ASX Release

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Charter Hall delivers $176 million operating earnings with 5% OEPS growth

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Charter Hall Group (ASX: CHC) (the Group) today announced its full year results for the 12 months to 30 June 2018. Key financial and operational highlights for the period comprise:

Financial highlights:

- Operating earnings of $175.8 million, up 16.2%
- Statutory profit after tax of $250.2 million, with property revaluations predominantly contributing to the difference between operating earnings and statutory profit
- Operating earnings per security pre-tax of 43.5 cents, up 7.4%
- Operating earnings per security post-tax of 37.7 cents, up 5.0%
- NTA per security growth of 6.1% to $3.82
- Distribution per security growth of 6.0% to 31.8cps; comprising a 20.1 cent per security distribution from Charter Hall Property Trust (CHPT) and a 11.7 cent per security fully franked dividend from Charter Hall Limited (CHL)

Operational performance:

- Access: Secured $1.7 billion of gross equity flows in FY18, with $5.5 billion and $8.7 billion gross equity raised over the past three and five years respectively
- Deploy: Completed $3.5 billion of gross property transactions
- Manage: 17.0% growth in funds under management to $23.2 billion. Achieved tenant retention rate of 77.4%
- Invest: Property Investment Portfolio increased by 11.7% to $1.7 billion. Attractive Property Investment earnings yield of 6.3%
- Substantial funding capacity available across the Group and its funds platform with $3.4 billion of available liquidity

Charter Hall's Managing Director and Group CEO, David Harrison said: "I am pleased to deliver to our investors a 5.0% increase in operating earnings per security to 37.7 cents and a full year distribution per security of 31.8 cents, an increase of 6.0%.

"This strong result reflects 17.0% growth in FUM to $23.2 billion and reaffirms the Group's strategy which is focused on accessing, deploying, managing and investing capital and has delivered a total platform return of 15.0% to 30 June 2018[1]." Mr Harrison said.

[1] Total Platform Return is calculated as growth in net tangible assets (NTA) per security plus distributions per security divided by the opening NTA per security for the 12 months to 30 June 2018

Property Investment Performance

The Group's Property Investment portfolio generated a 12.3%[2] Total Property Investment Return with strong portfolio diversification.

During the period, Charter Hall Group's Property Investment portfolio increased by $179 million or 11.7% to $1.7 billion, generating an attractive earnings yield for the year of 6.3%. The active management and diversification of the Group's Property Investments portfolio ensured the total portfolio occupancy remained strong at 97.9% and the Weighted Average Lease Expiry (WALE) stable at 7.2 years.

"The Group's Property Investments have continued to outperform their respective benchmarks, with our Property Investments delivering a five-year 14.0% p.a. performance, outperforming the MSCI/IPD Unlisted Wholesale Pooled Property Funds Index of 11.1% over the same period." Mr Harrison said.

Continued Property Funds Management Growth

Group FUM increased by 17.0% for the twelve months to 30 June 2018 and over the past five years FUM has achieved a compound annual growth rate of 18.6% across all equity sources. During the period, $1.2 billion of revaluations, $1.5 billion of net acquisitions and $0.7 billion of capex saw the Group's managed funds grow to $23.2 billion.

Growth in the Group's managed funds was driven by $1.7 billion of gross equity inflows across Charter Hall's wholesale pooled funds and partnerships, listed and retail investor funds. Across the Group, six pooled unlisted funds continue to raise new equity with $971 million raised in Wholesale Funds and Partnerships with further equity raising underway in CPOF and CPIF and $653 million raised in unlisted Direct Funds.

This equity was deployed into $2.5 billion of strategic asset acquisitions across the Group's core property sectors and value accretive redevelopment opportunities. The Group also divested $1.0 billion of non-core assets as part of its focus on managing its portfolio and recycling capital into higher growth opportunities. This included $623 million of office, $375 million of retail and $22 million of industrial assets.

Charter Hall continues to leverage its highly qualified and experienced in-house development team, providing its full suite of integrated property services to originate $3.6 billion of development activity which comprises $1.7 billion of committed development activity and $1.9 billion of uncommitted projects. The total pipeline includes 35 office, industrial and retail projects with an average committed project size of $270 million for office, $81 million for industrial and $41 million[3] for retail development.

Strong balance sheet maintained

The Group has continued to focus on maintaining a strong balance sheet and in the period was assigned a first-time Baa1 issuer rating with a stable outlook. The Group maintained 0% balance sheet gearing and 27.3% look through gearing. During the period the following initiatives were completed which diversified and extended the debt profile of the Group:

- US$175 million (A$231.5 million) US Private Placement (USPP) which is due to settle on 24 August 2018
- Refinanced to a new senior unsecured $200 million credit facility, plus an additional $20 million unsecured facility providing additional capacity for bank guarantees, maturing May 2023

Charter Hall Group CFO, Russell Proutt said: "The greater debt capacity together with the net cash position and modest gearing levels of fund co-investments, provide considerable dry powder to further grow our investment portfolio. The liquidity position of the Group improves post balance sheet date with the $56 million proceeds of the CIP sale and the $232 million of USPP proceeds. Taken together with the Group's undrawn debt facility of $200 million and available liquidity, this results in investment capacity of more than $500 million."

Across the platform, $6.4 billion of new and refinanced debt facilities were agreed. These prudent capital initiatives have maintained the Group's weighted average debt maturity at 4.3 years together with providing enhance fund liquidity and diversification of lending sources. The Group maintains significant

[2] Property Investment Return calculated as distributions received from funds plus the growth in investment value divided by the opening investment value of the Property Investment Portfolio. This excludes any investments held for less than a year
[3] Reflects development spend only and excludes existing centre value

investment capacity across its funds platform with $3.4 billion of available liquidity.

Folkestone Acquisition

The Group also announces today the proposed acquisition of Folkestone (ASX: FLK). The $205 million[4] acquisition will grow Charter Hall's funds under management (FUM) by $1.6 billion and is expected to be earnings accretive for FY19. Please refer to the separate ASX announcement regarding this transaction for details.

Charter Hall's Managing Director and Group CEO, David Harrison said: "We see the Folkestone business model as consistent with our existing strategy. We are attracted to their leading position in the social infrastructure sector and the suite of listed and unlisted funds adds to our diversity of sources of equity, whilst their origination capability is expected to generate property investments for the expanded list of managed funds.

"Importantly, the Folkestone culture shares many similarities to Charter Hall's own culture and we see the two organisations as a close fit. We look forward to Folkestone executives joining Charter Hall and the complementary skills they will bring as we work together to grow the funds management platform."

Strategy and Outlook

We believe the property market landscape will continue to accommodate growth. We expect asset growth in submarkets that are underpinned by favourable property fundamentals where there is effective rental growth. We also expect continued equity flows for fund managers with strong track records.

Based on no material change of current market conditions, our FY19 guidance is for 5-7% growth in post-tax operating earnings per security over FY18.

On the basis the FLK transaction is completed, FY19 guidance is for 8-10% growth in post-tax operating earnings per security over FY18.

The distribution payout ratio is expected to be between 85% and 95% of operating earnings per security post-tax.

[4] Excludes c.1.4m CHC service rights (subject to CHC share price) to be issued to FLK management (excluding Greg Paramor) vesting over 3 years

About Charter Hall

Charter Hall Group (ASX:CHC) is one of Australia's leading fully integrated property groups, with over 25 years' experience managing high quality property on behalf of institutional, wholesale and retail clients. Charter Hall has $23.2 billion of funds under management across the office, retail and industrial sectors. The Group has offices in Sydney, Melbourne, Brisbane, Adelaide and Perth.

The Group's success is underpinned by a highly skilled and motivated team with diverse expertise across property sectors and risk-return profiles. Sustainability is a key element of its business approach and by ensuring its actions are commercially sound and make a difference to its people, customers and the environment, Charter Hall can make a positive impact for its investors, the community and the Group.

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