managed funds which have been designated at fair value through profit or loss. Changes in fair values are recorded in fair value adjustments in the consolidated statement of comprehensive income.

² The entity has a 31 December balance date.

³ Fair value at the ASX closing price as at 31 December 2018 was \$319.5 million (30 June 2018: \$315.6 million).

⁴ Fair value at the ASX closing price as at 31 December 2018 was \$227.9 million (30 June 2018: \$208.6 million).

⁵ Fair value at the ASX closing price as at 31 December 2018 was \$116.5 million (30 June 2018: \$nil).

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

8 Investments in associates and joint ventures (continued)

		OWNERSHIP INTEREST			
Charter Hall Property Trust Group		31 Dec 2018 %	30 Jun 2018 %	31 Dec 2018 \$'m	30 Jun 2018 \$'m
Name of entity	Principal Activity				
Accounted for at fair value through profit or loss: ¹					
<i>Unlisted</i>					
Charter Hall Direct Industrial Fund No.4	Property investment	18.3	16.4	31.5	30.8
Other Associates	Property investment			0.7	1.6
Total fair value through profit or loss associates				32.2	32.4
Equity accounted					
<i>Unlisted</i>					
Charter Hall Prime Office Fund	Property investment	7.2	15.7	253.5	246.4
Charter Hall Office Trust ²	Property investment	15.7	7.9	251.9	244.1
Brisbane Square Wholesale Fund	Property investment	16.8	16.8	104.7	102.1
Charter Hall Core Logistics Partnership	Property investment	9.2	13.8	103.0	148.8
BP Fund	Property investment	12.8	11.9	62.4	54.7
Charter Hall Prime Industrial Fund	Property investment	2.9	2.8	60.0	58.3
Charter Hall Prime Retail Fund	Property investment	29.4	38.0	59.5	45.7
Retail Partnership No. 6 Trust	Property investment	20.0	20.0	37.4	36.7
BP Fund 2	Property investment	17.5	17.6	25.5	25.4
<i>Listed</i>					
Charter Hall Retail REIT ³	Property investment	17.7	18.7	310.4	327.6
Charter Hall Long WALE REIT ⁴	Property investment	19.0	20.4	217.6	195.2
Other Associates	Property investment/ development			71.2	58.3
Total equity accounted investments				1,557.1	1,543.3
Total investments in associates and joint ventures				1,589.3	1,575.7

¹ These investments comprise units in unlisted Charter Hall managed funds which have been designated at fair value through profit or loss. Changes in fair values are recorded in fair value adjustments in the consolidated statement of comprehensive income.

² The entity has a 31 December balance date.

³ Fair value at the ASX closing price as at 31 December 2018 was \$319.5 million (30 June 2018: \$315.6 million).

⁴ Fair value at the ASX closing price as at 31 December 2018 was \$227.9 million (30 June 2018: \$208.6 million).

Contingent liabilities of associates and joint ventures

Charter Hall Prime Office Fund's capital expenditure contracted for at the reporting date but not recognised as liabilities was \$587.1 million (2018: \$604.1 million) relating to investment properties.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

9 Investment properties

The Group's controlled entity investment fund, Charter Hall Direct Diversified Consumer Staples Fund, has a portfolio of investment properties which are consolidated into the Group's balance sheet.

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

	Charter Hall Group		Charter Hall Property Trust Group	
	6 months to 31 Dec 2018 \$'m	12 months to 30 Jun 2018 \$'m	6 months to 31 Dec 2018 \$'m	12 months to 30 Jun 2018 \$'m
Opening balance	63.4	40.4	63.4	40.4
Additions	59.3	28.9	59.3	28.9
Fair value adjustments	(2.0)	(0.4)	(2.0)	(0.4)
Disposals	-	(5.5)	-	(5.5)
Closing balance	120.7	63.4	120.7	63.4

Key valuation assumptions used in the determination of the investment properties' fair value and the Group's valuation policy are disclosed in Note 14.

10 Intangible assets

On 7 November 2018, Charter Hall Group acquired 100% of the issued shares in Folkestone Limited (ASX: FLK, delisted 8 November 2018), a diversified real estate funds manager and developer. This resulted in the Group securing the management rights to Folkestone's real estate management platform, including management rights classified as indefinite life totalling \$49.0 million. The remaining rights acquired of \$8.3 million have been classified as finite life and will be amortised over the life of the related funds.

	Charter Hall Group		Charter Hall Property Trust Group	
	6 months to 31 Dec 2018 \$'m	12 months to 30 Jun 2018 \$'m	6 months to 31 Dec 2018 \$'m	12 months to 30 Jun 2018 \$'m
Management rights				
Opening balance	62.7	65.4	-	-
Additions	57.3	-	-	-
Amortisation	(1.7)	(2.7)	-	-
Closing balance	118.3	62.7	-	-
Goodwill				
Opening balance	-	-	-	-
Additions	16.1	-	-	-
Closing balance	16.1	-	-	-
Total intangible assets	134.4	62.7	-	-

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

11 Borrowings

	Charter Hall Group		Charter Hall Property Trust Group	
	31 Dec 2018 \$'m	30 Jun 2018 \$'m	31 Dec 2018 \$'m	30 Jun 2018 \$'m
Current liabilities				
Movement in fair value of bonds commitment attributable to the hedged position	-	2.2	-	2.2
Loans - associated entities	5.9	-	-	-
	5.9	2.2	-	2.2
Non-current liabilities				
Bonds	251.0	-	251.0	-
Cash advance facilities (DCSF)	33.3	5.4	33.3	5.4
Less: unamortised transaction costs	(3.0)	(1.8)	(3.0)	(1.8)
	281.3	3.6	281.3	3.6

Charter Hall Group

The Group's debt platform includes the following:

- Unsecured \$200.0 million credit facility plus an additional \$20.0 million unsecured facility to support the bank guarantees maturing on May 2023.
- US\$175.0 million (A\$231.5 million at issue date) bonds issued through a US Private Placement which was fully funded in August 2018 and mature in August 2028.

In May 2018, the Group entered into A\$/US\$ cross currency interest rate swap agreements that hedge the Group's exposure to foreign currency and interest rate fluctuations arising from the bonds issuance. The swap agreements entitle the Group to repay the bonds at A\$231.5 million in August 2028. At 31 December 2018, the carrying amount of the bonds at the prevailing spot rate was A\$251.0 million including a fair value adjustment of A\$2.8 million. The carrying amount is offset by the fair value movements of the swap.

The swap agreements also entitle the Group to receive interest, at semi-annual intervals, at a fixed rate on a notional principal amount of US\$175.0 million and oblige it to pay, at quarterly intervals, at a floating rate on a notional principal amount of A\$231.5 million. The swap agreements mature in August 2028.

At 31 December 2018, drawn borrowings of \$231.5 million (30 June 2018: \$nil) and bank guarantees of \$14.3 million (30 June 2018: \$14.3 million) had been utilised under these facilities, which under the terms of the agreements reduce the available facilities. No liability is recognised for bank guarantees.

DCSF Facility

The fund has two revolving debt facilities of A\$50.5 million and NZ\$7.0 million, secured against the fund's investment properties (see note 9). The facilities have a maturity date of October 2023. At 31 December 2018, drawn borrowings of A\$27.6 million and NZ\$6.0 million had been utilised under these facilities respectively.

12 Contributed equity

(a) Security capital

	31 Dec 2018 Securities	30 Jun 2018 Securities	31 Dec 2018 \$'m	30 Jun 2018 \$'m
Charter Hall Limited			286.6	285.7
Charter Hall Property Trust			1,448.6	1,453.5
Ordinary stapled securities, fully paid	465,777,131	465,777,131	1,735.2	1,739.2

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

(b) Movements in ordinary stapled security capital

Details	Number of securities	Weighted average issue price	Charter Hall Limited \$'m	Charter Hall Property Trust \$'m	Total \$'m
Opening balance at 1 July 2017	465,777,131		285.0	1,456.9	1,741.9
Buyback and issuance of securities for exercised performance and service rights ¹	-	\$2.83	(0.4)	(3.3)	(3.7)
Tax recognised directly in equity	-		1.1	-	1.1
Closing balance at 30 June 2018	465,777,131		285.7	1,453.6	1,739.3
Less: transaction costs on stapled security issues			-	(0.1)	(0.1)
Closing balance per accounts at 30 June 2018	465,777,131		285.7	1,453.5	1,739.2
Buyback and issuance of securities for exercised performance and service rights ²	-	\$2.25	(0.7)	(4.9)	(5.6)
Tax recognised directly in equity	-		1.6	-	1.6
Closing balance at 31 December 2018	465,777,131		286.6	1,448.6	1,735.2

¹ 1,356,889 stapled securities bought on market at an average value of \$5.58, offset by the exercise of 918,240 performance rights with a fair value of \$2.09 and 438,649 service rights with an average value of \$4.37.

² 1,121,488 stapled securities bought on market at an average value of \$7.20, offset by the exercise of 857,738 performance rights with a fair value of \$1.41 and 263,750 service rights with an average value of \$4.97.

13 Non-controlling interests

During the period, the Group reduced its holding in the Charter Hall Direct Diversified Consumer Staples Fund from 61.3% to 51.0%. The proceeds on redemption were \$10.0 million, received in cash.

14 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 8).
- Derivatives.
- Investment properties (refer to note 9).

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- 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:

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

14 Fair value measurement (continued)

	Level 1 \$'m	Level 2 \$'m	Level 3 \$'m	Total \$'m
Charter Hall Group				
31 December 2018				
Investments in associates at fair value through profit and loss	-	-	32.2	32.2
Investment properties	-	-	120.7	120.7
Cross currency interest rate swaps	-	24.1	-	24.1
Total assets	-	24.1	152.9	177.0
30 June 2018				
Investments in associates at fair value through profit and loss	-	-	32.4	32.4
Investment properties	-	-	63.4	63.4
Total assets	-	-	95.8	95.8
Cross currency interest rate swaps	-	(1.4)	-	(1.4)
Total liabilities	-	(1.4)	-	(1.4)
Charter Hall Property Trust Group				
31 December 2018				
Investments in associates at fair value through profit and loss	-	-	32.2	32.2
Investment properties	-	-	120.7	120.7
Cross currency interest rate swaps	-	24.1	-	24.1
Total assets	-	24.1	152.9	177.0
30 June 2018				
Investments in associates at fair value through profit and loss	-	-	32.4	32.4
Investment properties	-	-	63.4	63.4
Total assets	-	-	95.8	95.8
Cross currency interest rate swaps	-	(1.4)	-	(1.4)
Total liabilities	-	(1.4)	-	(1.4)

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 2 fair values

Derivatives

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

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

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

(d) 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.

Notes to the consolidated financial statements (continued)

for the half year ended 31 December 2018

14 Fair value measurement (continued)

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.

15 Commitments

Capital commitments

Charter Hall Group

The Group has capital expenditure and funding guarantee contracted for at the reporting date but not recognised as liabilities of \$44.0 million relating to a development joint venture.

The Group had no contracted commitments as at 30 June 2018.

Charter Hall Property Trust Group

The Trust Group had no contracted capital commitments as at 31 December 2018 (30 June 2018: \$nil).

16 Contingent liabilities

In relation to a development agreement, there are a number of conditions that, should they arise, require the Group to purchase land at a pre-determined minimum price of \$20.0 million.

17 Changes in accounting policies

The Group adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. The adoption of these standards has no material impact on the Group's financial position or results and no retrospective adjustments were required. The impact of these new standards is described below.

(a) AASB 9 *Financial Instruments*

The Group has adopted AASB 9 as issued in December 2014, which resulted in changes to accounting policies but no adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated.

AASB 9 replaces the provisions of AASB 139 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. AASB 9 also significantly amends other standards dealing with financial instruments such as AASB 7 *Financial Instruments: Disclosures*.

Classification and measurement

On 1 July 2018, the Group assessed the business models which apply to its financial assets at the date of initial application of AASB 9 and has classified its financial instruments accordingly. No changes to valuations were applied on application of AASB 9 as the affected assets were measured at amortised cost under AASB139 and will continue to be measured at amortised cost under AASB9.

Impairment of financial assets

The Group has the following types of financial assets which are subject to AASB 9's new expected credit loss model:

- Trade receivables and contract assets for services provided;
- Related party balances outstanding, including convertible bonds.

The Group has revised its impairment methodology to be consistent with the requirements of AASB 9. The Group considers its financial asset balances, which are all held at amortised cost, to be low risk and thus the methodology has not resulted in the recognition of an impairment of any financial assets.

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2018

17 Changes in accounting policies (continued)

Accounting policies

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for expected credit losses. Trade receivables are due for settlement no more than 21 days from the date of recognition. Expected credit losses in relation to trade receivables are reviewed on an ongoing basis.

(b) Other financial assets

Classification

The Group classifies its other financial assets as being measured either:

- at fair value through other comprehensive income or through profit or loss; or
- at amortised cost.

The means by which the assets are measured depends upon how they are managed and the contractual terms of the cash flows.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Presently all the Group's debt instruments are classified under amortised cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

(c) Impairment

Trade receivables

For trade receivables, the group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime expected credit loss provision for all trade receivables from initial recognition of the receivables.

Any impairment loss is recognised through the consolidated statement of comprehensive income.

Debt instruments

The group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(d) Derivatives and hedge accounting

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

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges or cash flow hedges.

The Group's derivatives in place as at 30 June 2018 qualified as fair value and cash flow hedges under AASB 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of AASB 9 and these relationships are therefore treated as continuing hedges.

Fair value hedges that qualify for hedge accounting

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2018

17 Changes in accounting policies (continued)

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

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within 'Net gains/(losses) from derivative financial instruments'.

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

(e) Accounting policies applied prior to 1 July 2018

The Group has applied AASB 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(b) AASB 15 Revenue from Contracts with Customers

The Group adopted AASB 15 from 1 July 2018, which resulted in changes in accounting policies, but no material impact on the Group's financial position or results. The Group adopted the simplified transition approach under which no retrospective adjustments were required.

Accounting policies

The amount of revenue recognised in each period is based on the delivery of performance obligations and when control has been transferred to customers in accordance with the principles set out in AASB 15. Where the Group enters into contracts with multiple service components, judgement is applied to determine whether the components are:

- *distinct* - accounted for as separate performance obligations;
- *not distinct* - combined with other promised services until a distinct bundle is identified; or
- *part of a series* of distinct services that are substantially the same and have the same pattern of transfer to the customer.

For each performance obligation identified, it is determined whether revenue is recognised at a point in time or over time. Revenue is recognised over time if:

- The customer simultaneously receives and consumes the benefits provided over the life of a contract as the services are performed;
- The customer controls the asset that the Group is creating or enhancing; or
- The Group's performance does not create an asset with an alternative use to the Group and has an enforceable right to payment for performance completed to date.

At contract inception, the Group estimates the consideration to which it expects to be entitled and has rights to receive under the contract. Variable consideration, where the Group's performance could result in further revenue, is only included to the extent that it is highly probable that a significant reversal of revenue recognised will not occur.

In assessing the amount of consideration to recognise, key judgements and assumptions are made on a forward-looking basis where required.

To the extent revenue has not been received at the reporting date, a receivable is recognised in the consolidated balance sheet.

Investment Management revenue

Fund management fees are received for performance obligations fulfilled over time with revenue recognised accordingly. Fund management fees are determined in accordance with relevant agreements for each fund, based on the fund's periodic (usually monthly or quarterly) Gross Asset Value ("GAV").

Generally, invoicing of funds for management fees occurs on a quarterly basis and receivable within 21 days.

Performance fees are for performance obligations fulfilled over time and for which consideration is variable. The fees for each applicable fund are determined in accordance with the relevant agreement which stipulates out-performance of a benchmark over a given period of time.

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2018

17 Changes in accounting policies (continued)

Performance fee revenue is recognised to the extent that it is highly probable that the amount of variable consideration recognised will not be significantly reversed when the uncertainty is resolved. Detailed calculations and an assessment of the risks associated with the recognition of the fee are completed to inform the assessment of the appropriate revenue to recognise.

Invoicing of funds for performance fees occurs in accordance with the contractual performance fee payment date.

A contract asset is recognised in the consolidated balance sheet at each reporting date in line with revenue recognised where the right to receive consideration remains conditional on future performance.

Transaction fee revenue is recognised at a point in time upon fulfillment of the performance obligation. This is usually the point at which control of the underlying asset being transacted has transferred to the buyer.

Transaction fees are invoiced when the performance obligation has been fulfilled and are receivable within 21 days.

Property Services revenue

Property services primarily include property management, development management, leasing, facilities and project management. Revenue is recognised either over time or at a point in time depending on the terms of the specific agreement for each type of service. Invoicing of funds for property services fees occurs on a monthly or quarterly basis and is receivable within 21 days.

Recovery of property and fund-related expenses revenue

Accounting, marketing and property management services provided to managed funds are charged as an expense recovery. Revenue is recognised over time as the performance obligations are fulfilled. Invoicing of funds for expense recoveries occurs on a monthly or quarterly basis depending on the recovery type and is receivable within 21 days.

18 Events occurring after the reporting date

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significant 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 half year ended 31 December 2018

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 interim 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 9 to 33 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 31 December 2018 and of their performance for the half 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.

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



David Clarke
Chair
Sydney
22 February 2019



Independent auditor's review report to the security holders of Charter Hall Limited and Charter Hall Property Trust

Report on the Interim Financial Reports

We have reviewed the accompanying interim financial reports of Charter Hall Group and Charter Hall Property Trust Group which comprise:

- the consolidated balance sheets as at 31 December 2018
- the consolidated statements of comprehensive income for the period then ended
- the consolidated statement of changes in equity – Charter Hall Group for the period then ended
- the consolidated statement of changes in equity – Charter Hall Property Trust Group for the period then ended
- the consolidated cash flow statements for the period then ended
- the notes to the consolidated financial statements
- 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 period end or from time to time during the period and Charter Hall Property Trust and the entities it controlled at period end or from time to time during the period. The Charter Hall Property Trust Group comprises Charter Hall Property Trust and the entities it controlled at period end or from time to time during the period.

Directors' responsibility for the interim 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 the interim 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 the interim financial reports that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial reports based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial reports are not in accordance with the *Corporations Act 2001* including giving a true and fair view of the financial positions of the Charter Hall Group and the Charter Hall Property Trust Group as at 31 December 2018 and their performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Charter Hall Limited and Charter Hall Property Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial reports.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial reports of Charter Hall Group and Charter Hall Property Trust Group are not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of Charter Hall Group's and Charter Hall Property Trust Group's financial positions as at 31 December 2018 and of Charter Hall Group's and Charter Hall Property Trust Group's performance for the period ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that appears to be 'E A Barron'.

E A Barron
Partner

Sydney
22 February 2019