Charter Hall Education Trust (ASX:CQE)

Half Year Report
December 2018

About

Charter Hall Education Trust is the largest Australian ASX listed (ASX:CQE) real estate investment trust dedicated to investing in early learning properties.

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Key Highlights

$21.2M
DISTRIBUTABLE INCOME

$1.08B
GROSS ASSETS

29.9%
GEARING

8.0cpu
SIX MONTH DISTRIBUTION

$2.87
NTA PER UNIT

99.7%
OCCUPANCY

Financial Summary

	Dec 2018	Jun 2018	Dec 2017
Total Assets ($m)	1,082.6	1,029.4	954.1
Gearing (%)	29.9	29.1	26.8
Units on Issue (m)	257.5	255.8	254.6
NTA per unit ($)	2.87	2.78	2.67

Chairman and Head of Social Infrastructure's Report

The Directors of the Responsible Entity, Charter Hall Social Infrastructure Limited ("CHSIL") provide the results of the Charter Hall Education Trust ("CQE" or "the Trust") for the half year ended 31 December 2018. CQE is an ASX listed property trust investing in early learning property assets.

Key Highlights For The Half Year

- Distribution of 8.0 cents per Unit ("cpu"), an increase of 6.0 per cent on the previous corresponding period ("pcp");
- Distributable income of $21.2 million, an increase of 1.0 per cent on pcp;
- NTA per Unit of $2.87, an increase of 3.2 per cent from $2.78 per Unit at 30 June 2018;
- Statutory profit of $42.2 million, a decrease of 23.8 per cent from $55.4 million on pcp due to lower property revaluation increments in this period;
- Debt facility refinanced in August 2018 resulting in weighted average debt maturity increasing from 2.4 years at 30 June 2018 to 4.6 years at 31 December 2018;
- 3 developments were completed, with a completion value of $15.0 million and an average development margin of 26.8 per cent;
- 4 existing assets were sold for a total of $4.1 million, a 5.9 per cent premium to carrying values[1];
- Acquisition of 7 development sites and 1 existing childcare centre for a total completion value of $52.1 million; and
- CQE's development pipeline remained constant at 27 sites with an approximate completion value of $167.4 million.

Property Portfolio

Rent Reviews

The like-for-like rental growth across the portfolio for the 12 months was 2.6 per cent, taking into account both market and annual reviews. During the half year, 9 market rent reviews were finalised, resulting in a 7.8 percent increase on the prior corresponding period.

Lease Renewals

During the year, 11 of 11 five-year options were exercised, increasing the lease term remaining on these properties from 5 to 10 years. The overall WALE for the portfolio was 9.5 years as at 31 December 2018.

Property Valuations

During the year, a total of 339 properties in the portfolio were revalued. Of these, 57 properties were independently revalued as part of the Trust's three-year independent rolling valuation cycle, with the remainder being Directors' valuations. The Directors' valuations were adopted utilising the parameters drawn from the current independent valuations, to ensure consistency across the portfolio.

Development Program

Three developments were completed and commenced operations during the year, with a combined completion value of $15.0 million. These projects have added quality to the portfolio with an average development margin of 26.8 per cent and an average yield on cost of 7.5 per cent. Three more developments have completed since 31 December 2018 with a fourth due in March 2019.

Acquisitions

During the year, CQE acquired seven development sites and one existing childcare centre for a total completion value of $52.1 million. The development sites are all located in Victoria and all have agreements for lease in place with quality operators. The existing centre was purchased on a sale and leaseback arrangement with Nino Early Learning. The acquisitions provide quality additions to CQE's portfolio, with leases that are consistent with our triple-net structure, long term commitments (15 - 20 year terms with further options), fixed annual rent reviews and appropriate security provisions.

Disposals

CQE's capital and portfolio management strategy includes the selective sale of non-core properties, with proceeds redeployed to new property purchases and/or developments. CQE disposed of 4[2] existing centres during the year, totalling $4.1 million of gross proceeds, resulting in a 5.9 per cent premium to carrying values as at the contract date.

Capital Management

Debt Funding

As at 31 December 2018, CQE's debt facilities totalled $347.0 million, comprising bank term debt facilities of $247.0 million split equally with Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited and a $100.0 million institutional loan from AustralianSuper (funds drawn in August 2018). The facilities are drawn to $319.0 million as at 31 December 2018.

CQE's debt facilities have remained at $347.0 million, with $28.0 million of available debt capacity to fund existing developments underway and future opportunities.

Hedging

Consistent with CQE's interest rate management policy, CQE has staggered hedging positions through to June 2023. Additional hedging positions were put in place in conjunction with the debt refinancing in August 2018, resulting in an average hedged position of 52 per cent based on the existing debt of $319 million at an average rate of 2.93 per cent per annum (30 June 2018: 2.87 per cent per annum). For FY19, CQE has hedged 65 per cent of its interest rate exposure at a hedged rate of 2.4 per cent per annum.

[1] *Carrying value at contract date.*

[2] *This excludes one development site which was disposed of during the year.*

Chairman and Head of Social Infrastructure's Report Cont.

Cost of Debt

As at 31 December 2018, CQE's cost of debt is 4.0 per cent per annum (30 June 2018: 4.1 per cent per annum), which is based on current interest rates, swap arrangements and bank margins. The all-in-cost of debt was 4.4 per cent per annum (30 June 2018: 4.4 per cent per annum) which includes the amortisation of deferred borrowing costs.

Early Learning Market

The new Government funding package for early learning has been a catalyst for industry self-examination as the sector faced the impact of the new funding package together with the typical economic and demographic pressures that influence its effectiveness.

As forecast in February 2018, childcare trading conditions have been impacted by a combination of increased competition in some locations due to the supply of new centres and the increased cost of living (including childcare), that diminished the effectiveness of the previous $7,613 per annum childcare rebate, since replaced with the recent Childcare Subsidy ("CCS").

However, an increasing participation rate, increased affordability for parents, a rapid slowing in new centre openings and the closure of 77 largely older and smaller centres nation-wide has seen what appears to be much a higher absorption and participation rates than originally expected. ABS data, and the experiences of many operators indicates significant out-of-pocket savings for parents under the CCS which is expected to drive industry participation higher as families adapt to the specifics of the new funding regime.

There is definitely increased certainty for the sector given the largely positive impact of the CCS (although this is not necessarily the case for all centres). The CCS appears to be a net positive to the industry and operators with signs to date exceeding expectations. We expect parents will better utilise the CCS system's key reforms over the next six months and this will add further certainty to the sector.

Strategy and Distribution Guidance

The FY19 forecast distribution is 16.0 cpu. This is a 6.0 per cent increase on FY18 distributions and is based on continued tenant performance. CQE will continue to pay quarterly distributions.

CQE continues to execute its strategy to be recognised as the leading provider of early learning accommodation and together with quality operating partners, focusing on providing a healthy and safe learning environment for future generations. Investors benefit from predictable and secure long-term income with the opportunity for capital growth.

CQE is committed to active management of its portfolio to capitalise on growth prospects. Unitholders should note that any investment opportunity is assessed with respect to its consistency with the Trust's characteristics and overall investment objectives.

CQE has repositioned its portfolio over the last 3 years in recognition of pending industry change. The Trust has profited from asset sales and although there was a subsequent impact on the first half's earnings growth, CQE is now well placed to target new opportunities with conviction. The sector is experiencing improving participation rates and there is greater overall affordability for parents via the CCS regime. This, with a rapid slowing in new supply coupled with CQE's long WALE, near 100% occupancy and large operator register gives the Trust a very sound base to drive future growth.

Grant Hodgetts
Chairman

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Nick Anagnostou
Head of Social Infrastructure

Directors' Report

The Directors of Charter Hall Social Infrastructure Limited Charter Hall ("the Responsible Entity"), being the Responsible Entity of the Charter Hall Education Trust ("the Trust") present their report on the Fund for the half year ended 31 December 2018. On 7 November 2018, Charter Hall Group acquired Folkestone Limited via a scheme of arrangement which included Charter Hall Social Infrastructure Limited. Following the completion of the acquisition, the Responsible Entity was renamed from Folkestone Investment Management Limited to Charter Hall Social Infrastructure Limited and the Trust was renamed from Folkestone Education Trust to Charter Hall Education Trust.

The Responsible Entity

The registered office and principal place of business of the Responsible Entity and the Fund is Level 20, No.1 Martin Place, Sydney, NSW 2000.

Structure of Trust/Responsible Entity

Directors of the Responsible Entity

The Directors of the Responsible Entity during the half year and to the date of this report comprise:

- Mr Grant Bartley Hodgetts - Appointed 24 October 2012
- Mr Victor (Vic) David Cottren - Appointed 22 December 2004
- Mr Michael Francis Johnstone - Appointed 22 December 2004
- Mr Nicholas (Nick) James Anagnostou - Appointed 4 August 2008
- Mr Sean Thomas Patrick McMahon - Appointed 7 November 2018

Principal Activities

The Trust is a specialist early education property owner which as at 31 December 2018 owns a total of 413 early learning properties (including 26 development sites) in locations around Australia and New Zealand. The Trust also owns a portfolio of property securities. The Trust derives its revenue from both lease income received from its investment properties and investment income (distributions) received from its property securities.

During the period the Trust settled 7 development sites and 1 operating early learning property. During the period 3 development sites in Killarney Heights (NSW), Noarlunga (SA) and Baldivis Grove (WA) were completed with the tenant commencing operations. During the period, the Trust settled the disposal of 4 existing early learning properties and 1 development property.

Review And Results Of Operations

A summary of the key results during the half year are as follows:

- distributable income of $21.2 million, an increase of 1.0% on the previous corresponding period ("pcp");
- gearing increased (Borrowings and Cash Overdraft / Total Assets) to 29.9%;
- statutory profit of $42.2 million compared to a profit of $55.4 million in the pcp;
- net tangible asset (NTA) per unit increased from $2.78 at 30 June 2018 to $2.87 at 31 December 2018; and
- weighted average lease expiry at 31 December 2018 of 9.5 years.

Directors' Report Cont.

Review And Results Of Operations Cont.

Half Year Ended 31 December ($m's)	2018	2017
Revenue		
Lease income	31.3	29.7
Property outgoings recoverable	4.8	4.9
Distributions	1.2	1.1
	37.3	**35.7**
Expenses		
Finance costs	5.7	4.6
Property outgoings	6.6	6.7
Responsible entity's remuneration	2.9	2.6
Other expenses	0.9	0.8
	16.1	**14.7**
Distributable income*	**21.2**	**21.0**
Net revaluation increment of investment properties	22.6	33.9
Change in fair value of derivative financial instruments	(2.6)	0.6
(Loss)/gain on sale of investment properties	(0.2)	0.1
Straight line adjustments (lease income)	1.1	(0.1)
Other	0.1	(0.1)
Net profit attributable to Unitholders for the half year	**42.2**	**55.4**

** Distributable income is not a statutory measure of profit*

Distributions

Distributions paid for the half year ended 31 December 2018 totalled 8.0 cents per unit (2017: 7.55 cents per unit).

Distributions declared by the Trust since 30 June 2018 were:

Period	Paid/Payable	Cents per Unit	Amount $'000
Quarter ending 30 September 2018	19 October 2018	4.0	10,257
Quarter ending 31 December 2018	21 January 2019	4.0	10,300
Total		**8.0**	**20,557**

State Of Affairs

Capital Management and Financial Position

As at 31 December 2018 the total assets of the Trust were $1,082.6 million, gross borrowings were $324.2 million and net assets were $739.7 million. The net tangible asset per unit is $2.87 (30 June 2018: $2.78). The Trust has gearing (Borrowings and Cash Overdraft / Total Assets) of 29.9 per cent (30 June 2018: 29.1 per cent).

The Trust has 257,501,478 units on issue as at 31 December 2018. During the period, as part of the Trust's Distribution Reinvestment Plan ("DRP"), 1,747,742 units were issued at an average issue price of $2.72 per unit.

Directors' Report Cont.

State Of Affairs Cont.

The Trust has debt facilities totalling $347 million, comprising bank facilities of $247 million provided equally by Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"), and an institutional term loan of $100 million provided by AustralianSuper. Key covenants are Loan to Value Ratio of 50 per cent and Interest Cover Ratio being greater than 2.0 times. As at 31 December 2018, the Trust complied with all of its debt covenant ratios and obligations.

As at 31 December 2018 the Trust's debt facilities are summarised below:

Facility Maturity	Facility Limit ($000's)	Drawn Amount ($000's)
September 2021	123,500	109,500
September 2023	123,500	109,500
August 2025	100,000	100,000
TOTAL	**347,000**	**319,000**

The Trust also has an overdraft facility with ANZ of $10 million ($5.2 million drawn at 31 December 2018).

Hedging Arrangements

In accordance with the Trusts policy to hedge a proportion of its debt it has the following interest rate swaps in place:

Period	Hedged Amount $'000	Hedged Rate %	% Hedged of Drawn Debt
FY19: July 2018 - June 2019	207,000	2.40	65
FY20: July 2019 - June 2020	180,000	3.02	56
FY21: July 2020 - June 2021	160,000	3.02	50
FY22: July 2021 - June 2022	150,000	3.02	47
FY23: July 2022 - June 2023	140,000	3.02	44

Rounding Of Amounts

The Trust is an entity of a kind referred to in Legislative instrument 2016/91 issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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 10.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity.

Grant Hodgetts
Chairman
Charter Hall Social Infrastructure Limited
Sydney, 13 February 2019

Auditor's Independence Declaration

Auditor's Independence Declaration

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

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

This declaration is in respect of Charter Hall Education Trust and the entities it controlled during the period.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
13 February 2019

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Consolidated Statement Of Comprehensive Income

Charter Hall Education Trust And Its Controlled Entities

For The Half Year Ended 31 December 2018

Consolidated Group	31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue		
Lease income	32,388	29,493
Property outgoings recoveries	4,781	4,924
Distribution income	1,167	1,097
Interest income	18	-
Gain on sale of investment properties	-	107
Net property revaluation increment	22,579	33,902
Change in fair value of derivative financial instruments	-	562
Realised and unrealised foreign exchange gains	93	-
Total revenue	**61,026**	**70,085**
Expenses		
Finance costs	5,663	4,577
Property outgoings	5,542	5,630
Property valuation fees	246	235
Responsible Entity's remuneration	2,869	2,606
Rent on leasehold properties	826	789
Other expenses	887	803
Change in fair value of derivative financial instruments	2,618	-
Realised and unrealised foreign exchange losses	-	64
Loss on sale of investment properties	170	-
Total expenses	**18,821**	**14,704**
Net profit attributable to unitholders for the half year	**42,205**	**55,381**
Gain on revaluation of available-for-sale financial assets	2,696	3,986
Total comprehensive income for the half year	**44,901**	**59,367**
Earnings per unit	Cents	Cents
Basic earnings per unit	16.44	21.82
Diluted earnings per unit	16.44	21.82

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

Consolidated Balance Sheet

Charter Hall Education Trust And Its Controlled Entities

As At 31 December 2018

Consolidated Group	Notes	31 Dec 2018 $'000	30 Jun 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents		60	2,308
Trade and other receivables		925	820
Other current assets	2	3,102	1,187
Investment properties expected to be sold within 12 months	3	1,500	4,896
Total current assets		**5,587**	**9,211**
Non-current assets			
Investment properties	3	1,025,650	972,773
Investment properties straight line rental asset	3	9,117	7,854
Available-for-sale financial assets	4	42,270	39,574
Total non-current assets		**1,077,037**	**1,020,201**
Total assets		**1,082,624**	**1,029,412**
LIABILITIES			
Current liabilities			
Trade and other payables		4,175	5,790
Distribution payable		10,557	9,818
Derivative financial instruments		1,293	1,272
Rent received in advance		837	812
Total current liabilities		**16,862**	**17,692**
Non-current liabilities			
Borrowings	5	320,625	298,199
Derivative financial instruments		5,400	2,803
Total non-current liabilities		**326,025**	**301,002**
Total liabilities		**342,887**	**318,694**
Net assets		**739,737**	**710,718**
EQUITY			
Contributed equity	6	348,749	344,074
Available-for-sale financial assets reserve		16,724	14,028
Undistributed profit		374,264	352,616
Total equity		**739,737**	**710,718**

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

Consolidated Statement Of Changes In Equity

Charter Hall Education Trust And Its Controlled Entities

For The Half Year Ended 31 December 2018

Consolidated Group	Contributed Equity $'000	Available-for-sale financial assets reserve $'000	Undistributed Profit $'000	Total $'000
Balance at 1 July 2017	330,392	10,443	288,835	629,670
Profit attributable to unitholders	-	-	55,381	55,381
Other comprehensive income	-	3,986	-	3,986
Units issued	10,442	-	-	10,442
Unit issue transaction costs	(59)	-	-	(59)
Distribution paid or provided for	-	-	(19,180)	(19,180)
Balance at 31 December 2017	**340,775**	**14,429**	**325,036**	**680,240**
Balance at 1 July 2018	344,074	14,028	352,616	710,718
Profit attributable to unitholders	-	-	42,205	42,205
Other comprehensive income	-	2,696	-	2,696
Units issued	4,753	-	-	4,753
Unit issue transaction costs	(78)	-	-	(78)
Distribution paid or provided for	-	-	(20,557)	(20,557)
Balance at 31 December 2018	**348,749**	**16,724**	**374,264**	**739,737**

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

Consolidated Statement Of Cash Flows

Charter Hall Education Trust And Its Controlled Entities

For The Half Year Ended 31 December 2018

Consolidated Group	31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flows from operating activities		
Property income received (inclusive of GST)	40,741	38,856
Cash payments in the course of operations (inclusive of GST)	(14,352)	(11,967)
Distributions received	1,158	1,207
Interest received	18	-
Finance costs paid	(8,726)	(5,221)
Net cash inflow from operating activities	**18,839**	**22,875**
Cash flows from investing activities		
Proceeds from sale of investment properties	4,074	10,824
Payments for acquisition of investment properties (including construction costs)	(34,195)	(32,731)
Net cash outflow from investing activities	**(30,121)**	**(21,907)**
Cash flows from financing activities		
Proceeds from borrowings	24,178	10,000
Repayment of borrowings	-	(4,094)
Proceeds from issue of units	4,674	7,356
Distributions paid	(19,818)	(15,456)
Net cash inflow/(outflow) from financing activities	**9,034**	**(2,194)**
Net (decrease) in cash held	**(2,248)**	**(1,226)**
Cash at the beginning of the half year	**2,308**	**2,431**
Cash at the end of the half year	**60**	**1,205**

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

Notes To The Financial Statements

1. Basis Of Preparation Of Half Year Report

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial report to the extent they have not already been disclosed in the other notes below. These policies have been consistently applied to all the years presented, unless otherwise stated. The report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with the Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Trust during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The consolidated financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards adopted

No new accounting standards or amendments have come into effect for the half year ended 31 December 2018 that affect the Trust's operations or reporting requirements.

The Trust has applied the following standards and amendments for the first time for the interim report reporting period ended 31 December 2018. The impact of adopting these new standards is described below.

- *AASB 9 Financial Instruments*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and liabilities and sets out new rules for hedge accounting. This standard replaces *AASB 139* Financial Instruments: Recognition and Measurement.

Classification and measurement

The adoption of *AASB 9* has not impacted the carrying value of the financial assets or liabilities. The Trust holds equity instruments which are currently classified as available-for-sale financial assets and currently measured at fair value through other comprehensive income.

Impairment of financial assets

AASB 9 replaces the incurred loss model under *AASB 139* with an expected credit loss (ECL) model. The ECL model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income. Measurement under ECLs is based on the anticipated impact of default events arising either in the 12 months after reporting date, or the entire lifetime of the asset.

The Trust assessed the ECL associated with:

- Receivables by applying the simplified impairment approach permitted by *AASB 9*. This requires expected lifetime losses to be recognised on initial recognition of the receivables.
- All other financial assets, other than trade receivables, on a forward looking basis and measured using the expected lifetime ECL.

The Trust's impairment provision has not been impacted by the adoption of this standard.

Notes To The Financial Statements Cont.

1. Basis Of Preparation Of Half Year Report Cont.

New and amended standards adopted Cont

Hedging

The adoption of *AASB 9* has not impacted the carrying value of the Trust's derivatives. The Trust's risk management strategies are aligned with the requirements of *AASB 9*.

- *AASB 15 Revenue from Contracts with Customers*

AASB 15 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.

The table below summarises the changes in respect to the timing of revenue recognition under *AASB 118* compared to *AASB 15* and the new revenue recognition policies under *AASB 15*.

Type of revenue	Description	Revenue recognition policy under *AASB 118*	Revenue recognition policy under *AASB 15*
Recoveries revenue	The Fund recovers the costs associated with tenancy operation from lessees in accordance with tenancy acts and specific clauses within lease agreements. These are invoiced monthly based on an annual estimate. The consideration is due 30 days from invoice date. Should any adjustment be required based on actual costs incurred, this is recognised in the statement of financial performance within the same reporting period and billed annually.	Recognised on an accruals basis based on the contract terms	Over time
Recharge revenue	The Fund recovers costs for any additional specific services requested by the lessee under the lease agreement. These costs are recovered in accordance with specific clauses within the lease agreements. Revenue from recharges is recognised as the services are provided. The lessee is invoiced on a monthly basis, where applicable. Consideration is due 30 days from invoice date.	Revenue recognised when costs are incurred	Point in time

An assessment has been undertaken of when the Trust's performance obligations are satisfied and no changes have been identified that impact the timing of revenue recognition.

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

Certain new accounting standards and interpretations have been published that are not mandatory for the half year ended 31 December 2018 but are available for early adoption. The impact of these new standards and interpretations (to the extent relevant to the Trust) is set out below:

- *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 Trust 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 Trust's consolidated financial statements

Notes To The Financial Statements Cont.

2. Other Current Assets

Consolidated Group	31 Dec 2018 $'000	30 Jun 2018 $'000
Prepayments	2,570	602
Accrued income	298	585
GST receivable	234	-
Total	**3,102**	**1,187**

3. Investment Properties

Consolidated Group	31 Dec 2018 $'000	30 Jun 2018 $'000
Freehold properties - at valuation	928,236	889,963
Development properties - at cost**	75,998	62,895
Leasehold properties - at valuation	31,363	31,373
Capitalised transaction costs in relation to properties contracted and not settled	670	1,292
Total investment properties	1,036,267	985,523
Less: Investment properties expected to be sold within 12 months	(1,500)	(4,896)
Less: Straight line rental asset	(9,117)	(7,854)
Carrying amount at the end of the half year	**1,025,650**	**972,773**
Movement in investment properties:		
Balance at the beginning of the period	972,773	848,291
Acquisition of properties (including construction costs)**	24,626	47,075
Acquisition of existing early learning properties	6,350	63,160
Disposal of properties*	-	(37,590)
Investment properties expected to be sold in 12 months***	(678)	(4,896)
Net revaluation increment	22,579	56,733
Carrying amount at the end of the half year	**1,025,650**	**972,773**

* *Disposal of properties excludes prior year's investment properties classified as expected to be sold within 12 months.*

** *For the half year ended 31 December 2018, in accordance with AASB123, acquisition of properties (including construction costs) includes $1.3 million of capitalised interest. Capitalised interest was calculated using 4.0%, being the weighted average interest rate applicable to the Trust's borrowings during the period.*

*** *For the half year ended 31 December 2018, investment properties expected to be sold in 12 months has been partially offset by a property which was expected to be sold at 30 June 2018, however is now longer expected to be sold in 12 months.*

a) Investment properties are carried at fair value. The determination of fair value is based on independent valuations where appropriate. This includes the original acquisition costs together with capital expenditure since acquisition and either the latest full independent valuation or latest independent update. Total acquisition costs include incidental costs of acquisition such as stamp duty and legal fees.

b) A full independent valuation of a property is carried out at least once every three years. Independent valuations are prepared using both the capitalisation of net income method and the discounting of future net cash flows to their present value.

Notes To The Financial Statements Cont.

3. Investment Properties Cont.

c) Independent valuations as at 31 December 2018 were conducted by numerous valuers. The valuation methodologies used were capitalisation and direct comparison approaches and were consistent with the requirements of relevant Accounting Standards and property valuation guidelines.

d) During the half year ended 31 December 2018, 57 external property valuations were conducted, 54 in Australia and 3 in New Zealand.

Valuations on the 54 Australian properties increased by $6.9 million or 5.1% on the carrying value as at 30 June 2018.

Valuations on the 3 New Zealand properties increased by $0.4 million or 9.7% on carrying value as at 30 June 2018. In New Zealand Dollars, the valuations of the New Zealand properties increased by NZD$0.4 million or 11.4% on the carrying value as at 30 June 2018, which included Directors' valuations.

In addition to the external valuations, 282 Directors' valuations have been adopted, 237 in Australia and 45 in New Zealand.

Directors' valuations on the 237 Australia properties resulted in an increment of $10.0 million. The Directors' valuations were undertaken to reflect the parameters and movements evidenced by the independent valuations conducted during the period.

Directors' valuations on the 45 New Zealand resulted in an increment of $3.6 million, which was due to an increment of $2.2 million due to movements in exchange rates since the last external valuation, with an increment of $1.4 million due to evidence of an increase in value due to rental increase and yield compression. In New Zealand Dollars, the Directors' valuations of the New Zealand properties resulted in an increment of NZD$1.5 million or 2.0% on the carrying value as at 30 June 2018.

During the period, there were valuation increases of $3.2 million on the three completed development sites based upon the fair value of the properties upon completion, offset by acquisition costs of $0.4 million in relation to one operational property written off during the period. Straight line adjustments of $1.1 million have decreased the value of Investment properties, with a corresponding increase in the straight line assets.

4. Available-For-Sale Financial Assets

Consolidated Group	31 Dec 2018 $'000	30 Jun 2018 $'000
Units in listed securities (Arena REIT - ASX:ARF) - at market valuation	24,992	22,296
Units in unlisted securities (Charter Hall CIB Fund) - at Directors' valuation	17,278	17,278
Carrying amount at the end of the half year	**42,270**	**39,574**
Movements in available-for-sale financial assets:		
Balance at the beginning of the half year	39,574	35,989
Movement in available-for-sale financial assets reserve	2,696	3,585
Carrying amount at the end of the half year	**42,270**	**39,574**

Listed securities are valued at the closing bid price on the last business day of the half year.

In assessing the fair value of investments held in unlisted securities, the value is determined by the entity’s net assets.

5. Borrowings

Consolidated Group	31 Dec 2018 $'000	30 Jun 2018 $'000
Bank loans - secured	319,000	300,000
Less: up front transaction costs	(5,673)	(3,352)
Plus: amortised up front transaction costs	2,120	1,551
	315,447	**298,199**
Bank overdraft	5,178	-
	320,625	**298,199**

Notes To The Financial Statements Cont.

5. Borrowings Cont.

The Trust has debt facilities totalling $347 million, comprising banking facilities of $247 million provided equally by Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"), and an institutional term loan of $100 million provided by AustralianSuper. Key covenants are Loan to Value Ratio of 50 per cent and Interest Cover Ratio being greater than 2.0 times. As at 31 December 2018, the Trust complied with all of its debt covenant ratios and obligations.

As at 31 December 2018 the Trust's debt facilities are summarised below:

Facility Maturity	Facility Limit ($000's)	Drawn Amount ($000's)
September 2021	123,500	109,500
September 2023	123,500	109,500
August 2025	100,000	100,000
TOTAL	**347,000**	**319,000**

The Trust also has an overdraft facility with ANZ of $10 million ($5.2 million drawn at 31 December 2018).

Hedging Arrangements

In accordance with the Trusts policy to hedge a proportion of its debt it has the following interest rate swaps in place:

Period	Hedged Amount $'000	Hedged Rate %	% Hedged of Drawn Debt
FY19: July 2018 - June 2019	207,000	2.40	65
FY20: July 2019 - June 2020	180,000	3.02	56
FY21: July 2020 - June 2021	160,000	3.02	50
FY22: July 2021 - June 2022	150,000	3.02	47
FY23: July 2022 - June 2023	140,000	3.02	44

6. Contributed Equity

Consolidated Group	Units on issue No '000	Units on issue $ '000
Balance at 1 July 2017	250,561	330,392
Units issued	3,990	10,442
Transaction costs	-	(59)
Balance at 31 December 2017	**254,551**	**340,775**
Balance at 1 July 2018	255,754	344,074
Units issued	1,747	4,753
Transaction costs	-	(78)
Balance at 31 December 2018	**257,501**	**348,749**

Notes To The Financial Statements Cont.

7. Segment Information

The Trust operates as one business segment being the investment in early learning properties and in one geographic segment being Asia Pacific. The Trust's segments are based on reports used by both management and directors in making key decisions. Within the Asia Pacific geographic region, the Trust owns property both in Australia and New Zealand. Details of the geographic segment is as follows:

	31 Dec 2018 $'000	31 Dec 2017 $'000
Total revenue		
Australia	54,362	67,430
New Zealand	6,664	2,655
	61,026	**70,085**

	31 Dec 2018 $'000	30 Jun 2018 $'000
Investment properties		
Australia	960,550	912,303
New Zealand	75,717	73,220
	1,036,267	**985,523**

8. Capital And Lease Commitments

Capital Expenditure Commitments – Centre Acquisitions And Development

Estimated capital expenditure commitments contracted at balance date but not provided for:

Consolidated Group	31 Dec 2018 $'000	31 Dec 2017 $'000
Not later than 1 year	46,445	32,889

**Capital expenditure commitments only include contracts executed as at 31 December 2018 and does not include future development costs not yet contracted.*

Lease Revenue Commitments

Details of non-cancellable operating leases contracted but not capitalised in the financial statements are shown below:

The property leases are typically non-cancellable with a fifteen year term and rent is reviewed annually in accordance with CPI movements. Further, two five year options exist to renew the leases for further terms.

Consolidated Group	31 Dec 2018 $'000	31 Dec 2017 $'000
Receivable:		
not later than 1 year	68,963	62,445
later than 1 year but not later than 5 years	311,903	272,560
later than 5 years	390,311	309,612
	771,177	**644,617**

Notes To The Financial Statements Cont.

8. Capital And Lease Commitments Cont.

Leasehold Property Commitments

Details of non-cancellable property leases contracted for, but not capitalised in the financial statements are shown below:

The property leases are typically non-cancellable leases with a twenty year term, with rent payable quarterly or monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments to be increased by the minimum of CPI to a maximum of 5% pa. A right or option exists to renew the leases for a further term. The lease allows for subletting of all lease areas.

Consolidated Group	**31 Dec 2018 $'000**	**31 Dec 2017 $'000**
Payable:		
not later than 1 year	1,326	1,292
later than 1 year but not later than 5 years	5,620	5,700
later than 5 years	3,818	6,214
	10,764	**13,206**

9. Contingent Liabilities

No material contingent liabilities to the Trust exist of which the Responsible Entity is aware.

10. Events Occurring After The Reporting Period

The financial report was authorised on 13 February 2019 by the Board of Directors of the Responsible Entity.

There are no obvious events that have occurred which the Directors believe significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust, not otherwise disclosed in this report.

Directors' Declaration

In the opinion of the Directors of Charter Hall Social Infrastructure Limited, the Responsible Entity of Charter Hall Education Trust and its controlled entities ("the Trust"):

1. the financial statements and notes 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 Trust's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and
2. there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable; and
3. the Trust has operated during the half year ended 31 December 2018 in accordance with the provisions of the Trust Constitution dated 8 July 2002 (as amended).

This declaration is made in accordance with a resolution of the Directors of Charter Hall Social Infrastructure Limited.

Grant Hodgetts
Chairman
Charter Hall Social Infrastructure Limited
Sydney, 13 February 2019

Independent Auditor's Report

Independent auditor's review report to the unitholders of Charter Hall Education Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Charter Hall Education Trust (the Trust), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the Directors' declaration for Charter Hall Education Trust. The Group comprises the Trust and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The Directors of Charter Hall Social Infrastructure Limited, the Responsible Entity of the Charter Hall Education Trust and its controlled entities of the Trust are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

Independence

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

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Independent Auditor's Report Cont.

pwc

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Charter Hall Education Trust is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
13 February 2019

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