Charter Hall

Charter Hall Long WALE REIT

Annual Report 2018

About us

Charter Hall Long WALE REIT is focused on investing in and managing a high quality, diversified real estate portfolio leased to corporate and government tenants on long-term leases.

Charter Hall Long WALE REIT (ASX:CLW) is managed by Charter Hall Group (ASX:CHC), one of Australia's leading fully integrated property groups, with over 27 years' experience managing high quality real estate on behalf of institutional, wholesale and retail clients. Charter Hall has $23.2 billion of funds under management and manages 330 properties across the office, industrial and retail sectors.

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COVER IMAGE: Woolworths Dandenong Distribution Centre, 225 Glasscocks Road, Dandenong South, VIC

Our Strategy

Charter Hall Long WALE REIT (ASX:CLW), is an Australian Real Estate Investment Trust ("REIT") listed on the ASX. The REIT is focused on providing investors with stable and secure income and the potential for both income and capital growth through an exposure to long WALE properties. The REIT is actively managed to grow the portfolio through direct and indirect investments across multiple real estate sectors.

Virgin Australia Head Office, Bowen Hills, QLD

2018 Highlights

Charter Hall Long WALE REIT successfully completed $101 million of new property acquisitions in FY18 building upon the underlying strength of the portfolio. With no major lease expiries until FY21 the portfolio is well positioned to provide sustainable returns to securityholders.

FY18 HIGHLIGHTS

100%
OCCUPANCY

81
PROPERTIES

10.8yrs
PORTFOLIO WALE

Financial Performance

OPERATING EPS

26.4c

3.9% annual EPS growth

DPS

26.4c

100% payout ratio

NTA PER SECURITY

$4.05

2.9% increase since June 2017

Portfolio Performance

TOTAL PORTFOLIO VALUE GROWTH

$128m

PORTFOLIO WACR[1]

6.13%

7bps compression since June 2017

PORTFOLIO VALUATION

$1.5b

Capital Management

BALANCE SHEET GEARING

30.6%

within target range of 25% to 35%

DEBT FACILITY REFINANCE

$100m

with new lender diversifies debt sources

HEDGE DURATION

5.2yrs

1. Weighted Average Capitalisation Rate.

Coles Distribution Centre, 136 Horrie Miller Drive, WA

Chair and Fund Manager's Letter

These solid results reflect our ability to manage and grow the REIT through strategic, long WALE acquisitions and active portfolio management.

Peeyush Gupta and Avi Anger

"We will continue to focus on actively managing the REIT and acquiring properties with long leases to high quality tenants to create value and deliver sustainable and growing returns for investors."

PEEYUSH GUPTA
CHAIR

CLW ended the 2018 financial year, the REIT's first full 12-month reporting period, in a strong position and we are pleased to have delivered secure income and capital growth, achieving an FY18 EPS and DPS of 26.4 cents per security.

The total portfolio value grew $128 million to $1.53 billion through acquisitions and an increase in property valuations, resulting in annual net tangible asset growth of 2.9% to $4.05 per security. This represents 5.5% growth from the net tangible assets of $3.84 per security at the time of IPO.

We are delivering on our strategy to provide investors with stable and secure income and targeting both income and capital growth through an exposure to long WALE properties. The REIT is actively managed to grow the portfolio across multiple real estate sectors for diversification benefits. We focus on properties leased to tenants with strong covenants on long leases.

High quality portfolio

CLW's portfolio of 81 properties comprising, office (30%), industrial (45%) and retail (25%) is strategically diversified by geography, tenant, industry and property type. Through active management, CLW's property portfolio maintained 100% occupancy during FY18 with a healthy 10.8-year weighted average lease expiry at year end. The portfolio comprises a strong and stable tenant base with 16 high quality tenant customers including the Australian Government, Woolworths, ALH Group, Coles, Suez, Westpac and Bunnings, who operate across predominantly non-discretionary industries.

Strategic long WALE acquisitions

This financial year, the REIT demonstrated its ability to optimise the portfolio through acquisitions, divestments and lease extensions to provide diversification benefits and ensure long-term secure income.

We have expanded and enhanced the REIT's portfolio with three strategic property acquisitions during the year comprising Bunnings Mackay, Queensland, Virgin Australia Head Office, Bowen Hills, Brisbane and the Bridge Inn Hotel, Mernda, Melbourne. This has delivered increased portfolio diversification, increased the geographic weighting of the portfolio to the eastern seaboard of Australia and further enhances the quality of our underlying earnings.

Post balance date, we also announced a fourth acquisition of a 50% interest in 40 Tank Street, Brisbane leased to the Queensland State Government and Care Parking. Overall, the acquisitions have broadened CLW's strong customer tenant base with the addition of three high quality tenants in Bunnings, Virgin Australia and the Queensland State Government to our portfolio.

We also successfully completed a $94.1 million equity raising associated with the Virgin Australia Head Office acquisition which was strongly supported by investors and allowed us to introduce new institutional investors to our register.

These acquisitions were offset by the strategic divestment of the Prestons Hotel, Prestons Melbourne, occurring during FY18 and both Grace Worldwide, Willawong, Brisbane and 50% of the ATO Building, 12-26 Franklin Street, Adelaide, occurring post balance date.

The REIT maintained a long average WALE across its portfolio of 10.8 years with no major lease expiries until FY21.

Strengthened the REIT's capital position

At year end, CLW's balance sheet gearing stood at 30.6%, comfortably within our target range of 25% to 35%. CLW's gearing reflects the opportunities we have seized upon to both grow and enhance the underlying property portfolio. Specifically, this included the acquisition of Bunnings Mackay and the development of the new Woolworths Distribution Centre in Dandenong, both of which were debt-funded.

During the period, CLW completed several capital management initiatives, including:

- expanding the balance sheet debt facility limit by $20 million to $470 million and extending the maturity date to February 2022;
- completing a $94.1 million non-renounceable entitlement offer to fund the Virgin Australia Head Office acquisition; and
- extending the hedge maturity to 5.2 years.

The REIT's weighted average debt maturity stood at 4.3 years at year end, with 75% of debt hedged. Post balance date, CLW has refinanced $100 million of its syndicated debt facility with Bank of China, diversifying its lending sources and extending the weighted average debt maturity to 4.5 years.

For more information, please visit **charterhall.reportonline.com.au/fy18/clw/**

40 Tank Street, Brisbane, QLD. Ownership to be shared 50% by CLW and 50% by the unlisted Charter Hall Direct PFA Fund

> "We are actively managing our portfolio, recycling capital from divestments into longer-WALE assets that deliver a more secure and diverse income stream."

AVI ANGER
FUND MANAGER

Scale and experience

CLW benefits from the national presence and quality and depth of experience of the real estate professionals of its manager, Charter Hall Group. CLW draws from Charter Hall's expertise across funds management, transactions, asset management, finance, marketing, human relations, investor relations and corporate services.

Charter Hall has over 27 years' experience managing high quality property on behalf of institutional, wholesale and retail clients. As at 30 June 2018, Charter Hall has $23.2 billion of funds under management across the office, industrial and retail sectors. Charter Hall is able to leverage its strong cross-sector relationships to secure high quality investment opportunities having completed $3.5 billion of gross transactions in the period.

Simplified structure

Following securityholder approval on 22 September 2017, an initial simplification was completed whereby the number of trusts in the CLW stapled trust structure was reduced from seven trusts to three trusts.

A further simplification was approved by securityholders on 6 August 2018, such that the REIT structure is further simplified to two stapled trusts. This recent simplification will further streamline reporting and administration costs for the REIT.

Outlook

In the year ahead, we will continue to focus on actively managing the REIT and acquiring properties with long leases to high quality tenants to create value and deliver sustainable and growing returns for investors.

Barring any unforeseen events and with no material change in current market conditions, CLW is targeting FY19 Operating EPS of between 26.4 and 26.6 cents per security, subject to the re-investment of proceeds from the sale of 50% of the ATO Adelaide office building.

The target distribution payout ratio remains at 100% of Operating Earnings.

We are well positioned to execute on opportunities as and when they arise and we thank you, our securityholders, for your ongoing support and trust in our team. ◆

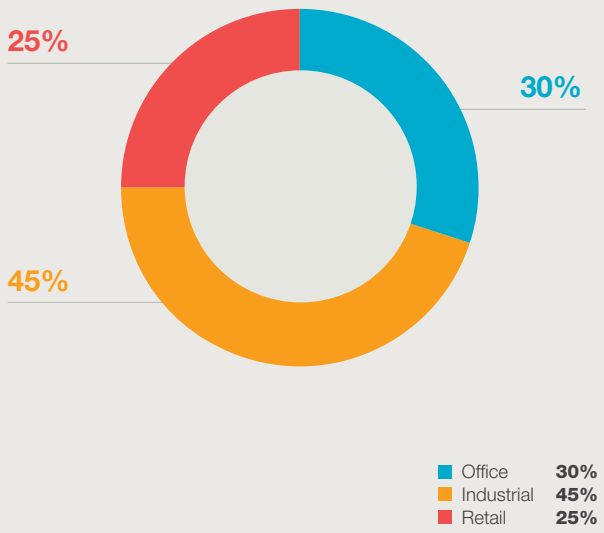
Peeyush Gupta
Chair

Avi Anger
Fund Manager

Portfolio Performance

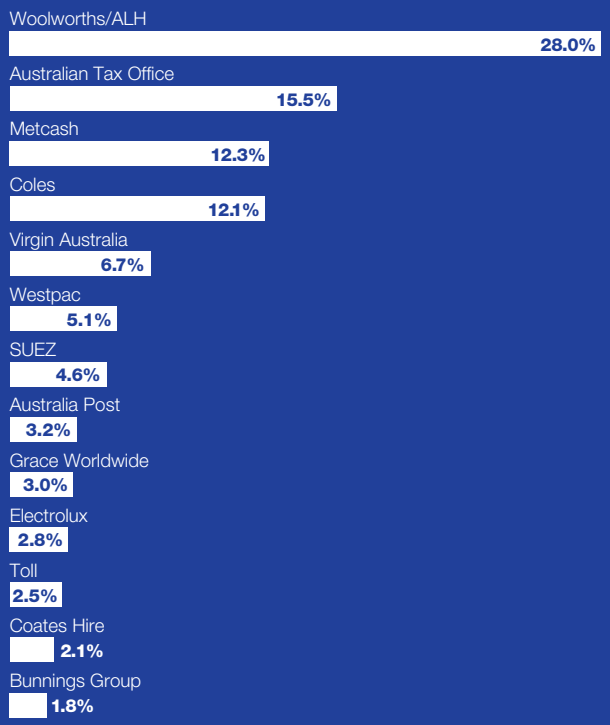
CLW is strategically diversified, by geography, tenant, industry and property type. We believe diversification is important, as it should provide a more predictable and lower-risk cash flow to deliver sustainable returns to securityholders.

Portfolio by Sector[2]



Tenant Diversification[1]

CLW's portfolio comprises a strong and stable tenant base with 16 high quality customers across various industries and business sectors.



Portfolio Summary

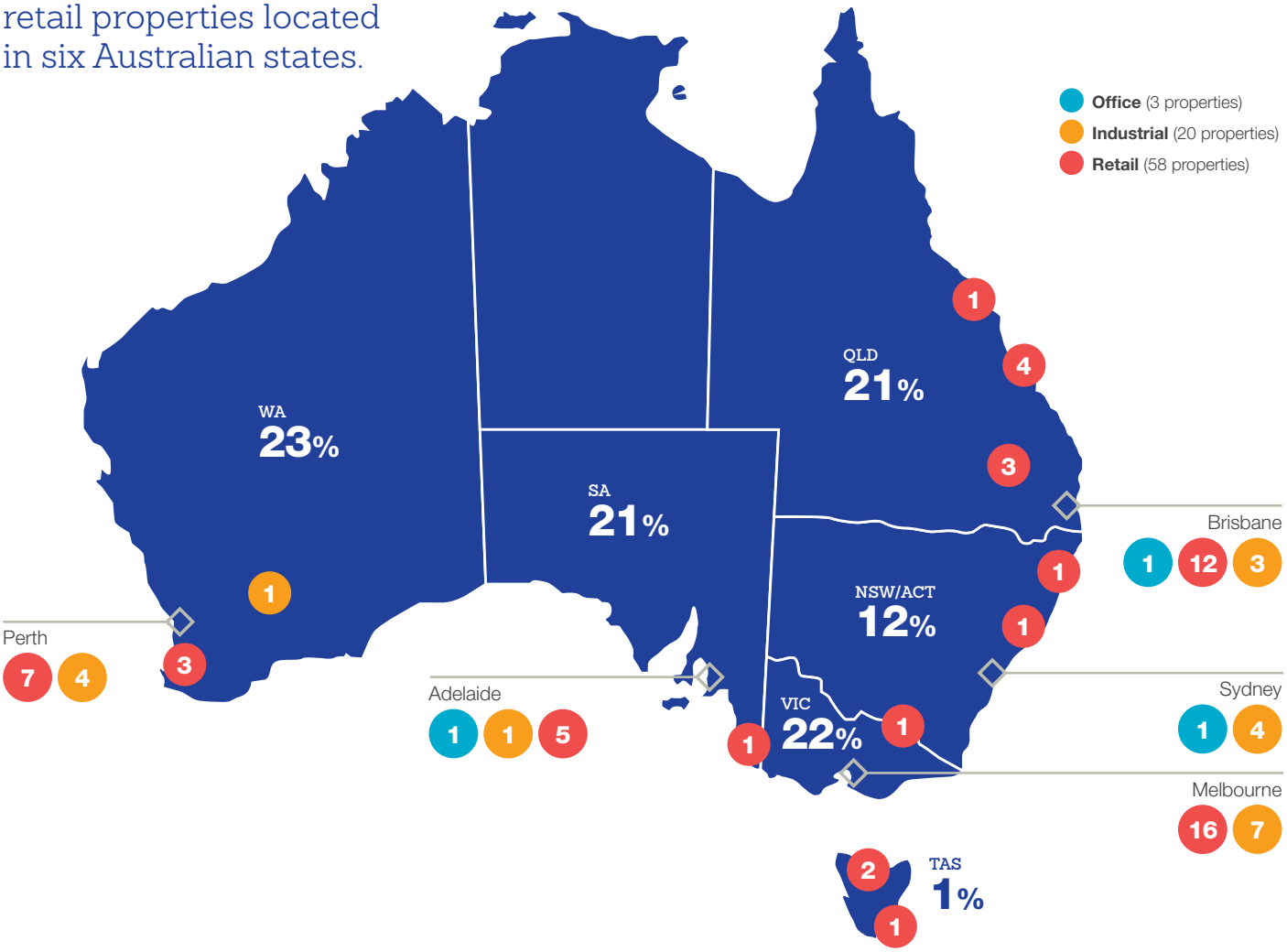
Sector	Assets	Valuation ($m)	Cap rate (%)	WARR* (%)	WALE (yrs)	Occupancy (%)
Office	3	$464.5	5.96%	3.4%	9.9	100%
Industrial	20	$685.8	6.37%	2.9%	9.2	100%
Retail	58	$374.9	5.90%	2.3%	15.5	100%
Total/weighted average	**81**	**$1,525.2**	**6.13%**	**2.9%**	**10.8**	**100%**

* Weighted Average Rent Review.

1. Weighted by gross passing income as at 30 June 2018 (REIT ownership interest).
2. Weighted by property valuations as at 30 June 2018 (REIT ownership interest).

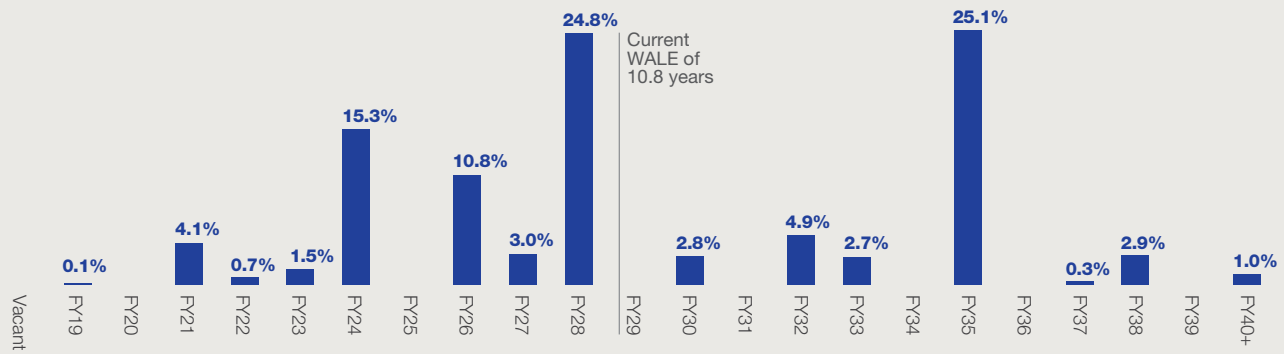
Geographic Diversification[1]

81 assets comprising office, industrial and retail properties located in six Australian states.



Lease Expiry Profile[2]

Long dated portfolio WALE of 10.8 years



1. Weighted by property valuations as at 30 June 2018 (REIT ownership interest).
2. Weighted by gross passing income as at 30 June 2018 (REIT ownership interest).

Sustainability

Charter Hall Long WALE REIT continues to align its sustainability aspirations with that of the Charter Hall Group and has adopted the Charter Hall Group's Shared Value Framework and the focus areas of Eco Innovation, Building Community and Enabling Wellbeing.

Deliverable/ Issue	FY18 Progress towards FY20 Targets	FY20 Target	FY25 Target	Aspiration
Eco Innovation				
Environmental Performance				
Reduce our impact on the planet	Draft pathway developed using Science Based Targets methodology.	Contribute to Charter Hall Group pathway to an equivalent 2 degree reduction in emissions.	Contribute to Charter Hall Group achieving the equivalent of a 2 degree reduction in emissions.	**Net Zero Emissions.**
Invest in renewable technologies	100kW solar system at Montgomery Street, Kogarah. 1000kW solar system at Woolworths Distribution Centre, Dandenong.	Identification of renewable opportunities and strategy across the portfolio.	Renewable energy creation in portfolio.	
Improve our Green footprint	Contributed to Charter Hall Group maintaining Australia's largest Green Star footprint with annual Green Star Performance certification for all eligible buildings. Achieved the following for NABERS rated properties: • Minimum 5 Star NABERS Energy average • Minimum 4 Star NABERS Water average	Contribute to 3 Star average Green Star Performance Rating across the Group. Target Green Star Design and As Built certification for new large developments. For NABERS rated properties in operational control: • Maintain minimum 5 Star NABERS Energy average • Maintain minimum 4 Star NABERS Water average	Green Star Design and As Built ratings sought on all new large developments.	
Improve our waste management	35% waste diversion achieved in office assets under operational control. 22% waste diversion achieved in retail assets under operational control.	50% Waste Diversion in Retail and Office Assets where we have operational control over the waste.	70% Waste Diversion in Retail and Office Assets where we have operational control over the waste.	
Resilience				
Addressing Climate Change Risk	Climate Change Risk and Adaptation workshops held and Climate Change Adaptation Plans commenced.	All assets have Climate Change Adaptation Plans.	Capital improvements in portfolio in line with Climate Change Adaptation plans.	**Resilient communities and future proofed assets.**
Addressing environmental risk	Draft Environmental Management Plan developed for rollout in FY19. Pre-certification audits conducted across one office and one industrial CLW asset.	All assets have Environmental Management Plans in line with ISO14001.	Maintain certified Environmental Management Plans to ISO14001.	

Building Community

Community and Social Cohesion

Deliverable/ Issue	FY18 Progress towards FY20 Targets	FY20 Target	FY25 Target	Aspiration
Investing in our communities	The Charter Hall Group Pledge programme made a difference in our communities through: • Our People: 81% of Our People undertook 330 Volunteer Days • Our Places: contributed $1.3 Million or 46,054sqm in space for the community • Our Partnerships donated $600,000 towards services and programs through our community partners.	Charter Hall Group continued Pledge 1% Our People: Our Places: Our Partnerships	Charter Hall Group continued Pledge 1% Our People: Our Places: Our Partnerships	**Creation of the largest community hub network in Australia.**
Engaging our stakeholders	Tenant Customer surveys undertaken in office and industrial assets.	Stakeholder engagement plans prepared for 100% new large developments.	100% of developments and assets, within operational control, have stakeholder or tenant engagement plans.	

Inclusive Places

Deliverable/ Issue	FY18 Progress towards FY20 Targets	FY20 Target	FY25 Target	Aspiration
Creating great employee experiences	School holiday programs for Charter Hall employees in Melbourne and Sydney. Benojo Community Giving Portal established by Charter Hall Group for its Pledge 1% giving and volunteering.	Provision of a menu of benefits and programs for our buildings and our communities. Connect employee and customer value propositions to enhance the customer experience.	Shape the way we acquire and develop talent to align with a future of work.	**Leader in innovative place creation in our communities.**

Enabling Wellbeing

Creating Healthy Spaces and Environments

Deliverable/ Issue	FY18 Progress	FY20 Target	FY25 Target	Aspiration
	Charter Hall Human Rights Policy developed as part of the Human Rights Framework Supplier human rights risk assessment commenced	Human Rights Framework implemented across all Charter Hall assets, developments and operations.	Integrated sustainable and equitable supply chain into assets and developments.	**Leader in health and wellbeing in our communities.**
	Social procurement integrated into national contracts	Development of social procurement strategy and expansion across our supply chain.	Green, social and indigenous enterprises in the Charter Hall supply chain.	
	Ritualise Wellbeing program undertaken by 48% of Charter Hall employees	Wellbeing Strategy for our people and our places developed and implemented.	Wellbeing programs / facilities available to all large assets and employees.	

Our Board and Management

Management Team

1. Avi Anger

Fund Manager

Avi joined Charter Hall in 2003 and has worked across a number of areas of the business including transactions, advisory, development and investment management.

Prior to his current role as Fund Manager – Long WALE REIT, Avi was Head of Transactions and Advisory and was responsible for all property transactions of the Group and its managed funds.

Avi headed up the Transactions and Advisory division from March 2009 and played a key role in the growth of the Group's funds under management.

Prior to joining Charter Hall, Avi worked at Terrace Tower Group and at Ernst & Young in the Corporate Advisory division.

Avi holds Bachelor of Commerce and Master of Commerce degrees from the University of New South Wales.

2. Kerri Leech

Head of Long WALE REIT Finance

Kerri oversees the financial management of the Charter Hall Long WALE REIT. She has over 18 years of listed and unlisted experience working across a broad range of industries in Australia, the United States and Canada.

Kerri joined Charter Hall in 2013 and is a member of the Finance Leadership Team. She has previously held Financial Controller positions in Charter Hall's Corporate and Industrial teams and, prior to joining Charter Hall, was a Director in the Assurance division of PricewaterhouseCoopers.

Kerri is a Chartered Accountant and holds a Bachelor of Business from the University of Alberta, Canada.

3. Ben Ellis

Deputy Fund Manager

Ben has over 18 years' experience in retail property and is a member of Charter Hall's Retail Leadership Team.

Ben has extensive experience as Fund Manager for Charter Hall's wholesale funds across the retail sector spanning shopping centres, and long WALE hardware and retail assets including the ALH-leased LWIP portfolio.

Prior to this, Ben was the Head of Portfolio Operations (Europe) for Charter Hall, managing Charter Hall Retail REIT's ("CQR") European shopping centre portfolio before returning to Australia in 2014 to take up his current role.

Ben holds a Bachelor of Applied Science (Property Economics) from Queensland University of Technology.

4. Darryl Chua

Senior Fund Executive

Darryl joined Charter Hall in 2016 and is responsible for the operation of the Charter Hall Long WALE REIT, particularly with respect to financial reporting, analysis and forecasting as well as portfolio and capital management.

Darryl has over 10 years' experience in real estate funds management and corporate finance. Prior to joining Charter Hall, Darryl worked at Goodman Group in the Investment Management team and Macquarie Group in both its real estate financing team and its investment banking division, Macquarie Capital, specialising in real estate corporate advisory.

Darryl holds a Bachelor of Laws from the University of Western Australia.

Board of Directors

1. Peeyush Gupta

Chair

2. Glenn Fraser

Independent Non-Executive Director

3. Ceinwen Kirk-Lennox

Independent Non-Executive Director

4. David Harrison

Executive Director

5. Adrian Taylor

Executive Director

See pages 20 to 21 for Director bios.

76-80 Howards Road, Beverley, SA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

The Directors of Charter Hall WALE Limited (CHWALE) present the consolidated financial report and other information of Charter Hall Direct Industrial Fund ("DIF") and its controlled entities (together "Charter Hall Long WALE REIT", "REIT" or "CLW") for the year ended 30 June 2018.

The REIT was formed by stapling together the securities of the entities listed below (collectively referred to as the "Stapled Trusts"):

Stapled Entity	Description
Charter Hall Direct Industrial Fund ("DIF")	Owns all of the REIT's investment properties and equity accounted investments other than those listed below
LWR Finance Trust ("Finance Trust")	Holds the REIT's bank debt and interest rate swaps through Charter Hall LWR Limited
Franklin Street Property Trust ("FSPT")	100% ownership of ATO, Adelaide SA
Canning Vale Logistics Trust ("CVLT1")*	50% ownership of Metcash, Canning Vale WA
218 Bannister Road Trust ("218 BRT")*	50% ownership of Metcash, Canning Vale WA
CPOF Kogarah Holding Trust ("CPOF KHT")*	50.1% ownership of Westpac, Kogarah NSW
CHPT Dandenong Trust ("CHPT DT")*	50% ownership of Coles, Truganina VIC and 26% ownership of Woolworths, Dandenong VIC

* The entities were de-stapled and acquired by DIF on 22 September 2017 and no longer constitute Stapled Trusts. Refer to "Significant changes in the state of affairs" for further details.

The prior year results comprise those of DIF from 1 July 2016 until 9 November 2016 and those of DIF and the other six stapled trusts from 10 November 2016 until 30 June 2017.

CHWALE is the Responsible Entity of the Stapled Trusts and is a controlled entity of Charter Hall Limited.

Principal activities

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

Directors

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

- Peeyush Gupta – Chairman and Non-Executive Director
- Glenn Fraser – Non-Executive Director
- Ceinwen Kirk-Lennox – Non-Executive Director
- David Harrison – Executive Director and Chief Executive Officer/Managing Director of Charter Hall Group
- Adrian Taylor – Executive Director

Distributions

Distributions paid or declared during the year are as follows:

	2018			2017		
	Number of securities on issue	**Cents per security**	**$'m**	Number of securities on issue	Cents per security	$'m
Ordinary securityholders of DIF						
30 September[1]	208,673,257	**5.00**	**10.5**	120,445,046	2.38	2.9
10 November[1]	N/A	**N/A**	**N/A**	120,445,046	1.06	1.3
31 December[2]	232,300,142	**5.00**	**11.6**	206,683,097	1.90	3.9
31 March	232,300,142	**5.10**	**11.8**	206,683,097	3.60	7.4
30 June	232,300,142	**5.20**	**12.1**	207,787,175	3.50	7.3
Total distributions		**20.30**	**46.0**		12.44	22.8
Ordinary securityholders of Stapled Trusts other than DIF						
30 September	208,673,257	**1.50**	**3.1**	N/A	N/A	N/A
31 December[2]	232,300,142	**1.50**	**3.5**	206,683,097	1.50	3.1
31 March	232,300,142	**1.50**	**3.5**	206,683,097	2.80	5.8
30 June	232,300,142	**1.60**	**3.7**	207,787,175	2.90	6.0
Total distributions		**26.40**	**59.8**		19.64	37.7

1 Prior period distributions paid to DIF securityholders prior to the formation of the REIT.
2 Includes $1.4 million paid on stapled securities issued at cum-price under Entitlement Offer in December 2017.

In the prior period, DIF also made a capital distribution of $66.6 million to its former unitholders on 10 November 2016.

Distribution Reinvestment Plan (DRP)

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

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. The REIT raised $3.6 million from the DRP for the 30 June 2017 distribution allotted on 14 August 2017 and $4.0 million from the DRP for the 30 September 2017 distribution allotted on 15 November 2017. The DRP was inactive for the remainder of the year.

Review and results of operations

The REIT recorded a statutory profit of $83.3 million for the year ended 30 June 2018 (30 June 2017: $34.6 million). Operating earnings amounted to $58.4 million (26.4 cents per stapled security) for the year ended 30 June 2018 (30 June 2017: $38.3 million) and a distribution of $59.8 million (26.4 cents per stapled security) was declared for the same period.

The table below sets out income and expenses that comprise operating earnings on a proportionate consolidation basis:

	30 June 2018 Post-IPO	1 July 2016 to 9 Nov 2016 Pre-IPO	10 Nov 2016 to 30 June 2017 Post-IPO	30 June 2017
	$'m	$'m	$'m	$'m
Net property income	**90.5**	6.8	52.5	59.3
Interest income	**0.2**	–	0.2	0.2
Fund management fees	**(6.6)**	(0.6)	(3.7)	(4.3)
Finance costs	**(23.2)**	(1.3)	(13.3)	(14.6)
Administration and other expenses	**(2.5)**	(0.2)	(2.1)	(2.3)
Operating earnings	**58.4**	4.7	33.6	38.3

* Further detail on Operating Earnings is contained in Note A1.

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

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

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

	30 June 2018 Post-IPO $'m	1 July 2016 to 9 Nov 2016 Pre-IPO $'m	10 Nov 2016 to 30 June 2017 Post-IPO $'m	30 June 2017 $'m
Operating earnings	**58.4**	4.7	33.6	38.3
Net fair value movements on investment properties[1]	**24.3**	(0.4)	29.3	28.9
Net fair value movements on derivative financial instruments[1]	**(1.9)**	0.1	3.7	3.8
Net fair value movements on investments at fair value through profit or loss	**0.3**	–	0.2	0.2
Loss on early settlement of derivative financial instruments	**–**	–	(4.3)	(4.3)
Straightlining of rental income, amortisation of lease fees and incentives[1]	**4.0**	0.4	2.0	2.4
Debt extinguishment and amortisation of borrowing costs	**–**	(0.2)	(0.4)	(0.6)
Performance and disposal fees[2]	**–**	(5.2)	–	(5.2)
Costs associated with Initial Public Offering	**–**	–	(14.9)	(14.9)
Acquisition costs	**–**	–	(14.0)	(14.0)
Income support	**(1.8)**	–	–	–
Statutory profit for the year	**83.3**	(0.6)	35.2	34.6
Basic weighted average number of stapled securities (millions)[3]	**221.0**	38.8	206.9	145.6
Basic earnings per stapled security (cents)	**37.69**	(1.55)	17.01	23.76
Operating earnings per stapled security (cents)	**26.43**	12.11	16.24	26.30

1 Includes the REIT's proportionate share of non-operating items of equity accounted investments on a look-through basis.
2 The REIT paid $5.2 million of disposal fees and $5.3 million of performance fees. The performance fees were provisioned for at 30 June 2016. These fees were expensed prior to the formation of the REIT.
3 Prior period takes into account conversion of each unit issued by DIF into approximately 0.32 units on 10 November 2016.

Property valuation gains

Valuation gains totalling $32.2 million were recorded during the year (30 June 2017: $37.8 million). These gains were partially offset by revaluation decrements attributable to acquisition costs of $3.9 million (30 June 2017: $6.5 million) and straightlining of rental income, amortisation of lease fees and incentives of $4.0 million (30 June 2017: $2.4 million).

The financial results are summarised as follows:

	Year to 30 June 2018	Year to 30 June 2017
Revenue ($ millions)	**69.0**	45.6
Statutory profit for the year ($ millions)	**83.3**	34.6
Basic earnings per stapled security (cents)	**37.69**	23.76
Operating earnings ($ millions)	**58.4**	38.3
Operating earnings per stapled security (cents)	**26.43**	26.30
Distributions ($ millions)[1]	**59.8**	37.7
Distributions per stapled security (cents)	**26.40**	25.89

1 Includes $1.4 million paid on stapled securities issued at cum-price under Entitlement Offer in December 2017.

	30 June 2018	30 June 2017
Total assets ($ millions)	**1,395.0**	1,192.7
Total liabilities ($ millions)	**454.6**	375.3
Net assets attributable to securityholders ($ millions)	**940.4**	817.4
Stapled securities on issue (millions)	**232.3**	207.8
Net assets per stapled security ($)	**4.05**	3.93
Balance sheet gearing – total debt (net of cash) to total assets (net of cash)	**30.6%**	29.9%
Look through gearing – total debt (net of cash) to total assets (net of cash)	**37.2%**	37.7%

Significant changes in the state of affairs

Simplification of REIT's structure

On 22 September 2017, DIF acquired all of the securities of CVLT1, 218 BRT, CPOF KHT and CHPT DT from Securityholders for $153.2 million which represents the relative net tangible asset value in these Stapled Trusts, in exchange for additional securities in DIF. As part of the simplification, equity attributable to the securityholders of CVLT1, 218 BRT, CPOF KHT and CHPT DT has been reduced by $153.2 million. Immediately thereafter, the DIF securities were consolidated to preserve the one to one stapling ratio. The stapled securities of the REIT traded on a deferred settlement basis from 20 to 25 September 2017 in connection with this transaction. Following simplification, the REIT now comprises three Stapled Trusts (DIF, FSPT and Finance Trust).

Equity Raising

In December 2017, the REIT raised $94.1 million of equity, issuing 22.7 million stapled securities at $4.15 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of Virgin Australia's head office building at 56 Edmondstone Road, Brisbane, Queensland and associated transaction and capital raising costs.

Acquisitions

On 3 July 2017, the REIT acquired Bunnings, South Mackay, Queensland for $28.5 million from a related party.

On 4 December 2017, LWIP (45% owned by the REIT) acquired Bridge Inn, Victoria for $21.2 million and sold Preston Hotel, Victoria for $9.2 million. The REIT contributed equity of approximately $6 million in relation to these transactions.

On 4 January 2018, the REIT acquired the trust that owns Virgin Australia's head office building at 58 Edmondstone Road, Brisbane, Queensland for $90.8 million. The responsible entity of the acquired trust is a related party.

During the year, the REIT contributed $48.4 million in equity to CH DC Fund to fund the development of Woolworths, Dandenong, Victoria which reached practical completion on 22 March 2018.

Exchange of Contract

On 18 May 2018, the REIT exchanged contracts to sell Grace, Willawong, Queensland to the tenant occupier for $38.7 million (book value) with expected settlement on 16 August 2018.

Debt arrangements

On 22 December 2017, the REIT increased the limit of its syndicated debt facility by $20 million to $470 million and extended its debt maturity from November 2021 to February 2022.

On 18 April 2018, the REIT entered into two interest rate swap agreements with a total principal amount of $100 million which mature in June 2025. The REIT was 75% hedged as at 30 June 2018 (30 June 2017: 66%).

There were no other significant changes in the state of affairs of the REIT that occurred during the year under review.

Business strategies and prospects

The REIT's objective is to provide investors with stable and secure income and the potential for both income and capital growth through an exposure to a diversified property portfolio with a long WALE.

The REIT aims to maintain and enhance the existing portfolio through active asset and property management and to grow the portfolio through the acquisition of assets that are predominantly leased to tenants with strong covenants on long-term leases.

The REIT aims to proactively manage its equity and debt. It has a target balance sheet gearing range of 25% to 35%.

The material business risks faced by the REIT that are likely to have an effect on its financial performance include:

(i) Tenant concentration

The majority of the REIT's properties are single tenanted. This exposes the value and performance of each property to the ability of those tenants to continue to meet their obligations under the respective lease agreements. In aggregate, 74.4% of the gross property income is generated from the top five tenants (2017: 75.5%).

(ii) Re-leasing and vacancy

The REIT's portfolio is currently 100% leased and has no major forecast lease expiries prior to FY21. However, in the longer term, leases will come up for renewal on a periodic basis. There is a risk that the REIT may not be able to negotiate suitable lease renewals. This may result in periods of vacancy which could result in a reduction in income received by the REIT, a reduction in the distributions of the REIT and a reduction in the value of the assets of the REIT. This risk is mitigated through active property and asset management of the REIT's portfolio and the diversified nature of the REIT. Any impact will depend on future economic conditions that are not known at balance date.

(iii) Funding

An inability to obtain the necessary funding or refinancing of an existing debt facility, or a material increase in the cost of such funding (including increases in interest rates that are not hedged), may have an adverse impact on the REIT's performance and financial position. The REIT seeks to minimise this risk through proactive refinancing and maintaining adequate liquidity to fund future forecast expenditure and hedging its interest rate exposure in accordance with the REIT's Board approved Financial Risk Management Policy.

(iv) Rental income and expenses risk

Distributions made by the REIT are largely dependent on the rents received from tenants across the portfolio and expenses incurred during operations, which may be affected by a number of factors, including overall economic conditions and property market conditions.

Matters subsequent to the end of the financial period

On 19 July 2018, the REIT exchanged contracts to acquire a 50% interest in 40 Tank Street, Brisbane, Queensland for $46.5 million with expected settlement on 31 August 2018.

On 6 August 2018, securityholders voted in favour of the proposed sale of a 50% interest in ATO Adelaide, South Australia and simplification of the REIT structure from a three staple structure to a two staple structure. Simplification is to occur on 22 August 2018. On 8 August 2018, a call option was exercised to sell a 50% interest in ATO Adelaide, South Australia to a related party for proceeds of $135.0 million as well as half the related income support fund. Settlement is expected to occur in mid August.

The Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial report that has significantly affected or may significantly affect the operations of the REIT, the results of its operations or the state of affairs of the REIT in future financial years.

Likely developments and expected results of operations

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

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

Indemnification and insurance of Directors, officers and auditor

During the year, the REIT contributed to the premium for a contract to insure all Directors, secretaries, executive officers and officers of the REIT and of each related body corporate of the REIT, with the balance of the premium paid by Charter Hall Group and funds managed by members of Charter Hall Group. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details relating to the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Provided the officers of the Responsible Entity act in accordance with the REIT's constitutions and the *Corporations Act 2001*, the officers are indemnified out of the assets of the REIT against losses incurred while acting on behalf of the REIT. The insurance does not provide cover for the independent auditors of the REIT or of a related body corporate of the REIT. The REIT indemnifies the auditor (PricewaterhouseCoopers Australia) against any liability (including legal costs) for third party claims arising from a breach by the REIT of the auditor's engagement terms, except where prohibited by the *Corporations Act 2001*.

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

Base fees of $6.6 million (2017: $4.3 million) and other fees were paid or are payable to the Responsible Entity and its associates for the services provided during the year, in accordance with the REIT's constitutions as disclosed in Note D1 to the consolidated financial statements.

Interests in the REIT held by the Responsible Entity or its associates as at 30 June 2018 are also disclosed in Note D1 to the consolidated financial statements.

Interests in the REIT

	2018	2017
Securities on issue at the beginning of the year	**207,787,175**	120,445,047
Securities issued to fund acquisition of CVLT1, 218 BRT, CHPT DT and CPOF KHT	**68,851,727**	–
Change in number of securities after security consolidation	**(68,851,727)**	–
Change in the number of securities after security reorganisation	**–**	(81,644,447)
Security redemption	**–**	(30,747,042)
Securities issued during the year		
– via Initial Public Offering	**–**	198,629,539
– via Distribution Reinvestment Plan	**1,848,121**	1,104,078
– via Entitlement Offer	**22,664,846**	–
Securities on issue at the end of the year	**232,300,142**	207,787,175

Environmental regulations

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

Under the lease agreements for the industrial sites owned by the REIT, any environmental exposures are the responsibility of the tenant, and the REIT is indemnified against any losses resulting from environmental contamination.

Information on current Directors

Director	Experience	Special responsibilities	Interests in securities of the REIT
Peeyush Gupta	Appointed 6 May 2016 Peeyush was the co-founder and the inaugural Chief Executive Officer of Ipac Securities Limited, a pre-eminent wealth management firm. He has experience in starting and growing businesses, acquisitions and divestments, roll-ups and integration, general management, investment management and corporate governance. He is a non-executive director of National Australia Bank Limited, Special Broadcasting Service ("SBS"), Link Administration, BNZ Life, and Insurance & Care (NSW). He is also currently the Chair of Charter Hall Direct Property Management Limited, Chair of MLC RE and IDPS Board and serves in a pro bono capacity as a trustee of Western Sydney University, and the Australian School of Business Dean's Advisory Committee. Peeyush holds a Master of Business Administration in Finance from the Australian Graduate School of Management and a Bachelor of Arts in Computing Studies from the University of Canberra. Peeyush is also a Fellow of the Australian Institute of Company Directors.	Chairman	394,243
Glenn Fraser	Appointed 6 May 2016 Glenn is a professional non-executive director with significant experience in finance, infrastructure and property. He was a member of Transfield Holdings Advisory Board from 1999 to 2015. He was instrumental in Transfield Holdings' acquisition of a 50% interest in Charter Hall and its subsequent expansion and listing in 2005. Previously, Glenn was a Non-Executive Director of the Charter Hall Group from 6 April 2005 to 15 August 2012. Joining Transfield Holdings in 1996, Glenn was General Manager – Finance Project Development, where he was responsible for the financial elements of Transfield Holdings' infrastructure and property projects. In 1999, Glenn was appointed Chief Financial Officer of Transfield Holdings, which at that time had turnover in excess of $1 billion per annum and over 8,000 staff. Glenn was a principal and director of a project finance advisory business, Perry Development Finance Pty Limited, from 1985; which was sold to Hambros Corporate Finance Limited in 1995. Glenn holds a Bachelor of Commerce and is a member of the Institute of Chartered Accountants and a graduate of the Australian Institute of Company Directors.	Audit, Risk and Compliance Committee Chair	44,325

Director	Experience	Special responsibilities	Interests in securities of the REIT
Ceinwen Kirk-Lennox	Appointed 28 June 2016 Ceinwen has over 32 years' experience in many aspects of property including agency, property development, project and construction management, and community development. Her executive career includes 26 years at Lendlease Corporation, where she held executive roles, running business units, client accounts and functions across the Lendlease Group. Ceinwen now runs her own consultancy, with clients across both private and public sectors. Ceinwen holds a Bachelor of Business (Land Economy) from the University of Western Sydney, and is a graduate of the Australian Institute of Company Directors. Ceinwen brings 18 years' experience as an executive and non-executive director serving on a number of Boards including both for-profit and not-for-profit companies. Ceinwen is a National Director of the Property Industry Foundation, and an Advisory Member of the Justice NSW PBCP.	Nil	25,764
David Harrison	Appointed 16 February 2016 David has 32 years of property market experience across office, retail and industrial sectors in multiple geographies globally. As Charter Hall Managing Director and Group CEO, David is responsible for all aspects of the Charter Hall business, with specific focus on strategy. He continues to build the momentum of a $23.2 billion investment portfolio and is recognised as a multi-core sector market leader. David is an executive member of various Fund Boards and Partnership Investment Committees, and Chair of the Executive Property Valuation Committee and Executive Leadership Group. David has overseen the growth of the Charter Hall Group from $500 million to $23.2 billion of assets under management in 14 years. David has been principally responsible for transactions exceeding $25 billion of commercial, retail and industrial property assets over the past 28 years. David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.	Nil	290,458
Adrian Taylor	Appointed 18 July 2016 Adrian Taylor is Charter Hall's Office CEO and a member of Charter Hall's Executive Committee, with 26 years' industry experience and eight years with Charter Hall. Adrian leads the A$11.1 billion office sector from end to end including Investment Management, Asset Management, Development and Property Management teams, and helps develop the overall strategy and objectives for the office funds in conjunction with the Charter Hall Fund Managers and our Investors; and helps guide the portfolio management, capital transactions, treasury and trust management teams to execute strategy. He has extensive capital management experience including debt and equity raising. Prior to the Charter Hall Office REIT's privatisation, he was its Chief Executive Officer and has deep capital transaction and extensive joint venture experience in Australia and the US. Adrian graduated with a Bachelor of Business from Monash University, is a Certified Practising Accountant, is a Fellow of the Financial Services Institute of Australasia, a Fellow of the Royal Institute of Chartered Surveyors and is involved in numerous property industry groups including sitting on the Division Council of the Capital Markets Division of the Property Council of Australia.	Nil	72,530

Meetings of Directors

	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
Name	Eligible to attend	Attended	Eligible to attend	Attended
Peeyush Gupta	8	8	4	4
Glenn Fraser	8	8	4	4
Ceinwen Kirk-Lennox	8	8	4	4
David Harrison	8	7	–	–
Adrian Taylor	8	7	–	–

Company Secretary

Tracey Jordan acted as Company Secretary for the REIT from 16 February 2016 to 21 November 2017. Mark Bryant was appointed as Company Secretary for the REIT on 21 November 2017. Mark holds a Bachelor of Business (Accounting) and a Bachelor of Laws (Hons) and has over 13 years' experience as a solicitor, including advising on listed company governance, securities law, funds management, real estate and general corporate law. Mark is the Group General Counsel and Company Secretary for the Charter Hall Group.

Non-audit services

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

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

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

- all non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants*.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Rounding of amounts to the nearest hundred thousand dollars

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

This report is made in accordance with a resolution of the Board of Directors of Charter Hall WALE Limited.

Peeyush Gupta
Chairman

Sydney
9 August 2018

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Long WALE REIT for the year ended 30 June 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Charter Hall Long WALE REIT, which comprises the stapled entities of Charter Hall Direct Industrial Fund (DIF), LWR Finance Trust (Finance Trust) and Franklin Street Property Trust (FSPT) and the entities they controlled during the period.

J A Dunning
Partner
PricewaterhouseCoopers

Sydney
9 August 2018

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $'m	2017 $'m
Revenue			
Property rental income		**68.8**	45.4
Interest income		**0.2**	0.2
Total revenue		**69.0**	45.6
Other income			
Share of equity accounted profit	B2	**45.6**	38.2
Net fair value gain on financial assets		**0.3**	0.2
Net fair value gain on investment properties	B1	**6.1**	7.4
Net gain from derivative financial instruments	C3	**–**	0.3
Total other income		**52.0**	46.1
Total revenue and other income		**121.0**	91.7
Expenses			
Property expenses		**(10.7)**	(6.2)
Fund management fees	D1	**(6.6)**	(4.3)
Finance costs		**(16.2)**	(9.9)
Administration and other expenses		**(2.4)**	(2.2)
Net loss from derivative financial instruments	C3	**(1.8)**	–
Net loss on early settlement of derivative financial instruments	C3	**–**	(0.4)
Acquisition costs	B2	**–**	(14.0)
Costs associated with Initial Public Offering (IPO)		**–**	(14.9)
Performance and disposal fees		**–**	(5.2)
Total expenses		**(37.7)**	(57.1)
Net profit for the year		**83.3**	34.6
Other comprehensive income		**–**	–
Total comprehensive income		**83.3**	34.6
Net profit and Total comprehensive income attributable to:			
DIF		**70.3**	8.4
Stapled Trusts other than DIF		**13.0**	26.2
		83.3	34.6
Basic and diluted earnings per ordinary securityholder of the REIT			
Earnings per stapled security (cents)	A2	**37.69**	23.76
Earnings per unit of DIF (cents)	A2	**33.63**	5.77

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2018

	Notes	2018 $'m	2017 $'m
Assets			
Current assets			
Cash and cash equivalents		**5.5**	2.9
Receivables	D2	**4.7**	4.4
Other assets	D2	**0.6**	4.9
Investment property held for sale	B1	**38.7**	–
Total current assets		**49.5**	12.2
Non-current assets			
Investment properties	B1	**855.6**	760.4
Investments accounted for using the equity method	B2	**474.1**	402.3
Investments in financial assets at fair value	B3	**15.7**	17.2
Derivative financial instruments	C3	**0.1**	0.6
Total non-current assets		**1,345.5**	1,180.5
Total assets		**1,395.0**	1,192.7
Liabilities			
Current liabilities			
Payables	D2	**5.8**	4.4
Distribution payable	A2	**15.8**	13.3
Other liabilities	D2	**2.7**	–
Total current liabilities		**24.3**	17.7
Non-current liabilities			
Borrowings	C2	**428.1**	356.7
Derivative financial instruments	C3	**2.2**	0.9
Total non-current liabilities		**430.3**	357.6
Total liabilities		**454.6**	375.3
Net assets		**940.4**	817.4
Equity			
Equity holders of DIF			
Contributed equity	C6	**661.5**	434.8
Retained profits		**48.7**	24.4
Parent entity interest		**710.2**	459.2
Equity holders of Stapled Trusts other than DIF			
Contributed equity	C6	**174.1**	261.5
Retained profits		**56.1**	96.7
Equity holders of Stapled Trusts other than DIF		**230.2**	358.2
Total equity		**940.4**	817.4

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

		Attributable to securityholders of DIF		
	Notes	Contributed equity $'m	Retained profits $'m	Total $'m
Balance at 1 July 2016		119.2	38.8	158.0
Total comprehensive income		–	8.4	8.4
Capital return		(66.6)	–	(66.6)
Security redemptions	C6	(70.2)	–	(70.2)
Contributions of equity, net of issue costs	C6	452.4	–	452.4
Distributions provided for or paid	A2	–	(22.8)	(22.8)
Balance at 30 June 2017		434.8	24.4	459.2
Balance at 1 July 2017		434.8	24.4	459.2
Total comprehensive income		**–**	**70.3**	**70.3**
DIF's acquisition of CVLT1, 218 BRT, CHPT and CPOF KHT	C6	**153.2**	**–**	**153.2**
Contributions of equity, net of issue costs	C6	**73.5**	**–**	**73.5**
Distributions provided for or paid	A2	**–**	**(46.0)**	**(46.0)**
Balance at 30 June 2018		**661.5**	**48.7**	**710.2**

		Attributable to securityholders of Stapled Trusts other than DIF		
	Notes	Contributed equity $'m	Retained profits $'m	Total $'m
Balance at 10 November 2016		–	–	–
Business combination		202.1	85.4	287.5
Total comprehensive income		–	26.2	26.2
Contributions of equity, net of issue costs	C6	59.4	–	59.4
Distributions provided for or paid	A2	–	(14.9)	(14.9)
Balance at 30 June 2017		261.5	96.7	358.2
Balance at 1 July 2017		261.5	96.7	358.2
Total comprehensive income			**13.0**	**13.0**
DIF's acquisition of CVLT1, 218 BRT, CHPT and CPOF KHT		**(113.4)**	**(39.8)**	**(153.2)**
Contributions of equity, net of issue costs	C6	**26.0**	**–**	**26.0**
Distributions provided for or paid	A2		**(13.8)**	**(13.8)**
Balance at 30 June 2018		**174.1**	**56.1**	**230.2**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $'m	2017 $'m
Cash flows from operating activities			
Property rental income received		**73.7**	49.4
Property expenses paid		**(10.9)**	(5.5)
Distributions received from investment in joint venture entities		**28.4**	14.6
Interest received		**0.2**	0.2
Finance costs paid		**(15.5)**	(9.5)
Fund management fees paid		**(7.2)**	(4.5)
Administration and other expenses paid		**(2.7)**	(2.2)
Net GST paid with respect to operating activities		**(4.3)**	(3.2)
Net cash flows from operating activities	A3	**61.7**	39.3
Cash flows from investing activities			
Cash acquired on business combination		**–**	3.4
Payments for investment properties		**(119.0)**	(76.8)
Payment to income support fund		**–**	(17.0)
Draws from income support fund		**1.8**	–
Payment of performance and disposal fees		**–**	(10.5)
Payments for investments in joint venture entities		**(54.9)**	(72.8)
Net cash flows from investing activities		**(172.1)**	(181.0)
Cash flows from financing activities			
Proceeds from issue of securities, net of equity raising costs		**91.9**	33.9
Distributions paid to securityholders		**(49.7)**	(26.6)
Proceeds from borrowings (net of borrowing costs)		**86.2**	392.1
Repayment of borrowings		**(15.4)**	(248.2)
Costs associated with IPO		**–**	(7.1)
Net cash flows from financing activities		**113.0**	144.1
Net increase in cash and cash equivalents		**2.6**	2.4
Cash and cash equivalents at the beginning of the year		**2.9**	0.5
Cash and cash equivalents at the end of the year		**5.5**	2.9

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

Non-cash financing and investing activities

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

	Notes	2018 $'m	2017 $'m
Gross consideration received from IPO/Entitlement Offer		**94.1**	826.7
Equity raising fees paid		**(2.2)**	(15.0)
Rollover investment by DIF unitholders		**–**	(18.4)
Capital returns paid to DIF unitholders		**–**	(66.6)
Payments for redemption of units to former DIF unitholders		**–**	(70.2)
Exercise of call options to acquire interest in joint venture entities		**–**	(188.1)
Rollover investment by unitholders of Stapled Trusts other than DIF		**–**	(41.0)
Capital return and unit redemptions paid to former unitholders of Stapled Trusts other than DIF		**–**	(393.5)
Proceeds from issue of units, net of equity raising costs		**91.9**	33.9
Distributions by the REIT during the year satisfied by the issue of units under the DRP	A2, C6	**(7.6)**	(4.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

ABOUT THIS REPORT

The consolidated financial statements of Charter Hall Long WALE REIT comprises the entities listed below (collectively referred to as the "Stapled Trusts":

Stapled Entity	Description
Charter Hall Direct Industrial Fund ("DIF")	Owns all of the REIT's investment properties and equity accounted investments other than those listed below
LWR Finance Trust ("Finance Trust")	Holds the REIT's bank debt and interest rate swaps through Charter Hall LWR Limited
Franklin Street Property Trust ("FSPT")	100% ownership of ATO, Adelaide SA
Canning Vale Logistics Trust ("CVLT1")*	50% ownership of Metcash, Canning Vale WA
218 Bannister Road Trust ("218 BRT")*	50% ownership of Metcash, Canning Vale WA
CPOF Kogarah Holding Trust ("CPOF KHT")*	50.1% ownership of Westpac, Kogarah NSW
Franklin Street Property Trust ("FSPT")	100% ownership of ATO, Adelaide SA
CHPT Dandenong Trust ("CHPT DT")*	50% ownership of Coles, Truganina VIC and 26% ownership of Woolworths, Dandenong VIC

* The entities were de-stapled and acquired by DIF on 22 September 2017 and no longer constitute Stapled Trusts.

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

A. REIT performance – provides key metrics used to measure financial performance.

B. Property portfolio assets – explains the investment property portfolio structure.

C. Capital structure and financial risk management – details how the REIT manages its exposure to capital and financial risks.

D. Further information – provides additional disclosures relevant in understanding the REIT's financial statements.

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Critical accounting estimates and judgements

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

The areas involving significant estimates or judgements are:

- Consolidation decisions and classification of joint arrangements – B2 Investment in joint venture entities
- Fair value estimation – B1 Investment properties

A. REIT PERFORMANCE

This section provides additional information on the key financial metrics used to define the results and performance of the REIT, including: operating earnings by segment; distributions and earnings per stapled security.

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

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

A1. Segment information

(a) Description of segments

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The REIT has one operating segment being its Australian operations however the results of DIF pre-IPO are not relevant to the REIT's investors going forward and therefore have been separated out in the comparative information in the tables below.

(b) Segment information provided to the Board

The operating earnings reported to the Board for the year ended 30 June 2018 are as follows:

	30 June 2018 Post-IPO $'m	1 July 2016 to 9 Nov 2016 Pre-IPO $'m	10 Nov 2016 to 30 June 2017 Post-IPO $'m	30 June 2017 $'m
Total revenue	**69.0**	6.6	39.0	45.6
Income support	**1.8**	–	–	–
Non-cash adjustments	**(3.6)**	(0.4)	(1.6)	(2.0)
Property expenses	**(10.7)**	(0.8)	(5.4)	(6.2)
Net property income	**56.5**	5.4	32.0	37.4
Share of operating earnings from investments accounted for using equity method	**27.1**	1.1	15.9	17.0
Fund management fees	**(6.6)**	(0.6)	(3.7)	(4.3)
Finance costs	**(16.2)**	(1.0)	(8.6)	(9.6)
Administration and other expenses	**(2.4)**	(0.2)	(2.0)	(2.2)
Operating earnings	**58.4**	4.7	33.6	38.3
Weighted average number of stapled securities*	**221.0**	38.8	206.9	145.6
Operating earnings per stapled security (cents)	**26.43**	12.11	16.24	26.30

* Prior period takes into account conversion of each unit issued by DIF into approximately 0.32 units on 10 November 2016.

The operating earnings on a proportionate consolidation basis are set out below:

	30 June 2018 Post-IPO $'m	1 July 2016 to 9 Nov 2016 Pre-IPO $'m	10 Nov 2016 to 30 June 2017 Post-IPO $'m	30 June 2017 $'m
Net property income	**90.5**	6.8	52.5	59.3
Interest income	**0.2**	–	0.2	0.2
Fund management fees	**(6.6)**	(0.6)	(3.7)	(4.3)
Finance costs	**(23.2)**	(1.3)	(13.3)	(14.6)
Administration and other expenses	**(2.5)**	(0.2)	(2.1)	(2.3)
Operating earnings	**58.4**	4.7	33.6	38.3

A1. Segment information continued

(b) Segment information provided to the Board continued

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

	30 June 2018 Post-IPO	1 July 2016 to 9 Nov 2016 Pre-IPO	10 Nov 2016 30 June 2017 Post-IPO	30 June 2017
	$'m	$'m	$'m	$'m
Operating earnings	**58.4**	4.7	33.6	38.3
Net fair value movements on investment properties[1]	**24.3**	(0.4)	29.3	28.9
Net fair value movements on derivative financial instruments[1]	**(1.9)**	0.1	3.7	3.8
Net fair value movements on investments at fair value through profit or loss	**0.3**	–	0.2	0.2
Loss on early settlement of derivative financial instruments	**–**	–	(4.3)	(4.3)
Straightlining of rental income, amortisation of lease fees and incentives[1]	**4.0**	0.4	2.0	2.4
Debt extinguishment and amortisation of borrowing costs	**–**	(0.2)	(0.4)	(0.6)
Performance and disposal fees[2]	**–**	(5.2)	–	(5.2)
Costs associated with Initial Public Offering	**–**	–	(14.9)	(14.9)
Acquisition costs	**–**	–	(14.0)	(14.0)
Income support	**(1.8)**	–	–	–
Statutory profit for the year	**83.3**	(0.6)	35.2	34.6

1 Includes the REIT's proportionate share of non-operating items of equity accounted investments on a look-through basis.
2 The REIT paid $5.2 million of disposal fees and $5.3 million of performance fees. The performance fees were provisioned for at 30 June 2016. These fees were expensed prior to the formation of the REIT.

Rental income

Property rental income represents income earned from the long-term rental of REIT properties (inclusive of outgoings recovered from tenants) and is recognised on a straight-line basis over the lease term.

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

	0 to 1 year	**1 to 5 years**	**Over 5 years**	**Total**
	$'m	$'m	$'m	$'m
2018	**60.0**	**242.8**	**285.2**	**588.0**
2017	54.6	223.2	297.2	575.0

Property expenses

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

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	2018			2017		
	Number of securities on issue	**Cents per security**	**$'m**	Number of securities on issue	Cents per security	$'m
Ordinary securityholders of DIF						
30 September[1]	208,673,257	**5.00**	**10.5**	120,445,046	2.38	2.9
10 November[1]	N/A	**N/A**	**N/A**	120,445,046	1.06	1.3
31 December[2]	232,300,142	**5.00**	**11.6**	206,683,097	1.90	3.9
31 March	232,300,142	**5.10**	**11.8**	206,683,097	3.60	7.4
30 June	232,300,142	**5.20**	**12.1**	207,787,175	3.50	7.3
Total distributions		**20.30**	**46.0**		12.44	22.8
Ordinary securityholders of Stapled Trusts other than DIF						
30 September	208,673,257	**1.50**	**3.1**	N/A	N/A	N/A
31 December[2]	232,300,142	**1.50**	**3.5**	206,683,097	1.50	3.1
31 March	232,300,142	**1.50**	**3.5**	206,683,097	2.80	5.8
30 June	232,300,142	**1.60**	**3.7**	207,787,175	2.90	6.0
Total distributions		**26.40**	**59.8**		19.64	37.7

1 Prior period distribution paid to DIF unitholders prior to the formation of the REIT.
2 Includes $1.4 million paid on stapled securities issued at cum-price under Entitlement Offer in December 2017.

In the prior period, DIF also made a capital distribution of $66.6 million to its former unitholders on 10 November 2016.

Pursuant to the REIT's constitutions, the amount distributed to unitholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings as a guide to assessing an appropriate distribution to declare. Operating earnings for the year ended 30 June 2018 was $58.4 million (26.43 cents per stapled security) and distributions of $59.8 million (26.40 cents per stapled security) were declared for the same period of which $1.4 million was debt funded as part of the equity raising in December 2017.

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

Under current Australian income tax legislation, the REIT is not liable to pay income tax provided its income for the year, as determined under the REIT's constitutions, is fully distributed to unitholders, by way of cash or reinvestment.

A2. Distributions and earnings per unit continued

(b) Earnings per unit

	2018	2017
Basic and diluted earnings		
Earnings per stapled security (cents)	**37.69**	23.76
Operating earnings per stapled security (cents)	**26.43**	26.30
Earnings per DIF (cents)^	**33.63**	5.77
Earnings used in the calculation of basic and diluted earnings per security		
Net profit of the REIT for the year ($ millions)	**83.3**	34.6
Net profit of DIF for the year ($ millions)	**70.3**	8.4
Operating earnings of the REIT for the year ($ millions)	**58.4**	38.3
Weighted average number of stapled securities* used in the calculation of basic and diluted earnings per security (millions)	**221.0**	145.6

^ Takes into account conversion of each unit issued by DIF into approximately 0.75 securities on 22 September 2017.
* Prior year takes into account conversion of each security issued by DIF into approximately 0.32 securities on 10 November 2016.

Basic and diluted earnings per unit is determined by dividing statutory profit attributable to the stapled securityholders by the weighted average number of stapled securities on issue during the year.

Operating earnings per stapled security is determined by dividing operating earnings attributable to the stapled securityholders by the weighted average number of stapled securities on issue during the year.

A3. Reconciliation of net profit to operating cash flows

	2018 $'m	2017 $'m
Profit for the year	**83.3**	34.6
Non-cash items		
Net fair value movements on financial assets	**(0.3)**	(0.2)
Net fair value movements on investment properties	**(6.4)**	(7.4)
Net fair value movements on derivative financial instruments	**1.8**	(0.3)
Loss on early settlement of derivative financial instruments	**–**	0.4
Share of non-operating earnings from investments accounted for using the equity method	**(18.5)**	(21.2)
Straightlining of rental income	**(3.9)**	(2.0)
Amortisation of incentives	**0.3**	–
Debt extinguishment and amortisation of borrowing costs	**0.6**	0.3
Classified as investing activities		
Performance and disposal fees	**–**	5.2
Acquisition costs	**–**	14.0
Classified as financing activities		
Costs associated with Initial Public Offering	**–**	14.9
Decrease in trade and other receivables	**1.4**	0.1
Increase in trade and other payables	**3.4**	0.9
Net cash flows from operating activities	**61.7**	39.3

B. PROPERTY PORTFOLIO ASSETS

The REIT's property portfolio assets comprise directly held investment properties, indirectly held interests in investment property held through joint ventures and investments in financial assets at fair value. Investment properties comprise investment interests in land and buildings held for long-term rental yields.

The following table summarises the property portfolio assets detailed in this section.

	Note	**2018 $'m**	2017 $'m
Assets held for sale	B1	**38.7**	–
Investment properties	B1	**855.6**	760.4
Investments in joint ventures	B2	**474.1**	402.3
Investment in financial asset at fair value	B3	**15.7**	17.2
Total property portfolio assets		**1,384.1**	1,179.9

The valuation policies stated in B1 also apply to property held in joint operations (B1) and joint ventures (B2).

B1. Investment properties

Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Revaluation gains and losses are included in the consolidated statement of comprehensive income in the year in which they arise.

Assets held for sale

Investment properties are classified as assets held for sale when it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Investment properties classified as held for sale are measured at fair value. Assets which are classified as held for sale are classified as current assets as it is expected they will be divested within the coming reporting period.

(a) Valuation techniques and key judgements

In determining fair value of investment properties and assets held for sale, management has considered the nature, characteristics and risks of its investment properties.

The table below identifies the inputs, which are not based on observable market data, used to measure the fair value (level 3) of the assets held for sale and investment properties:

	Fair value $'m	**Net market rent** ($ sqm/p.a.)	**Adopted capitalisation rate** (% p.a.)	**Adopted terminal yield** (% p.a.)	**Adopted discount rate** (% p.a.)
2018	**894.3**	**15 – 489**	**5.0 – 8.3**	**5.5 – 8.0**	**6.5 – 8.3**
2017	760.4	15 – 422	5.0 – 8.3	5.0 – 8.0	6.5 – 9.0

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

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

B1. Investment properties continued

(b) Valuation process

The Responsible Entity conducts an investment property valuation process on a semi-annual basis. Valuations are performed either by independent professionally qualified external valuers or by Charter Hall's internal valuers who hold recognised relevant professional qualifications. Fair value is determined using Discounted Cash Flow (DCF) and income capitalisation methods.

Each investment property is valued by an independent external valuer 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. Independent valuers are engaged on a rotational basis.

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

	2018 $'m	2017 $'m
Carrying amount at the beginning of the year	**760.4**	199.2
Business combination	**–**	479.4
Additions	**120.8**	66.7
Acquisition costs incurred	**3.3**	5.7
Revaluation increment	**13.1**	15.1
Revaluation decrement attributable to acquisition costs and straightlining of rental income	**(6.9)**	(7.7)
Straightlining of rental income and amortisation of incentives and leasing fees	**3.6**	2.0
Transfer of assets classified as held for sale	**(38.7)**	–
Carrying amount at the end of the year	**855.6**	760.4

(d) List of investment properties

As at 30 June 2018, the investment properties have been valued as set out below:

Properties	Sector	Acquisition date	Date of latest independent valuation	Independent valuation $'m	**2018 Fair value $'m**	2017 Fair value $'m
Held for sale						
Grace, Willawong QLD^	Industrial	23/12/10	30/06/17	38.7	**38.7**	–
Total				38.7	**38.7**	–
Investment properties						
ATO, Adelaide SA	Office	10/11/16	30/06/18	270.0	**270.0**	270.0
Virgin, Brisbane QLD	Office	04/01/18	31/12/17	90.8	**90.8**	–
Bunnings, Mackay QLD	Retail	03/07/17	31/12/17	29.0	**29.0**	–
Toll Holdings, Altona North VIC	Industrial	02/07/10	30/06/18	33.5	**33.5**	33.1
Australia Post, Kingsgrove NSW	Industrial	05/11/10	31/12/17	23.4	**23.5**	22.0
Grace, Willawong QLD^	Industrial	23/12/10	30/06/17	–	**–**	38.7
Woolworths, Hoppers Crossing VIC	Industrial	22/06/12	30/06/18	46.7	**46.7**	46.7
Coates Hire, Kingston QLD	Industrial	12/09/12	31/12/17	32.0	**32.0**	31.1
Electrolux, Beverly SA	Industrial	17/12/12	31/12/17	35.5	**35.9**	34.0
Coles, Truganina VIC*	Industrial	10/11/16	30/06/18	56.0	**56.0**	52.0
Metcash, Canning Vale WA	Industrial	10/11/16	31/12/17	169.0	**169.2**	166.5
Suez, Artarmon NSW	Industrial	23/12/16	31/12/17	17.6	**17.6**	17.3
Suez, Davis Road, Wetherill Park NSW	Industrial	23/12/16	31/12/17	10.7	**10.7**	10.1
Suez, Newton Road, Wetherill Park NSW	Industrial	23/12/16	31/12/17	9.2	**9.2**	8.7
Suez, South Boulder WA	Industrial	23/12/16	31/12/17	0.6	**0.6**	0.6
Suez, Welshpool WA	Industrial	23/12/16	31/12/17	12.9	**12.9**	12.5
Suez, Landsdale WA	Industrial	23/12/16	31/12/17	3.9	**3.9**	3.8
Suez, Lower Nudgee QLD	Industrial	23/12/16	31/12/17	4.2	**4.2**	3.8
Suez, South Dandenong VIC	Industrial	23/12/16	31/12/17	7.5	**7.5**	7.0
Suez, Campbellfield VIC	Industrial	23/12/16	31/12/17	2.0	**2.0**	2.1
Suez, Bairnsdale VIC	Industrial	23/12/16	31/12/17	0.4	**0.4**	0.4
Total				854.9	**855.6**	760.4

^ Classified as asset held for sale, contracts exchanged 18 May 2018 with expected settlement to occur 16 August 2018.
* 50% ownership accounted for as joint operations.

Joint operations (Coles, Truganina VIC)

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

B2. Investments in joint venture entities

The REIT has investments in joint venture entities. The REIT exercises joint control over the joint venture entities, but neither the REIT nor its joint venture partners have control in their own right, irrespective of their ownership interest. The principal activity of all joint venture entities during the year was property investment.

Information relating to the joint venture entities is detailed below:

Name of entity	Properties	2018 Ownership %	2017 Ownership %	2018 $'m	2017 $'m
Perth RDC Trust	Coles, Perth WA	**49.9%**	49.9%	**123.1**	120.5
LWIP	ALH National Portfolio	**45.0%**	45.0%	**189.2**	170.2
CH DC Fund	Woolworths, Dandenong VIC*	**26.0%**	26.0%	**58.0**	9.5
Kogarah Trust	Westpac, Kogarah NSW	**50.1%**	50.1%	**103.8**	102.1
				474.1	402.3

* Preleased development reached practical completion on 22 March 2018.

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

	2018 $'m	2017 $'m
Balance at the beginning of the year	**402.3**	35.4
Business combination (including acquisition costs)	**–**	99.3
Additions (including acquisition costs)	**54.9**	260.4
Acquisition costs written off	**–**	(14.0)
Share of equity accounted profit	**45.6**	38.2
Distributions received and receivable	**(28.7)**	(17.0)
Balance at the end of the year	**474.1**	402.3

(b) Summarised financial information for material joint ventures

The information presented below reflects the amounts in the financial statements of the joint ventures:

2018	Perth RDC Trust $'m	LWIP $'m	CH DC Fund $'m	Kogarah Trust $'m	Total $'m
Summarised balance sheet:					
Cash and cash equivalents	**0.3**	**1.5**	**3.1**	**1.4**	**6.3**
Other current assets	**–**	**1.2**	**0.3**	**0.4**	**1.9**
Non-current assets	**248.3**	**768.8**	**220.9**	**207.0**	**1,445.0**
Current liabilities	**(1.9)**	**(10.0)**	**(1.2)**	**(1.6)**	**(14.7)**
Derivative financial instruments – non-current liabilities	**–**	**(0.2)**	**–**	**–**	**(0.2)**
Borrowings – non-current liabilities	**–**	**(340.8)**	**–**	**–**	**(340.8)**
Net assets	**246.7**	**420.5**	**223.1**	**207.2**	**1,097.5**
REIT's share in %	**49.9**	**45.0**	**26.0**	**50.1**	
REIT's share in $'m and carrying value	**123.1**	**189.2**	**58.0**	**103.8**	**474.1**
Summarised statement of comprehensive income:					
Revenue	**20.4**	**52.3**	**4.1**	**12.3**	**89.1**
Interest expense	**–**	**(15.9)**	**–**	**–**	**(15.9)**
Profit for the year	**21.0**	**55.4**	**11.0**	**14.7**	**102.1**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**21.0**	**55.4**	**11.0**	**14.7**	**102.1**
REIT's share in $'m	**10.5**	**24.9**	**2.8**	**7.4**	**45.6**
REIT's share of distribution received	**7.9**	**12.5**	**2.7**	**5.6**	**28.7**

B2. Investments in joint venture entities continued

(b) Summarised financial information for material joint ventures continued

2017	Perth RDC Trust $'m	LWIP $'m	CH DC Fund $'m	Kogarah Trust $'m	Total $'m
Summarised balance sheet:					
Cash and cash equivalents	0.5	3.1	0.4	2.3	6.3
Other current assets	0.2	2.7	1.4	0.4	4.7
Non-current assets	242.5	727.0	34.8	203.5	1,207.8
Current liabilities	(1.7)	(9.8)	(0.3)	(2.4)	(14.2)
Derivative financial instruments – non-current liabilities	–	(0.1)	–	–	(0.1)
Borrowings – non-current liabilities	–	(344.7)	–	–	(344.7)
Net assets	241.5	378.2	36.3	203.8	859.8
REIT's share in %	49.9	45.0	26.0	50.1	
REIT's share in $'m and carrying value	120.5	170.2	9.5	102.1	402.3
Summarised statement of comprehensive income:					
Revenue	19.9	48.4	–	12.0	80.3
Interest expense	(1.9)	(15.2)	–	–	(17.1)
Profit for the year	15.9	48.6	9.1	27.3	100.9
Other comprehensive income	–	–	–	–	–
Total comprehensive income	15.9	48.6	9.1	27.3	100.9
REIT's share in $'m	6.8	17.4	2.3	11.7	38.2
REIT's share of distribution received	5.7	7.5	0.2	3.6	17.0

Joint ventures (Coles, Perth WA, ALH National Portfolio, Woolworths, Dandenong VIC and Westpac, Kogarah NSW)

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

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

B3. Investments in financial assets at fair value

	2018 $'m	2017 $'m
Balance at the beginning of the year	**17.2**	–
Additions	**–**	17.0
Withdrawals	**(1.8)**	–
Net fair value movement on investment at fair value	**0.3**	0.2
Balance at the end of the year	**15.7**	17.2

Income support account

In acquiring the ATO, Adelaide South Australia property, $17 million was deposited into an escrow account which can be drawn prior to the expiry of the ATO's lease to compensate the REIT for:

i. potential reductions in income;
ii. a vacancy in respect of the property arising;
iii. any incentives payable to a tenant at the property;
iv. any leasing costs payable in connection with a tenancy at the property;
v. any increase in property outgoings and repair and maintenance expenses; and
vi. any other operating or capital costs relating to the property.

As a result of the ATO rent review determination, income support of $1.8 million was drawn from the income support account during the year (2017: $nil).

B4. Commitments and contingent liabilities

As at 30 June 2018, the REIT has no commitments.

As at 30 June 2017, the REIT had the following commitments:

- $49.4 million equity commitment to CH DC Fund being the balance owing on partially paid units used to fund the development of Woolworths Dandenong, Victoria which reached practical completion 22 March 2018.
- $28.5 million commitment under an unconditional agreement to acquire Bunnings, South Mackay which settled on 3 July 2017.

These commitments have not been reflected in the consolidated financial statements of the REIT.

As at 30 June 2018, the REIT has no contingent liabilities (30 June 2017: $nil).

The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total $nil (2017: $nil).

C. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

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

C1. Capital risk management

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

The REIT assesses its capital management approach as a key part of its overall strategy and it is regularly reviewed by management and the Board.

The REIT is able to alter its capital mix by issuing new units, activating the DRP, electing to have the DRP underwritten, adjusting the amount of distributions paid, activating a unit buy-back program or selling assets to reduce borrowings.

The REIT has a target balance sheet gearing level of 25% to 35% of debt to total assets and its balance sheet gearing at 30 June 2018 was 30.6% (30 June 2017: 29.9%).

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

C2. Borrowings and liquidity

(a) Borrowings

Borrowings are initially recognised at fair value, estimated by comparing the margin on the facility to the pricing of a similar facility in the current market, and subsequently measured at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in profit or loss over the expected life of the borrowings. All borrowings are classified as non-current liabilities as they have maturities greater than 12 months.

	2018		2017	
	Total carrying amount $'m	**Fair value $'m**	Total carrying amount $'m	Fair value $'m
Bank loan – term debt	**430.1**	**432.0**	359.0	360.5
Unamortised borrowing cost	**(2.0)**	**–**	(2.3)	–
Total	**428.1**	**432.0**	356.7	360.5
Balance available for drawing	**39.9**		76.5	

Bank loans

	Maturity Date	Facility limit 30 Jun 2018 $'m	**Utilised amount at 30 Jun 2018 $'m**	Facility limit 30 Jun 2017 $'m	Utilised amount at 30 Jun 2017 $'m
Syndicated bank facility					
– Tranche A	February 2022	400.0	**392.6**	380.0	326.0
– Tranche B	February 2022	50.0	**37.5**	50.0	33.0
– Tranche C	February 2022	20.0	**–**	20.0	14.5
		470.0	**430.1**	450.0	373.5

C2. Borrowings and liquidity continued

(a) Borrowings continued

Borrowing in Joint Ventures

As at balance date, LWIP has a $150.0 million syndicated debt facility and $200.0 million US Private Placement (USPP) notes. The syndicated debt facility matures in September 2020 and the USPP notes mature in May 2027.

Net debt reconciliation

The table below sets out an analysis of net debt and the movements in net debt during the year.

	2017 $'m	Movement in borrowing costs $'m	Movement in cash $'m	2018 $'m
Bank debt	359.0	–	71.1	**430.1**
Borrowing costs	(2.3)	0.3	–	**(2.0)**
Total borrowings	356.7	0.3	71.1	**428.1**
Cash	(2.9)	–	(2.6)	**(5.5)**
Net debt	353.8	0.3	68.5	**422.6**

C3. Derivative financial instruments

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

(a) Interest rate swaps

The REIT has entered into interest rate swaps totalling $325 million that entitle it to receive interest, at quarterly intervals, at a floating rate on a notional principal amount and oblige it to pay interest at a fixed rate on the same amount. The interest rate and swap agreements allow the REIT to raise long-term borrowings at a floating rate and effectively swap them into a fixed rate.

At 30 June 2018, the fixed rate varied from 2.14% to 2.70% per annum (2017: 2.14% to 2.62% per annum).

Amounts reflected in the financial statements are as follows:

	2018		2017	
Balance Sheet	Asset $'m	Liability $'m	Asset $'m	Liability $'m
Non-current				
Interest rate swaps	**0.1**	**2.2**	0.6	0.9
Total non-current derivative financial instruments	**0.1**	**2.2**	0.6	0.9

As at 30 June 2018, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	1 year or less $'m	1 to 2 years $'m	2 to 3 years $'m	3 to 4 years $'m	More than 4 years $'m	Total $'m
2018	**–**	**40.0**	**–**	**185.0**	**100.0**	**325.0**
2017	–	–	40.0	–	185.0	225.0

(b) Valuation techniques used to derive level 2 fair values

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

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

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

C4. Financial risk management

The REIT's principal financial instruments comprise cash and cash equivalents, receivables, investments in financial assets at fair value, payables, interest bearing liabilities and derivative financial instruments.

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

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

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

(a) Market risk – Interest rate risk

The table below shows the REIT's exposure to interest rate risk. At balance date, the REIT fixed 75% (2017: 66%) of its direct and joint venture interest rate exposure.

	2018 $'m	2017 $'m
Fixed rate		
Borrowings – joint venture entities[1]	**90.0**	90.0
Net fixed rate exposure	**90.0**	90.0
Floating rate		
Cash	**(5.5)**	(2.9)
Cash – joint venture entities[1]	**(2.3)**	(2.9)
Borrowings	**430.1**	359.0
Borrowings – joint venture entities[1]	**63.7**	65.5
	486.0	418.7
Derivative financial instruments		
Interest rate swaps – floating to fixed[2]	**(325.0)**	(225.0)
Interest rate swaps – floating to fixed – joint venture entities[1, 2]	**(24.8)**	(24.8)
Net floating rate exposure	**136.2**	168.9

1 The REIT's share of financial assets and liabilities included within its net investments in joint venture entities.
2 The amounts represent the notional principal payable under the derivative contracts (excluding derivatives where cash flows have not commenced at balance sheet date).

C4. Financial risk management continued

(a) Market risk – Interest rate risk continued

Sensitivity analysis

The table below reflects the potential net increase/(decrease) in profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2018, with all other variables remaining constant. The change in interest payable on the REIT's floating rate interest bearing liabilities is partially offset by changes in the fair value of derivative financial instruments hedging this exposure.

	2018				2017	
	Interest expense	**Net gain/ (loss) from derivative financial instruments**	**Profit and loss**	Other comprehensive income	Profit and loss	Other comprehensive income
	$'m	**$'m**	**$'m**	$'m	$'m	$'m
Australian interest rates						
+ 1.00%	**(1.4)**	**12.2**	**10.8**	–	7.5	–
– 1.00%	**1.4**	**(12.9)**	**(11.5)**	–	(7.7)	–

Sensitivity analysis presented above does not take into account impact of changes in interest rates on inflation rate, market capitalisation rate and property values, which together with other external factors may also influence operating earnings and statutory profit of the REIT in the future periods.

(b) Liquidity risk

The following table provides the contractual maturity of the REIT's fixed and floating rate financial liabilities and derivatives as at 30 June 2018. The amounts presented represent the future contractual undiscounted principal and interest cash outflows based on interest rates prevailing at balance date and therefore do not equate to the value shown in the consolidated balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Carrying value	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	$'m	$'m	$'m	$'m	$'m
2018					
Financial liabilities					
Payables	**(5.8)**	**(5.8)**	**–**	**–**	**(5.8)**
Distribution payable	**(15.8)**	**(15.8)**	**–**	**–**	**(15.8)**
Borrowings	**(428.1)**	**(12.8)**	**(464.3)**	**–**	**(477.1)**
Derivative financial instruments	**(2.2)**	**(1.2)**	**(1.4)**	**0.6**	**(2.0)**
Other liabilities	**(2.7)**	**(2.7)**	**–**	**–**	**(2.7)**
Total financial liabilities	**(454.6)**	**(38.3)**	**(465.7)**	**0.6**	**(503.4)**
2017					
Financial liabilities					
Payables	(4.4)	(4.4)	–	–	(4.4)
Distribution payable	(13.3)	(13.3)	–	–	(13.3)
Borrowings	(356.7)	(9.4)	(390.5)	–	(399.9)
Derivative financial instruments	(0.9)	(0.6)	(0.4)		(1.0)
Total financial liabilities	(375.3)	(27.7)	(390.9)	–	(418.6)

(c) Credit risk

The maximum exposure to credit risk at the end of each reporting period is equivalent to the carrying value of the financial assets.

The table below shows the ageing analysis of those rent receivables of the REIT which are past due or impaired:

	PAST DUE BUT NOT IMPAIRED				
	Less than 30 days $'m	31 to 60 days $'m	61 to 90 days $'m	More than 90 days $'m	Total $'m
2018					
Trade receivables	**–**	**–**	**–**	**0.1**	**0.1**
2017					
Trade receivables	–	–	–	0.1	0.1

C5. Offsetting financial assets and liabilities

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

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

Consolidated entity	Gross amounts of financial instruments $'m	Amounts subject to set-off $'m	Net amount post set-off $'m
2018			
Derivative assets	**0.1**	**(0.1)**	**–**
Derivative liabilities	**(2.2)**	**0.1**	**(2.1)**
Borrowings	**(430.1)**	**–**	**(430.1)**
	(432.2)	**–**	**(432.2)**
2017			
Derivative assets	0.6	(0.6)	–
Derivative liabilities	(0.9)	0.6	(0.3)
Borrowings	(359.0)	–	(359.0)
	(359.3)	–	(359.3)

C6. Contributed equity

Details	No. of Securities	**2018 $'m**	2017 $'m
Securities on issue – 1 Jul 2016	120,445,047	**–**	119.2
Capital return	–	**–**	(66.6)
Change in number of securities after security reorganisation	(81,644,447)	**–**	–
Security redemptions	(30,747,042)	**–**	(70.2)
Securities issued via Initial Public Offering	198,629,539	**–**	449.9
Securities issued via DRP	1,104,078	**–**	2.5
Securities on issue – 30 Jun 2017	207,787,175	**434.8**	434.8
Securities issued to fund acquisition of CVLT1, 218 BRT, CHPT DT and CPOF KHT	68,851,727	**153.2**	–
Change in number of securities after security consolidation	(68,851,727)	**–**	–
Securities issued via Entitlement Offer	22,664,846	**68.5**	–
Securities issued via DRP	1,848,121	**5.0**	
Securities on issue – 30 Jun 2018	232,300,142	**661.5**	434.8
Balance at the end of the year attributable to the securityholders of:			
DIF	**232,300,142**	**661.5**	434.8
LWR Finance Trust	**232,300,142**	**1.9**	1.9
FSPT	**232,300,142**	**172.2**	146.9
CVLT1	–	**–**	21.0
218 BRT	–	**–**	22.8
CPOF KHT	–	**–**	42.2
CHPT DT	–	**–**	26.7
Equity holders of Stapled Trusts other than DIF		**174.1**	261.5

As stipulated in the REIT's constitutions, each security represents a right to an individual share in the REIT and does not extend to a right to the underlying assets of the REIT. There are no separate classes of securities and each unit has the same rights attaching to it as all other units in the REIT.

Each stapled security confers the right to vote at meetings of securityholders, subject to any voting restrictions imposed on a securityholder under the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules.

Distribution Reinvestment Plan (DRP)

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

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. The REIT raised $3.6 million from the DRP for the 30 June 2017 distribution allotted on 14 August 2017 and $4.0 million from the DRP for the 30 September 2017 allotted on 15 November 2017. The DRP was inactive for the remainder of the year.

Simplification of REIT's structure

On 22 September 2017, DIF acquired all of the securities of CVLT1, 218 BRT, CPOF KHT and CHPT DT from Securityholders for $153.2 million which represents the relative net tangible asset value in these Stapled Trusts, in exchange for additional securities in DIF. As part of the simplification, equity attributable to the Securityholders of CVLT1, 218 BRT, CPOF KHT and CHPT DT has been reduced by $153.2 million. Immediately thereafter, the DIF securities were consolidated to preserve the one to one stapling ratio. The stapled securities of the REIT traded on a deferred settlement basis from 20 to 25 September 2017 in connection with this transaction. Following simplification, the REIT now comprises three Stapled Trusts (DIF, FSPT and Finance Trust).

Entitlement Offer

In December 2017, the REIT raised $91.9 million of equity net of costs ($68.5 million in DIF and $23.4 million in FSPT) issuing 22.7 million stapled securities at $4.15 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of Virgin Australia's head office building at 56 Edmondstone Road, Brisbane Queensland and associated transaction costs.

D. FURTHER INFORMATION

D1. Related party information

(a) Responsible Entity

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

(b) Directors

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

- Peeyush Gupta – Chairman and Non-Executive Director
- Glenn Fraser – Non-Executive Director
- Ceinwen Kirk-Lennox – Non-Executive Director
- David Harrison – Executive Director and Chief Executive Officer/Managing Director of Charter Hall Group
- Adrian Taylor – Executive Director

No payments were made by the REIT or by the Responsible Entity on behalf of the REIT to the Executive Directors during the year.

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

The Responsible Entity and its related parties held 47,402,894 units as at 30 June 2018 (2017: 41,461,705).

Following is a summary of related party transactions for the year ended 30 June 2018:

		BASIS OF FEE CALCULATION		FEE AMOUNT	
		2018	2017	**2018**	2017
Type of fee	Method of fee calculation	**$'m**	$'m	**$'000**	$'000
Post-IPO					
Base management	0.45% of average gross assets	**1,464.7**	1,353.4	**6,576**	3,772
Acquisition	1% of acquisition price	**121.7**	505.0	**1,219**	4,922
Disposal fee	1% of disposal price	**38.7**	–	**387**	–
Property management	Up to 3% of gross property income	**96.9**	36.8	**956**	404
Accounting services	Cost recovery	**–**	–	**714**	511
Leasing fees	% gross average annual rent based on a sliding fee scale	**4.3**	–	**258**	–
Debt arranger	Market rate	**–**	90	**–**	180
Facility management fee	Annual charge per property	**–**	–	**44**	14
Other cost recoveries	Cost recovery	**–**	–	**60**	–
				10,214	9,803
Pre-IPO					
Base management	0.6% of gross assets of previous month	**–**	261.7	**–**	570
Property management	Up to 3% of gross property income	**–**	6.6	**–**	72
Disposal	2% of sale price	**–**	261.3	**–**	5,227
Accounting services	Cost recovery	**–**	–	**–**	80
Performance*	Performance fee hurdle IRR 10%	**–**	–	**–**	(71)
				–	5,878
				10,214	15,681

* Represents change in fee accrued in 2016 and paid in 2017.

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

	2018	2017
	$'000	$'000
Charter Hall Holdings Pty Limited	**958**	891
	958	891

D1. Related party information continued

(e) Key management personnel

Key management personnel (KMP) are defined in AASB 124 *Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the entity. The Responsible Entity meets the definition of KMP as it has this authority in relation to the activities of the REIT. These powers have not been delegated by the Responsible Entity to any other person. Details of management fees charged to the REIT by the Responsible Entity and its related parties are included in Note D1(c).

(f) Directors' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

CHWALE	**2018 $'000**	2017 $'000
Peeyush Gupta	**140,000**	135,000
Glenn Fraser	**110,000**	97,000
Ceinwen Kirk-Lennox	**95,000**	94,073
	345,000	326,073

The level of fees is not related to the performance of the REIT. The Board of the Responsible Entity considers remuneration payable to its Independent Directors from time to time. Remuneration of Independent Directors is approved by the Board and any increases are benchmarked to market rates.

The Executive Directors of the Responsible Entity and Fund Manager of the REIT are employees of Charter Hall Holdings Pty Ltd and are remunerated by Charter Hall Holdings Pty Ltd.

(g) Directors' interests in REIT stapled securities

The numbers of stapled securities held directly, indirectly or beneficially by the Directors of the Responsible Entity or the Directors' related parties at 30 June are as follows:

	Stapled securities held 2018	Stapled securities held 2017
Peeyush Gupta	**394,243**	382,111
Glenn Fraser	**44,325**	40,000
Ceinwen Kirk-Lennox	**25,764**	23,250
David Harrison	**290,458**	254,053
Adrian Taylor	**72,530**	63,513
Total	**827,320**	762,927

The aggregate numbers of stapled securities of the REIT acquired by the Directors of the Responsible Entity or their related parties during the year are set out below.

	Stapled securities acquired 2018	Stapled securities acquired 2017
Peeyush Gupta	**12,132**	382,111
Glenn Fraser	**4,325**	40,000
Ceinwen Kirk-Lennox	**2,514**	23,250
David Harrison	**36,405**	254,053
Adrian Taylor	**9,017**	63,513
Total	**64,393**	762,927

No stapled securities of the REIT were sold by the Directors of the Responsible Entity or their related parties during the year.

D2. Working capital

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

(a) Receivables and other assets

	2018 $'m	2017 $'m
Receivables		
Trade receivables	**0.1**	0.1
Accrued income	**0.1**	0.1
Distributions receivable from joint ventures*	**4.5**	4.2
	4.7	4.4
Other Assets		
Deposit and acquisition costs for the purchase of Bunnings, South Mackay	**–**	4.5
Prepayments	**0.6**	0.4
	0.6	4.9

* Distributions received in the corresponding July.

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

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

(b) Payables and other liabilities

	2018 $'m	2017 $'m
Payables		
Accrued expenses	**4.2**	3.0
Accrued management fees	**0.6**	0.5
Accrued capital expenditure	**0.2**	0.3
Interest payable	**0.4**	0.3
GST payable	**0.4**	0.2
Other	**–**	0.1
	5.8	4.4
Other liabilities		
Unearned income	**2.7**	–
	2.7	–

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the REIT. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

D3. Parent entity information

The financial information for the parent entity, Charter Hall Direct Industrial Fund, has been prepared on the same basis as the REIT's consolidated financial statements except as set out below:

Investments in controlled entities

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

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

Receivables and payables

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

Recoverable amount of assets

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

(a) Summary financial information

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

	Parent 2018 $'m	Parent 2017 $'m
Balance Sheet		
Current assets	**1.6**	–
Non-current assets	**982.6**	528.4
Total assets	**984.2**	528.4
Current liabilities	**12.7**	8.1
Non-current liabilities	**364.9**	125.5
Total liabilities	**377.6**	133.6
Equity		
Contributed equity	**661.5**	434.8
Retained profits	**(54.9)**	(40.0)
Total equity	**606.6**	394.8
Statement of comprehensive income		
Profit for the year	**43.2**	14.5
Total comprehensive income	**43.2**	14.5

(b) Guarantees and contingent liabilities

The parent entity did not have any material contingent liabilities, either individually or as a class, at 30 June 2018 (2017: $nil).

(c) Commitments

The parent entity did not have any contingent liabilities as at 30 June 2018 (2017: $nil).

(d) Net current asset deficiency

At 30 June 2018, the parent entity has a net deficiency of current assets over current liabilities of $11.1 million (2017: $8.1 million). The parent entity will be able to meet its day-to-day working capital requirements from the REIT's available loan facility and operating cash flows. Securityholders will only receive their distributions to the extent that the parent entity has sufficient working capital.

D4. Significant contract terms and conditions

Pre-emptive rights

The joint-ownership agreements to which the REIT is a party contain pre-emptive rights which restrict the REIT's dealings in respect of its interest in the respective co-owned trust or the co-owned property. In particular, where the REIT wishes to deal with its interests in a co-owned trust or property, each other co-owner will have a pre-emptive right over the REIT's interests, other than in limited circumstances (for example, by way of a permitted transfer to a member of the REIT's Securityholder or owner group).

A number of joint-ownership agreements also contain:

- tag-along options, pursuant to which the REIT may be required to take reasonable steps, if it wishes to sell its interest in a co-owned trust or co-owned property, to cause one or more of the other co-owners' interests to be acquired on substantively the same terms;
- drag-along rights, pursuant to which a co-owner may require the REIT to sell its interests in a co-owned trust if the co-owner wishes to sell its interest and the REIT has not exercised its pre-emptive right;
- provisions under which a default sale process may be triggered on a change of control event, including where the Responsible Entity is replaced with an entity that is not a related body corporate of the Responsible Entity, with the default sale process giving the other co-owners a right to acquire the REIT's interests at the relevant default interest value; and
- dispute resolution procedures which provide for the sale of the relevant property in circumstances where a co-owner does not acquire the other co-owners' interests.

D5. Remuneration of the auditor

	2018 $'000	2017 $'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	**290**	298
Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for:		
Taxation compliance services	**52**	56
Accounting services*	**–**	18
Accounting and tax due diligence advice*		
– Recognised in the profit or loss	**137**	607
– Recognised in equity	**–**	225
	479	1,204

* Prior year amounts incurred in relation to IPO.

D6. Interests in other entities

Material subsidiaries

The REIT's principal subsidiaries at 30 June 2018 are set out below. Unless otherwise stated, they have contributed equity consisting solely of ordinary units that are held directly by the REIT, and the proportion of ownership interests held equals the voting rights held by the REIT.

Name of entity	Country of incorporation/ Place of business	Ownership interest held by the REIT		Principal activities
		2018	2017	
CHDIF Altona North Trust	Australia	**100%**	100%	Property Investment
CHDIF Kingsgrove Trust	Australia	**100%**	100%	Property Investment
CHDIF Willawong Trust	Australia	**100%**	100%	Property Investment
CHDIF Hoppers Crossing Trust	Australia	**100%**	100%	Property Investment
CHDIF Kingston Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Kingston Trust	Australia	**100%**	100%	Property Investment
CHDIF Beverley Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Beverley Trust	Australia	**100%**	100%	Property Investment
CHDIF Perth Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Perth Airport Trust	Australia	**100%**	100%	Property Investment
LWR LWIP Holding Trust	Australia	**100%**	100%	Holding Trust
LWR LWIP Investment Trust	Australia	**100%**	100%	Property Investment
Suez Portfolio Trust	Australia	**100%**	100%	Property Investment
CH Direct VA Trust	Australia	**100%**	–	Property Investment
LWR Bunnings Trust	Australia	**100%**	100%	Property Investment
LWR Finance Trust	Australia	**100%**	100%	Stapled Trust
Charter Hall LWR Limited	Australia	**100%**	100%	Provision of Finance
CHPT Dandenong Trust*	Australia	**N/A**	100%	Stapled Trust
LWR Truganina Trust	Australia	**100%**	100%	Property Investment
LWR Canning Vale Trust	Australia	**100%**	–	Property Investment
Canning Vale Logistics Trust No.1*	Australia	**N/A**	100%	Stapled Trust
218 Bannister Road Trust*	Australia	**N/A**	100%	Stapled Trust
CPOF Kogarah Holding Trust*	Australia	**N/A**	100%	Stapled Trust
CPOF Kogarah Trust	Australia	**100%**	100%	Property Investment
Franklin Street Property Trust	Australia	**100%**	100%	Stapled Trust

* Wound up during the year.

Stapled Trusts

Summarised financial information about Stapled Trusts other than DIF is set out below:

	Finance Trust $'m	FSPT $'m	CVLT1 $'m	218 BRT $'m	CPOF KHT $'m	CHPT DT $'m	Total $'m
Summarised balance sheet as at 30 June 2018:							
Current assets	**0.2**	**4.2**	**–**	**–**	**–**	**–**	**4.4**
Non-current assets	**430.3**	**285.7**	**–**	**–**	**–**	**–**	**716.0**
Current liabilities	**(0.4)**	**(7.7)**	**–**	**–**	**–**	**–**	**(8.1)**
Non-current liabilities	**(430.4)**	**(51.7)**	**–**	**–**	**–**	**–**	**(482.1)**
Net assets	**(0.3)**	**230.5**	**–**	**–**	**–**	**–**	**230.2**
Summarised statement of comprehensive income for the year ended 30 June 2018:							
Revenues	**16.3**	**21.3**	**1.7**	**1.7**	**1.3**	**0.8**	**43.1**
Net profit	**(1.9)**	**12.2**	**0.8**	**0.8**	**0.7**	**0.4**	**13.0**
Total comprehensive income	**(1.9)**	**12.2**	**0.8**	**0.8**	**0.7**	**0.4**	**13.0**
Summarised balance sheet as at 30 June 2017:							
Current assets	1.4	0.8	–	0.2	0.5	0.7	3.6
Non-current assets	358.1	287.2	83.3	83.3	102.1	61.5	975.5
Current liabilities	(0.3)	(4.2)	(1.1)	(1.1)	(0.9)	(0.4)	(8.0)
Non-current liabilities	(357.7)	(76.9)	(44.6)	(44.7)	(52.2)	(36.8)	(612.9)
Net assets	1.5	206.9	37.6	37.7	49.5	25.0	358.2
Summarised statement of comprehensive income for the year ended 30 June 2017:							
Revenues	8.7	13.5	4.3	4.3	11.7	2.6	45.1
Net profit	(0.4)	11.2	2.2	2.3	9.2	1.7	26.2
Total comprehensive income	(0.4)	11.2	2.2	2.3	9.2	1.7	26.2

Details of simplification of the REIT's structure are provided in C6.

D7. Events occurring after balance date

On 19 July 2018, the REIT exchanged contracts to acquire a 50% interest in 40 Tank Street, Brisbane, Queensland for $46.5 million with expected settlement on 31 August 2018.

On 6 August 2018, securityholders voted in favour of the proposed sale of a 50% interest in ATO Adelaide, South Australia and simplification of the REIT structure from a three staple structure to a two staple structure. Simplification is to occur on 22 August 2018. On 8 August 2018, a call option was exercised to sell a 50% interest in ATO Adelaide, South Australia to a related party for proceeds of $135.0 million as well as half the related income support fund. Settlement is expected to occur in mid August.

The Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the annual consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT, the results of those operations or the state of affairs of the REIT in the financial years subsequent to 30 June 2018.

D8. Other significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the REIT's constitutions, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The REIT is a for-profit entity for the purpose of preparing the consolidated financial statements. The consolidated financial statements are presented in Australian dollars, which is the REIT's functional and presentation currency.

Compliance with IFRS

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

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except derivative financial instruments, investments in financial assets held at fair value, assets held for sale and investment properties, which have been measured at fair value.

New and amended standards adopted

No new accounting standards or amendments have come into effect for the year ended 30 June 2018 that affect the REIT's operations or reporting requirements.

Principles of consolidation

Stapling

The units in the Stapled Trusts (collectively referred to as the stapled securities) are listed on the Australian Securities Exchange and cannot be traded or dealt with separately. The three entities (seven prior to simplification of the REIT) 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.*

Stapling arrangements are treated as a business combination by contract alone since none of the stapled entities (as opposed to their unitholders) obtain an ownership interest in another stapled entity.

Under AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements*, one of the stapled entities of a stapled structure is to be identified as the parent entity for the purpose of preparing a consolidated annual financial report. In accordance with this requirement, DIF has been identified as the parent entity. Accordingly, the consolidated financial statements of the REIT in the prior period have been prepared as a continuation of the consolidated financial statements of DIF with the information presented being that of DIF from 1 July 2016 until 9 November 2016 and that of DIF and the other Stapled Trusts from 10 November 2016 until 30 June 2017.

The results and equity, not directly owned by DIF, of the other Stapled Trusts have been treated and disclosed as non-controlling interests in the consolidated financial statements of the REIT. Whilst the results and equity of the other Stapled Trusts are disclosed as non-controlling interests, the stapled securityholders of DIF are the same as the stapled securityholders of the other Stapled Trusts.

Controlled entities

Subsidiaries are all entities over which the REIT has control. The REIT controls an entity when the REIT is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the REIT. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the REIT.

(b) Comparative information

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

(c) Rounding of amounts

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

(d) Impact of new standards and interpretations issued but not yet adopted by the REIT

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2018 but are available for early adoption. The impact of these new standards and interpretations (to the extent relevant to the REIT) is set out below:

(i) AASB 9 Financial Instruments (applied from 1 July 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities, sets out new rules for hedge accounting and applies new rules for impairment testing, including the requirements to assess the lifetime expected credit loss for financial assets rather than only incurred credit losses under AASB 139. The REIT will apply AASB 9 for the reporting period beginning on 1 July 2018.

A review of the REIT's financial assets and liabilities has been undertaken with the following impacts expected upon adoption of AASB 9:

Classification and measurement – Analysis has confirmed that there will be no likely change in the classification and measurement of financial assets and liabilities. All financial instruments will be held at either amortised cost or fair value through profit and loss. This reflects the current classification under AASB 139.

Hedge accounting – The REIT does not apply hedge accounting.

Impairment provision – The new expected credit loss model for calculating impairment on financial assets is not expected to have a material impact on the REIT's provision for doubtful debts.

The new standard does introduce expanded disclosure requirements. These are expected to change the nature and extent of the financial instrument disclosures.

(ii) AASB 15 Revenue from Contracts with Customers (applied from 1 July 2018)

The standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer, so the notion of control replaces the notion of risks and rewards. It applies to all contracts with customers except leases, financial instruments and insurance contracts. AASB 15 requires reporting entities to provide users of financial statements with more informative, relevant disclosures. An assessment has been performed on existing revenue streams. Based on this assessment, it is not expected that the REIT will be materially impacted. Some change in presentation of certain revenue items and additional disclosures will be required. The REIT currently plans to apply AASB 15 for the reporting period beginning on 1 July 2018.

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

The standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) will change. The accounting by lessors will not significantly change. The REIT currently plans to apply AASB 16 for the reporting period beginning on 1 July 2019. An initial assessment of the new standard has been undertaken and it is not expected to have a material impact on the REIT's consolidated financial statements.

DIRECTORS' DECLARATION TO STAPLED SECURITYHOLDERS

In the opinion of the Directors of Charter Hall WALE Limited, the Responsible Entity of Charter Hall Long WALE REIT:

(a) the consolidated financial statements and notes set out on pages 24 to 51 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the REIT's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

(b) there are reasonable grounds to believe that the REIT will be able to pay its debts as and when they become due and payable.

Note D8(a) confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

Peeyush Gupta
Director

Sydney
9 August 2018

INDEPENDENT AUDITOR'S REPORT

TO THE STAPLED SECURITYHOLDERS OF CHARTER HALL LONG WALE REIT

Independent auditor's report

To the stapled securityholders of Charter Hall Long WALE REIT

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Charter Hall Long WALE REIT (the REIT) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the REIT's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The REIT financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration of Charter Hall WALE Limited (the responsible entity of the REIT).

The REIT comprises the stapled entities of Charter Hall Direct Industrial Fund (DIF), LWR Finance Trust (Finance Trust) and Franklin Street Property Trust (FSPT) and the entities they controlled from time to time during the financial year.

Basis for opinion

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

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

Independence

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

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INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2018

Our audit approach

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

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

The REIT's principal activity consists of property investment.

Materiality

- For the purpose of our audit we used overall quantitative materiality of $2.9 million, which represents approximately 5% of the REIT's operating earnings.
- For the stapled entities consolidated by DIF, individual materialities are calculated for the purposes of their audits. Information on materiality for each stapled entity is disclosed in their respective audit reports.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose operating earnings (which is an adjusted profit metric) as the benchmark because, in our view, it is the benchmark against which the performance of the REIT is most commonly measured and is one of the generally accepted benchmarks within the industry.
- We selected a 5% threshold based on our professional judgement and noting it is within the range of acceptable quantitative materiality thresholds.

Audit Scope

- Our audit focused on where the directors of the responsible entity of the REIT made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The structure of the REIT is commonly referred to as a 'stapled group' and is explained in Note A1.
- We also focused on the risk of management override of internal controls, including whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.
- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the structure of the REIT, the accounting processes and controls, and the industry in which the REIT operates.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investment properties, including those investment properties held in joint ventures accounted for under the equity method *(Refer to Note B)* The REIT's investment property portfolio is comprised of industrial, retail and office investment properties. At 30 June 2018 the carrying value of the REIT's total investment property portfolio (excluding investment properties held in equity accounted investments) was $855.6 million (2017: $760.4 million). The carrying value of the REIT's investment properties held by joint venture vehicles was $1,445 million (2017: $1,207 million). Investment properties are valued at fair value at reporting date using either the income capitalisation approach or the discounted cash flow approach as described in Note B. The value of investment properties is dependent on the valuation methodology adopted and the inputs into the valuation model. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property directly impact fair values. Amongst others, the following assumptions are key in establishing fair value: • capitalisation rate • adopted discount rate. At the end of each reporting period, the REIT determines the fair value of its investment property portfolio in accordance with Charter Hall's valuation policy. This policy requires all properties to be externally valued by an independent valuation expert at least once every 12 months. If a property is not externally valued at balance date, the REIT performs an internal valuation. We considered this a key audit matter because of the: • Relative significant size of the investment property balances in the consolidated balance sheet;	We obtained recent independent property market reports to understand the prevailing markets' conditions in which the REIT invests. We compared historical valuations against current year valuations, and noted that the movements in fair values were in line with overall movements in the market. We met with management of the REIT and discussed the specifics of selected individual properties including a sample of new leases entered into during the financial year and capital expenditure. For a sample of leases, we compared the rental income used in the valuation to underlying lease agreements. We found that the data used in the samples tested was consistent with tenant leases. We compared the REIT's capitalisation rates and discount rates by location and asset grade to our independent expectation of a reasonable range determined based on benchmark market data. Where capitalisation rates and discount rates fell outside of our anticipated ranges, we considered the rationale for the rate applied. We agreed the fair value per the final external valuation reports and internal valuations to the REIT's accounting records, noting no exceptions. **External valuations** For a sample of external valuations we assessed the competency and capability of the external valuers and considered that the valuations were performed in accordance with Charter Hall's valuation policy. **Internal valuations** We reviewed the methodologies used by the REIT to determine the properties' fair value, noting that the capitalisation and discounted cash flow models were consistent with industry standards.

INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2018

Key audit matter	*How our audit addressed the key audit matter*
• Material quantum of revaluation gains that directly impact the consolidated statement of comprehensive income through the net fair value gain on investment properties; • Inherently subjective nature of investment property valuations due to the use of several assumptions in the valuation methodology; and • Sensitivity of valuations to key input assumptions, specifically capitalisation and discount rates.	
Simplification of the REIT structure *(Refer to Note C)* DIF acquired all the securities of the following four previously stapled entities, Canning Vale Logistics Trust No. 1 ("CVLT1"), 218 Bannister Road Trust ("218 BRT"), CPOF Kogarah Holding Trust ("CPOF KHT") and CHPT Dandenong Trust ("CHPT DT") from security holders on 22 September 2017. The securities were acquired at their net tangible asset value, in exchange for additional securities in DIF. Thereafter, the DIF securities were consolidated to preserve the one-to-one stapling ratio. Following simplification, the REIT comprises of three Stapled Trusts: DIF, FSPT and Finance Trust as at 30 June 2018. We considered the accounting for the above simplification to be a key audit matter in the current financial year because of the: • nature and complexity of the transactions to consolidate the four previously stapled entities into DIF; • magnitude, judgement and estimations involved in determining and accounting for the fair value of assets acquired and liabilities assumed; and • significant audit effort taken to perform audit procedures on the transactions.	We obtained an understanding and reviewed the steps performed by management of the REIT to achieve the simplified structure of the REIT. We performed a number of audit procedures including the following: • Assessed the accounting treatment through evaluation of sale and purchase agreements, unit registers, implementation deeds and other legal documentation supporting the simplification transactions. • Evaluated the completeness and accuracy of the REIT's calculation of the net tangible asset value of CVLT1, 218BRT, CPOF KHT and CHPT DT prior to simplification and their consolidation into DIF. We performed reasonableness testing over all material balances of each acquired stapled trust and agreed the fair value of investment properties and investments through the equity method to external valuations. • Agreed the net tangible asset value of CVLT1, 218 BRT, CPOF KHT and CHPT DT on the simplification date to the reduction in contributed equity and retained earnings of the remaining stapled trusts and increase in the contributed equity of DIF in the consolidated statement of changes in equity with no exceptions.

Other information

The directors of Charter Hall WALE Limited, the responsible entity of the REIT, are responsible for the other information. The other information comprises the information included in the REIT's financial report and other information for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information which we obtained included the Director's Report. We expect the remaining other information to be made available to use after the date of this auditor's report, including 2018 Highlights, Chair & Fund Manager Letter, Portfolio Performance and Our Board and Management.

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

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

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

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

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of Charter Hall WALE Limited, the responsible entity of the REIT, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2018

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
9 August 2018

SECURITYHOLDER ANALYSIS

A. Distribution of stapled securityholders as at 24 September 2018

Range	Stapled Securities held	% of issued Capital Securities	No. of holders
100,001 and Over	446,820,905	95.93	51
50,001 to 100,000	2,210,208	0.47	33
10,001 to 50,000	7,287,586	1.56	387
5,001 to 10,000	4,643,143	1.00	639
1,001 to 5,000	4,351,181	0.93	1,550
1 to 1,000	464,108	0.10	1,295
Total	**465,777,131**	**100.00**	**3,955**
Unmarketable parcels	1,956	0.00	323

B. Top 20 registered securityholders as at 24 September 2018

Rank	Name	A/C designation	Stapled Securities held	%IC of Issued Securities
1	TRUST COMPANY LIMITED	<CHARTER HALL CO-INVEST A/C>	47,402,894	20.41
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		44,811,819	19.29
3	J P MORGAN NOMINEES AUSTRALIA LIMITED		27,675,920	11.91
4	CITICORP NOMINEES PTY LIMITED		25,309,247	10.90
5	NATIONAL NOMINEES LIMITED		15,192,682	6.54
6	BNP PARIBAS NOMINEES PTY LTD	<AGENCY LENDING DRP A/C>	5,402,882	2.33
7	MILTON CORPORATION LIMITED		2,346,997	1.01
8	IOOF INVESTMENT MANAGEMENT LIMITED	<IPS SUPER A/C>	1,956,964	0.84
9	BNP PARIBAS NOMS PTY LTD	<DRP>	1,888,414	0.81
10	AMP LIFE LIMITED		1,573,265	0.68
11	CITICORP NOMINEES PTY LIMITED	<COLONIAL FIRST STATE INV A/C>	1,516,626	0.65
12	FZIC PTY LTD	<MCMAHON FAMILY A/C>	1,385,136	0.60
13	ECAPITAL NOMINEES PTY LIMITED	<ACCUMULATION A/C>	1,086,353	0.47
14	G C F INVESTMENTS PTY LTD		979,568	0.42
15	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	<NO 1 ACCOUNT>	954,323	0.41
16	NAVIGATOR AUSTRALIA LTD	<MLC INVESTMENT SETT A/C>	916,687	0.39
17	JAN HOLDINGS PTY LTD		871,373	0.38
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2		705,199	0.30
19	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP		693,198	0.30
20	NULIS NOMINEES (AUSTRALIA) LIMITED	<NAVIGATOR MAST PLAN SETT A/C>	682,784	0.29
Total			**183,352,331**	**78.93**
Balance of register			**48,947,811**	**21.07**
Grand total			**232,300,142**	**100.00**

C. Substantial securityholder notices as at 24 September 2018

Ordinary Securities	Date of change	Stapled Securities held	% Securities held
Paul Lederer	22 Jun 2017	14,513,741	6.984
The Vanguard Group	16 Jun 2017	14,115,274	6.793
Trust Company Limited (TCL) as custodian for Bieson Pty Limited (Bieson) as trustee of the Charter Hall Co-Investment Trust (CHCT)	10 Nov 2016	40,200,121	19.45

INVESTOR INFORMATION

How do I invest in Charter Hall Long WALE REIT?

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

Where can I find more information about Charter Hall Long WALE REIT?

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

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

Can I receive my Annual Report electronically?

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

How do I receive my distribution?

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

Can I reinvest my distribution?

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

Do I need to supply my Tax File Number?

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

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

At the end of each financial year, we issue securityholders with an Annual Taxation Statement. This statement includes information required to complete your tax return. The quarterly distributions paid are required to be included in your tax return for the financial year the income was earned; that is, the distribution income paid in August 2017 should be included in your 2017 financial year tax return.

How do I make a complaint?

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

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

Financial Ombudsman Service

GPO Box 3
Melbourne VIC 3001
Tel: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au
Web: www.fos.org.au

CORPORATE DIRECTORY

Responsible Entity (and Manager)

Charter Hall WALE Limited
ABN 20 610 772 202
AFSL 486721

Registered office

Level 20, No.1 Martin Place
Sydney NSW 2000

Directors of the Responsible Entity

Peeyush Gupta (Chair)
Glenn Fraser
Ceinwen Kirk-Lennox
David Harrison
Adrian Taylor

Fund Manager

Avi Anger

Company Secretary

Mark Bryant
Charisse Nortje

Responsible Entity's office

Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704
Sydney NSW 2001
Tel: 1300 365 585 (within Australia)
+61 2 8651 9000 (outside Australia)
Fax: +61 2 9221 4655
Email: reits@charterhall.com.au
Web: https://longwalereit.com.au/

ASX code: CLW

Custodian

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

Auditor

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

Unit Registry

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

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Tel: 1300 303 063 (within Australia)
+61 2 8280 7134 (outside Australia)
Fax: +61 2 9287 0303
Email: charterhall@linkmarketservices.com.au
Web: www.linkmarketservices.com.au

CONTACT DETAILS

Registry

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

Link Market Services Limited

Locked Bag A14
Sydney South NSW 1235
Tel: 1300 303 063 (within Australia)
+61 2 8280 7134 (outside Australia)
Fax: +61 2 9287 0303
Email: charterhall@linkmarketservices.com.au
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Investor Relations

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

Charter Hall Long WALE REIT Management Limited

GPO Box 2704
Sydney NSW 2001
Tel: 1300 365 585 (within Australia)
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Fax: +61 2 9221 4655
Email: reits@charterhall.com.au
Web: www.charterhall.com.au

DISCLAIMER

Important Notice

This report comprises Charter Hall Direct Industrial Fund and its controlled entities (together referred to as Charter Hall Long WALE REIT, REIT or CLW). The REIT was formed upon the stapling of the units of the three Australian registered schemes listed below (collectively referred to as the Stapled Trusts):

- Charter Hall Direct Industrial Fund (DIF) and its controlled entities (ARSN 144 613 641);
- LWR Finance Trust (Finance Trust) and its controlled entities (ARSN 614 713 138);
- Franklin Street Property Trust (FSPT) (ARSN 614 714 206); and
- Charter Hall WALE Limited ABN 20 610 772 202; AFSL 486721 (CHWALE) is the Responsible Entity of the Stapled Trusts and is a controlled entity of Charter Hall Limited ABN 57 113 531 150 (Charter Hall).

This report is not intended to be and does not constitute an offer or a recommendation to acquire any securities in the REIT. This report does not take into account the personal objectives, financial situation or needs of any investor. Before investing in REIT securities, you should consider your own objectives, financial situation and needs and seek independent financial, legal and/or taxation advice. Historical performance is not a reliable indicator of future performance. Due care and attention has been exercised in the preparation of forward looking statements. However, any forward looking statements contained in this report are not guarantees or predictions of future performance and, by their very nature, are subject to uncertainties and contingencies, many of which are outside the control of CHWALE. Actual results may vary materially from any forward looking statements contained in this report. Readers are cautioned not to place undue reliance on any forward looking statements. Except as required by applicable law, CHWALE does not undertake any obligation to publicly update or review any forward looking statements, whether as a result of new information or future events.

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