

CQE

Charter Hall Education Trust

ARSN 102 955 939

Financial report and other information

For the year ended 30 June 2019



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Contents

Directors' Report	4
Auditor's Independence Declaration	12
Consolidated Statement of Comprehensive Income	13
Consolidated Balance Sheet	14
Consolidated Statement of Changes in Equity	15
Consolidated Cash Flow Statement	16
About this Report	17
A Trust Performance	18
B Property Portfolio Assets	21
C Capital Structure and Financial Risk Management	28
D Further Information	37
Directors' Declaration To Unitholders	45
Independent Auditor's Report	46

Directors' Report

The Directors of Charter Hall Social Infrastructure Limited (the Responsible Entity), the Responsible Entity of the Charter Hall Education Trust and its controlled entities (the Trust), present the consolidated financial report and other information of the Trust for the year ended 30 June 2019.

Principal activities

The principal activity of the Trust during the year was property investment. There were no significant changes in the nature of the Trust'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:

- Grant Bartley Hodgetts - Chairman and Non-Executive Director
- Michael Francis Johnstone - Non-Executive Director
- Victor (Vic) David Cottren - Non-Executive Director
- Nicholas (Nick) James Anagnostou - Executive Director/Head of Social Infrastructure Funds (Charter Hall Group)
- Sean Thomas Patrick McMahon - Executive Director and Chief Investment Officer (Charter Hall Group)
(appointed 17 December 2018)

Distributions

Distributions paid or declared during the year are as follows:

	2019			2018		
	Number of units on issue	Cents per unit	\$'m	Number of units on issue	Cents per unit	\$'m
30 September	256,416,514	4.00	10.2	253,981,893	3.775	9.6
31 December	257,501,478	4.00	10.3	254,551,016	3.775	9.6
31 March	258,562,728	4.00	10.3	255,208,334	3.775	9.6
30 June	300,626,896	4.00	12.0	255,753,736	3.775	9.7
Total distributions		16.00	42.8		15.1	38.5

Distribution Reinvestment Plan

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

The DRP issue price is determined at a discount of 1.5% to the daily volume weighted average price of all units traded on the ASX during the 10 business days commencing on the second business day following the distribution record date. During the year, 3,293,446 units were issued at an average issue price of \$2.91 per unit.

Directors' Report Cont.

Review and Results of Operations

The Trust recorded a statutory profit of \$68.7 million for the year ended 30 June 2019 (30 June 2018: \$103.1 million). Operating earnings amounted to \$44.2 million (16.5 cents per unit) for the year ended 30 June 2019 (30 June 2018: \$41.9 million) and a distribution of \$42.8 million (16.0 cents per unit) was declared for the same period.

The table below sets out income and expenses that comprise operating earnings:

	30 Jun 2019	30 Jun 2018
	\$'m	\$m
Net property income	60.1	56.7
Distribution income	2.5	2.2
Fund management fees	(6.0)	(5.4)
Finance costs	(10.6)	(9.9)
Administration and other expenses	(1.8)	(1.7)
Operating earnings	44.2	41.9

* 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 straight lining 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 Trust'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 Jun 2019	30 Jun 2018
	\$'m	\$m
Operating earnings	44.2	41.9
Net fair value gain on investment properties	36.6	56.7
Fair value movement on derivative financial instruments	(6.6)	0.7
Realised loss on derivative financial instruments	(4.3)	-
(Loss) / gain on sale of investment properties	(0.2)	1.8
Straightlining of rental income, amortisation of lease fees and incentives	2.3	2.0
Share of equity accounted loss*	(3.2)	-
Other	(0.1)	-
Statutory profit for the year	68.7	103.1

* Share of equity accounted loss includes \$3.1 million in relation to property acquisition costs written off and \$0.1 million of fair value movements on derivatives.

Property valuation gains

Valuation gains totalling \$36.6 million were recorded during the year (30 June 2018: \$56.7 million). There gains were reduced by straightlining of rental income, amortisation of lease fees and incentives of \$2.3 million (30 June 2018: \$2.0 million).

Directors' Report Cont.

The financial results of the Trust are summarised as follows:

	Year to 30 Jun 2019	Year to 30 Jun 2018
Revenue (\$'m)	78.7	74.4
Statutory profit for the year (\$'m)	68.7	103.1
Basic earnings per unit (cents)	25.69	40.51
Operating earnings (\$'m)	44.2	41.9
Operating earnings per unit (cents)	16.5	16.5
Distributions (\$'m)	42.8	38.5
Distributions per unit (cents)	16.0	15.1
	30 Jun 2019	30 Jun 2018
Total assets (\$'m)	1,186.4	1,029.4
Total liabilities (\$'m)	296.2	318.7
Net assets (\$'m)	890.2	710.7
Units on issue ('m)	300.6	255.8
Net assets per unit (\$)	2.96	2.78
Balance sheet gearing - total debt to total assets	23.1	29.1
Look through gearing - total debt to total assets	24.7	29.1

Significant Changes in The State of Affairs

Equity Raising

In March 2019, the Trust undertook a fully underwritten \$120 million institutional placement at an issue price of \$3.35 per unit (less equity raising costs of approximately \$2.1 million) to fund the acquisition of 13 childcare centres (expected to be delivered at various stages before June 2020) and associated transaction costs.

The Trust also undertook a \$19.3 million Unit Purchase Plan to eligible unitholders, proceeds of which were received in April 2019.

Acquisitions

During the year, the Trust acquired 5 existing centres for \$33.5 million, 15 development sites for \$33.3 million and a 50% interest in the Brisbane City Council Bus Network Terminal, in Eagle Farm for the purchase price of \$51.25 million (50% share)*, jointly acquired with the Charter Hall Long REIT (ASX:CLW).

Disposals

During the year, the Trust disposed of 7 centres receiving consideration of \$8.9 million (net of selling costs).

Debt arrangements and hedging

During the year, the Trust increased the facility limits of its bilateral facilities by \$50 million to \$397 million. In addition, the Trust restructured its swaps, reducing the fixed rate to 1.75% p.a.

In June 2019, as part of the Brisbane Bus Depot transaction, a debt facility was established at the joint venture level with a total facility limit of \$51.25 million (CQE share \$25.6 million*) and a 5-year term.

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

Business Strategies and Prospects

The Trust will continue with its strategy to provide predictable and secure long-term cash-flows with the opportunity for capital growth. The Trust's stable financial position with minimal vacancy, long term leases and secured debt financing, positions the Trust to maintain sustainable income for investors. The Responsible Entity is focused on pro-actively managing its portfolio to ensure it is strategically positioned for sustainable growth, which will include a broadening of the Trust's investment mandate to include other Social Infrastructure property sub-sectors. The Trust is expected to change its name to better reflect its wider investment mandate.

*As a result of the debt facility at the joint venture level, the Trust's equity investment was \$29.1 million which included property transaction costs

Directors' Report Cont.

The material business risks faced by the Trust in its future operating and financial performance and how the Trust manages these risks are as follows:

i) Tenant risk

The Trust relies on tenants to generate the majority of its revenue under the lease agreements entered into with respect of its properties. If a tenant is unable to meet its rental or contractual obligations, this may lead to a loss of rental income or losses to the value of the Trust's properties. The Trust's leases typically contain security clauses in the form of bank guarantees provided by tenants, typically 6 months rent. As at 30 June 2019, the Trust holds approximately \$37.2 million in bank guarantees.

ii) Concentration risk

The Trust's properties are predominantly childcare properties and therefore any adverse events in the childcare sector may impact on the tenants' ability to meet their lease obligations and also the future growth prospects of the portfolio. As at 30 June 2019, Goodstart Early Learning Limited (Goodstart) contributes 47% of the Trust's childcare rental income. Non-performance of Goodstart's rental or leasing obligations would significantly impact on the Trust's financial performance. The Trust's leases with Goodstart contain financial reporting obligations that allow regular monitoring of the financial performance of Goodstart.

iii) Interest rate risk

The Trust's main interest rate risk arises from long-term borrowings which are issued at variable rates. The Responsible Entity continually analyses the Trust's interest rate exposure and has adopted a hedging position that effectively manages this risk.

iv) Rental income and expenses risk

Distributions made by the Trust 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.

Other Trust specific-risks such as changes to licensing of childcare properties and government policies which could have a substantial impact on the Trust are continually monitored.

Matters Subsequent to the End of the Financial Period

There are no 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.

Indemnification and Insurance of Directors, Officers and Auditor

During the year, the Trust contributed to the premium for a contract to insure all directors, secretaries, executive officers and officers of the Trust and of each related body corporate of the Trust, 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 Trust's constitutions and the *Corporations Act 2001*, the officers are indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The insurance does not provide cover for the independent auditors of the Trust or of a related body corporate of the Trust. The Trust indemnifies the auditor (PricewaterhouseCoopers Australia) against any liability (including legal costs) for third party claims arising from a breach by the Trust of the auditor's engagement terms, except where prohibited by the *Corporations Act 2001*.

Fees Paid to and Interests Held in the Trust by the Responsible Entity or its Associates

Base management fees of \$5.5 million (2018: \$4.9 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 Trust's constitutions as disclosed in Note D1 to the consolidated financial statements.

Interests in the Trust held by the Responsible Entity or its associates as at 30 June 2019 are also disclosed in Note D1 to the consolidated financial statements.

Directors' Report Cont.

Interests in the Trust

	2019	2018
Units on issue at the beginning of the year	255,753,736	250,561,196
Units issued during the year		
- via Distribution Reinvestment Plan	3,293,446	5,192,540
- via Institutional Placement / Unit Purchase Plan	41,579,714	-
Units on issue at the end of the year	300,626,896	255,753,736

Environmental Regulations

The Trust is not subject to any significant environmental regulations under Commonwealth, State or Territory legislation other than those relevant to the specific assets held by the Trust. However, the Directors believe that the Trust has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Trust.

Directors' Report Cont.

Information on Current Directors

Director	Experience	Special responsibilities	Interest in units of the Trust
Grant Bartley Hodgetts	<p>Appointed 24 October 2012</p> <p>Grant has been involved in real estate and funds management since 1979. He is currently Non-Executive Chairman of Charter Hall FLK Funds Management Limited, Non-Executive Chairman of Charter Hall Social Infrastructure Limited, Director of Bethley Group Pty. Limited, Executive Director of Knights Capital Group Limited and its subsidiaries, Director of Cedar Woods Wellard Pty Ltd and Principal of Hodgetts and Partners. Between early 2006 and 2010 he held various positions within the Investment and Funds Management Division of Mirvac Limited including that of CEO – Australia for Mirvac Investment Management. Prior to joining Mirvac, he was Head of Property in the Specialised Capital Group of Westpac Institutional Bank; a Division Director of Property Investment Banking at Macquarie Bank; a Director of Richard Ellis (Vic) Pty Ltd; and an executive of the AMP Society's Property Division. Holding a Bachelor of Arts (Legal Studies and Economics) from La Trobe University, an Associate Diploma in Valuations from RMIT and an Advanced Certificate in Business Studies (Real Estate), also from RMIT, he is an Associate of the Australian Property Institute, a licensed real estate agent in Victoria and a member of the Australian Institute of Company Directors. He was a founding Director of the Property Industry Foundation in Victoria.</p>	Chairman, Member of Audit, Risk and Compliance Committee	28,178
Michael Francis Johnstone	<p>Appointed 22 December 2004</p> <p>Michael has almost 40 years of global business experience in Chief Executive and General Management roles and more recently in non-executive Directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialized in corporate and property finance and investment, property development and funds management. His career has included lengthy periods in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. Michael is currently a Non-Executive Director of a number of companies in both listed and private environments, including board appointments in the not for profit sector.</p>	Chairman of Audit, Risk & Compliance Committee	71,092

Directors' Report Cont.

Director	Experience	Special responsibilities	Interest in units of the Trust
Victor (Vic) David Cottren	Appointed 22 December 2004 Vic has an extensive background in financial planning, life insurance & superannuation and investment management gained with such companies as AMP, Williams Tolhurst, Australian Eagle, Norwich Union, Investors Life Group and National Australia Bank. Vic filled various senior management posts, including chief executive and directorship positions within these companies and their subsidiaries prior to commencing his consulting business in 1995.	Member of Audit, Risk and Compliance Committee	143,054
Nicholas (Nick) James Anagnostou	Appointed 4 August 2008 Nick is the Head of Social Infrastructure Funds and executive board member for the ASX listed Charter Hall Education Trust (ASX:CQE) and the Charter Hall CIB Fund. Nick has more than 25 years of experience in the Australian commercial property and Funds Management industries. Nick holds a Bachelor of Business in Property and is an Associate of the Australian Property Institute and Finsia. He is a Certified Funds Manager, qualified property valuer and a Licensed Estate Agent and was previously a Director of an international real estate agency where he focused on Premium and A-Grade office markets.	Nil	35,102
Sean Thomas Patrick McMahon	Appointed 17 December 2018 Sean has 30 years of property and investment banking experience in the real estate sector and has been active in the listed, wholesale and direct capital markets. Sean is responsible for the Group's strategy and balance sheet investments, mergers and acquisitions, with oversight for multi sector disciplines including property transactions, together with corporate development. He brings a wealth of experience across investment markets, diversified across office, industrial and retail sectors, and has been responsible for driving the development of corporate strategies, capital allocation and reinvestment programs. Prior to joining Charter Hall, Sean worked at national diversified property group Australand (now known as Frasers) as Chief Investment Officer and was previously responsible for investment and development for all commercial, industrial and retail property. Prior to joining Frasers, Sean spent seven years at Macquarie Bank as a senior executive in the Property Investment Banking division undertaking property finance, structured finance, funds management and joint venture transactions.	Nil	Nil

Meetings of Directors

Name	Full Meetings of Directors		Meetings of Audit, Risk and Compliance Committee*	
	Eligible to Attend	Attended	Eligible to Attend	Attended
Grant Bartley Hodgetts	9	9	4	4
Michael Francis Johnstone	9	9	4	4
Victor David Cottren	9	7	4	4
Nicholas James Anagnostou	9	9	-	-
Sean Patrick McMahon	5	5	-	-

* Effective on 20 June 2019, the name of Audit and Compliance Committee was changed to the Audit, Risk and Compliance Committee.

Directors' Report Cont.

Company Secretary

Mark Bryant was appointed as Company Secretary for the Trust on 7 November 2018. 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.

Travis Scott Butcher, B.Acc, CA, Grad. Dip. AFI SIA was appointed 6 September 2016. Travis is the General Manager, Finance - Diversified. Travis has over 15 years financial experience in Australia and overseas. Travis is a Chartered Accountant who began his career at PricewaterhouseCoopers specialising in transaction services and audit.

Non-Audit Services

Details of the amounts paid and payable to the auditor (PricewaterhouseCoopers Australia) for audit and non-audit services provided during the year are contained in Note D5 to the financial statements.

Auditor's Independence Declaration

A copy of the Auditors independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 12.

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.

Directors' Authorisation

The Directors' report is made in accordance with a resolution of the Directors. The financial statements were authorised for issue by the Directors on 7 August 2019. The Directors have the power to amend and re-issue the financial statements.



Grant Bartley Hodgetts

Chairman

Charter Hall Social Infrastructure Limited

Melbourne, 7 August 2019

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Education Trust for the year ended 30 June 2019, 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 Education Trust and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Andrew Cronin'.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
7 August 2019

Consolidated Statement Of Comprehensive Income

For the year ended 30 June 2019

Consolidated Group	Notes	2019 \$'m	2018 \$'m
Revenue			
Property rental income		66.3	62.4
Property outgoings recoveries		9.8	9.8
Distribution income		2.5	2.2
Interest income		0.1	-
Total revenue		78.7	74.4
Other income			
Net fair value gain on investment properties	B1	36.6	56.7
Gain on sale of investment properties		-	1.8
Fair value movement on derivative financial instruments	C3	-	0.7
Total other income		36.6	59.2
Total revenue and other income		115.3	133.6
Expenses			
Finance costs		10.6	9.9
Property outgoings		11.6	11.4
Property valuation fees		0.6	0.5
Fund management fees	D1	6.0	5.4
Rent on leasehold properties		1.7	1.6
Other expenses		1.8	1.7
Fair value movement on derivative financial instruments	C3	6.6	-
Realised loss on derivative financial instruments	C3	4.3	-
Share of equity accounted loss	B2	3.2	-
Loss on sale of investment properties		0.2	-
Total expenses		46.6	30.5
Net profit for the year		68.7	103.1
Other comprehensive income			
Gain on revaluation of financial assets		6.9	3.6
Other comprehensive income		6.9	3.6
Total comprehensive income		75.6	106.7
Earnings per unit		Cents	Cents
Basic earnings per unit	A2	25.69	40.51
Diluted earnings per unit	A2	25.69	40.51

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

Consolidated Balance Sheet

As at 30 June 2019

Consolidated Group	Notes	2019 \$'m	2018 \$'m
ASSETS			
Current assets			
Cash and cash equivalents		8.9	2.3
Receivables	D2	1.1	0.8
Other assets	D2	1.3	1.2
Investment properties held for sale	B1	2.2	4.9
Total current assets		13.5	9.2
Non-current assets			
Investment properties	B1	1,088.1	972.8
Investment properties straight line asset	B1	10.6	7.8
Investment in joint venture entity	B2	25.8	-
Investments in financial assets	B3	48.4	39.6
Total non-current assets		1,172.9	1,020.2
Total assets		1,186.4	1,029.4
LIABILITIES			
Current liabilities			
Payables	D2	6.5	5.8
Distribution payable	A2	12.2	9.8
Derivative financial instruments	C3	1.6	1.3
Other liabilities	D2	0.6	0.8
Total current liabilities		20.9	17.7
Non-current liabilities			
Borrowings	C2	270.3	298.2
Derivative financial instruments	C3	5.0	2.8
Total non-current liabilities		275.3	301.0
Total liabilities		296.2	318.7
Net assets		890.2	710.7
EQUITY			
Contributed equity	C5	490.8	344.1
Financial assets reserve		20.9	14.0
Retained profits		378.5	352.6
Total equity		890.2	710.7

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 2019

Consolidated Group	Notes	Contributed equity \$'m	Financial assets reserve \$'m	Retained profits \$'m	Total \$'m
Balance at 1 July 2017		330.4	10.4	288.0	628.8
Contributions of equity, net of issue costs	C5	13.7	-	-	13.7
Profit		-	-	103.1	103.1
Other comprehensive income		-	3.6	-	3.6
Distribution paid or provided for	A2	-	-	(38.5)	(38.5)
Balance at 30 June 2018		344.1	14.0	352.6	710.7
Balance at 1 July 2018		344.1	14.0	352.6	710.7
Contributions of equity, net of issue costs	C5	146.7	-	-	146.7
Profit		-	-	68.7	68.7
Other comprehensive income		-	6.9	-	6.9
Distribution paid or provided for	A2	-	-	(42.8)	(42.8)
Balance at 30 June 2019		490.8	20.9	378.5	890.2

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 2019

Consolidated Group	Notes	2019 \$'m	2018 \$'m
Cash flows from operating activities			
Property income received* (inclusive of GST)		80.9	78.0
Cash payments in the course of operations* (inclusive of GST)		(27.0)	(25.8)
Distributions received		2.3	2.3
Interest received		0.1	-
Finance costs paid		(23.1)	(11.3)
Net cash flows from operating activities	A3	33.2	43.2
Cash flows from investing activities			
Proceeds from sale of investment properties		8.9	49.8
Payments for investment properties*		(84.3)	(119.2)
Payments for financial assets		(1.9)	-
Payments for investments in joint venture entities		(29.1)	-
Net cash flows from investing activities		(106.4)	(69.4)
Cash flows from financing activities			
Proceeds from borrowings		177.0	80.1
Repayment of borrowings		(203.5)	(30.0)
Proceeds from issue of units, net of equity raising costs		137.2	7.4
Distributions paid		(30.9)	(31.4)
Net cash flows from financing activities		79.8	26.1
Net increase / (decrease) in cash held		6.6	(0.1)
Cash at the beginning of the financial year		2.3	2.4
Cash at the end of the financial year		8.9	2.3

*The amounts for the year ending 30 June 2018 have been re-classified between operating and investing activities. Refer Note D8 (b).

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

Non-cash financing activities

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

Consolidated Group	Notes	2019 \$'m	2018 \$'m
Distributions by the Trust during the year satisfied by the issue of units under the DRP	A2, C5	9.6	13.7

About This Report

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

- A. Trust 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 Trust manages its exposure to capital and financial risks.
- D. Further information** – provides additional disclosures relevant in understanding the Trust's financial statements.

A. Trust performance	18	B. Property portfolio assets	21
A1. Segment information	18	B1. Investment properties	21
A2. Distributions and earnings per unit	19	B2. Investment in joint venture entities	25
A3. Reconciliation of net profit to operating cash flows	20	B3. Investment in financial assets at fair value	27
		B4. Commitments and contingent liabilities	27
C. Capital structure and financial risk management	28	D. Further information	37
C1. Capital risk management	28	D1. Related party information	37
C2. Borrowings and liquidity	28	D2. Working capital	39
C3. Derivative financial instruments	30	D3. Parent entity information	40
C4. Financial risk management	32	D4. Significant contract terms and conditions	41
C5. Contributed equity	36	D5. Remuneration of the auditor	41
		D6. Interest in other entities	41
		D7. Events occurring after balance date	41
		D8. Other significant accounting policies	41

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 Trust'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
- Derivative financial instruments – C3 Derivative financial instruments

A. Trust Performance

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

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 straight lining 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 Trust'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 Trust has one business segment being the investment in social infrastructure properties and in one geographical location being Asia Pacific.

(b) Segment information provided to the Board

The operating earnings reported to the Board for the year ended 30 June 2019 are as follows:

	30 Jun 2019 \$'m	30 Jun 2018 \$'m
Net property income	60.1	56.7
Distribution income	2.5	2.2
Fund management fees	(6.0)	(5.4)
Finance costs	(10.6)	(9.9)
Administration and other expenses	(1.8)	(1.7)
Operating earnings	44.2	41.9

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

	30 Jun 2019 \$'m	30 Jun 2018 \$'m
Operating earnings	44.2	41.9
Net fair value gain on investment properties	36.6	56.7
Net (loss) / gain on derivative financial instruments	(6.6)	0.7
Realised loss on derivative financial instruments	(4.3)	-
Net fair value movements on investments at fair value through profit or loss	(0.2)	1.8
Straightlining of rental income, amortisation of lease fees and incentives	2.3	2.0
Share of equity accounted loss*	(3.2)	-
Other	(0.1)	-
Statutory profit for the year	68.7	103.1

* Share of equity accounted loss includes \$3.1 million in relation to property acquisition costs written off and \$0.1 million of fair value movements on derivatives.

Property outgoings recoveries

Other income principally includes non-lease income derived under lease agreements with tenants. Non-lease income relates to the proportion of property operating costs which are recoverable from tenants in accordance lease agreements and relevant legislative acts. See note D8(d) for further details.

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 Trust, are recognised on an accruals basis.

Property income

Property income represents income earned from the long-term rental of Trust properties and is recognised on a straight line basis over the lease term when the leases have fixed rental increases.

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

A. Trust Performance Cont.

	0 to 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
2019	76.4	414.1	500.8	991.3
2018	63.8	288.2	225.5	577.5

Leasehold Property Commitments

Details of non-cancellable property leases contracted for are shown as follows:

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

	2019 \$'m	2018 \$'m
Consolidated Group		
Payable:		
not later than 1 year	1.3	1.3
later than 1 year but no later than 5 years	5.8	5.7
later than 5 years	3.1	4.9
	10.2	11.9

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	2019			2018		
	Number of units on issue	Cents per unit	\$'m	Number of units units on issue	Cents per unit	\$'m
30 September	256,416,514	4.00	10.2	253,981,893	3.775	9.6
31 December	257,501,478	4.00	10.3	254,551,016	3.775	9.6
31 March	258,562,728	4.00	10.3	255,208,334	3.775	9.6
30 June	300,626,896	4.00	12.0	255,753,736	3.775	9.7
Total distributions		16.00	42.8		15.1	38.5

Pursuant to the Trust's constitution, 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 2019 was \$44.2 million (16.5 cents per unit) and distributions of \$42.8 million (16.0 cents per unit) were declared for the same period.

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

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

(b) Earnings per unit

	2019	2018
Basic and diluted earnings		
Earnings per unit (cents)	25.69	40.51
Operating earnings per unit (cents)	16.5	16.5
Earnings used in the calculation of basic and diluted earnings per unit		
Net profit for the year (\$ millions)	68.7	103.1
Operating earnings of the Trust for the year (\$ millions)	44.2	41.9
Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)	267.6	254.6

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

A. REIT Performance Cont.

Operating earnings per unit is determined by dividing operating earnings attributable to the unitholders by the weighted average number of units on issue during the year.

A3. Reconciliation of net profit to operating cash flow

	2019 \$'m	2018 \$'m
Net profit for the year	68.7	103.1
Non-cash items		
Net fair value movements on investment properties	(36.6)	(56.7)
Non-cash movements from derivative financial instruments	2.6	(0.7)
Share of equity accounted loss	3.2	-
Straightlining of rental income and amortisation of lease fees and incentives	(2.3)	(2.0)
Classified as investing activities		
Loss/(Gain) on sale of investment properties	0.2	(1.8)
Net GST receivable on acquisition and disposal of investment properties	3.7	0.8
Interest capitalisation on development properties	(2.7)	(2.1)
Classified as financing activities		
(Increase)/decrease in receivables	(0.3)	0.4
(Increase)/decrease in other assets	(0.2)	0.4
(Decrease)/increase in payables and other liabilities	(1.7)	1.0
Movement in unamortised borrowing costs	(1.4)	0.8
Net cash flows from operating activities*	33.2	43.2

*Some items for the year ending 30 June 2018 have been re-classified between operating and investing activities. Refer Consolidated Cash Flow Statement and Note D8 (b).

B. Property Portfolio Assets

The Trust's property portfolio assets comprise directly held investment properties, indirectly held interests in investment property held through joint ventures and investments in financial assets. 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	2019 \$'m	2018 \$'m
Assets held for sale	B1	2.2	4.9
Investment properties	B1	1,088.1	972.8
Investment properties straight line asset	B1	10.6	7.8
Investments in joint ventures	B2	25.8	-
Investment in financial asset at fair value	B3	48.4	39.6
Total property portfolio assets		1,175.1	1,025.1

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

B1. Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income and which are not occupied by the consolidated group. Property interests held under operating leases are deemed investment property.

Land and buildings comprising the investment properties are considered composite assets and are disclosed as such in the accompanying notes to the financial statements.

Investment properties acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

The costs of assets constructed/redeveloped internally include the costs of materials and direct labour. Directly attributable overheads and other incidental costs, including interest costs incurred during construction are also capitalised to the asset.

(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	Passing Rent (\$ per licence place/p.a.)	Average adopted capitalisation rate (% p.a.)
2019	1,100.9		
Australia - Freehold		1,086 – 6,409	6.0
Australia - Leasehold		677 – 4,895	13.2
New Zealand – Freehold*		1,166 – 6,591	6.1
2018	985.5		
Australia - Freehold		1,066 – 5,627	6.2
Australia - Leasehold		667 – 4,753	12.9
New Zealand – Freehold*		1,145 – 6,340	6.2

* New Zealand properties passing rent is in NZD

B. Property Portfolio Assets Cont.

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.
Passing rent	The passing rent being paid by the lessee(s) as specified by the terms of the lease(s)/tenancy agreement(s).
Capitalisation rate	The return represented by the income produced by an investment, expressed as a percentage.

Movement in the inputs is likely to have an impact on the fair value of investment properties. An increase in passing 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.

(b) Valuation process

After initial recognition, investment properties are measured at fair value and revalued with sufficient regularity to ensure the carrying amount of each property does not differ materially from its fair value at the reporting date. The Trust's Constitution requires the Responsible Entity to have the Trust's property investments independently valued at intervals of not more than three years. These valuations are considered by the Directors of the Responsible Entity when determining fair value. When assessing fair value, the Directors will also consider the discounted cash flow of the property, the highest and best use of the property and sales of similar properties.

Fair value is based on the price, at which a property might reasonably be expected to be sold at the date of valuation, assuming:

- a willing, but not anxious, buyer and seller on an arm's length basis;
- a reasonable period in which to negotiate the sale, having regard to the nature and situation of the property and the state of the market for property of the same kind;
- that no account is taken of the value or other advantage or benefit, additional to market value, to the buyer incidental to ownership of the property being valued; and
- it only takes into account instructions given by the Responsible Entity and is based on all the information that the valuer needs for the purposes of the valuation being made available by or on behalf of the Responsible Entity.

All investment properties are considered one class of asset. Under AASB 140: *Investment Property*, adjustments to fair value are to be recognised directly in the Consolidated Statement of Comprehensive Income.

B. Property Portfolio Assets Cont.

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

	2019	2018
	\$'m	\$'m
Valuations and carrying amounts		
Freehold properties - at valuation	979.7	889.9
Development properties - at cost	89.2	62.9
Leasehold properties - at valuation	31.4	31.4
Capitalised transaction costs in relation to properties contracted and not settled	0.6	1.3
Total investment properties	1,100.9	985.5
Less: Investment properties held for sale	(2.2)	(4.9)
Less: Straight line asset	(10.6)	(7.8)
Carrying amount at the end of the year	1,088.1	972.8
Movements during the financial year		
Balance at the beginning of the year	972.8	848.3
Acquisition of properties (including construction costs) for development*	51.4	47.1
Acquisition of existing childcare properties	33.5	63.2
Disposal of properties**	(4.0)	(37.6)
Investment properties held for sale	(2.2)	(4.9)
Net revaluation increment	36.6	56.7
Carrying amount at the end of the year	1,088.1	972.8

* For the year ended 30 June 2019, in accordance with AASB123, acquisition of properties (including construction costs) includes \$2.7 million of capitalised interest. Capitalised interest was calculated using 3.9% (2018: 4.1%), being the weighted average interest rate applicable to the Trust's borrowings during the year.

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

During the year, 124 external property valuations were conducted, 115 in Australia and 9 in New Zealand.

External valuations on the 115 Australian properties increased by \$15.8 million or 5.7 per cent on the carrying value as at 30 June 2018, which included Director valuations.

In addition to the external Australian valuations, 190 Directors valuations have been adopted resulting in an increment of \$13.9 million or 2.6 per cent. The Directors' valuations were undertaken to reflect the results of the external valuations and to account for the time lag in undertaking the external valuations.

External valuations of the 9 New Zealand properties increased by \$0.8 million or 8.2 per cent on the carrying value as at 30 June 2018, which included Director's valuations.

In addition to the New Zealand external valuations, 39 Directors valuations have been adopted resulting in an increment of \$4.7 million or 7.6 per cent due to yield compression, rental increases and exchange rate movements since the last external valuation.

In relation to the 6 completed development sites that became operational during the year there was an increment of \$3.8 million resulting from the difference in the cost to complete the development and the external valuation obtained. Acquisition costs of \$0.1 million in relation to the acquisition of operational properties were written off during the year. Straight line adjustments of \$2.3 million have decreased the value of investment properties, with a corresponding increase in the straight line assets.

B. Property Portfolio Assets Cont.

The table below sets out the major operators who have leases to operate from the investment properties:

Consolidated group	% of Investment Property Portfolio by Income
Operator:	
Goodstart Early Learning Limited	47%
Only About Children	11%
G8 Education Limited	8%
BestStart Educare Limited	7%

All of the above tenants are experienced childcare centre operators. The leases contain security clauses in the form of a bank guarantee to be provided by its tenants, typically 6 months rent.

Set out below are details of the major tenants who lease properties from the Trust:

Goodstart Early Learning Limited (Goodstart) - representing 47% of the Trust's investment property portfolio by income was formed in 2009 when it acquired the ABC Learning business. The 4 members are 4 Australian charitable organisations, consisting of The Benevolent Society, Mission Australia, the Brotherhood of St Laurence and Social Ventures Australia. Goodstart is a not-for-profit organisation and as 30 June 2018 employed approximately 14,900 staff across 644 childcare centres nationwide.

Only About Children - representing 11% of the Trust's investment portfolio by income is a premium private operator of 61 centres throughout NSW and VIC, including the recent acquisition of 20 centres operating under the Little Learning School brand.

G8 Education Limited (G8) - representing 8% of the Trust's investment property portfolio by income is a publicly listed company on the ASX (ASX code: GEM). As at 31 December 2018, G8 operated 519 centres across Australia and Singapore, with a combined licenced capacity of more than 41,500 places.

BestStart Educare Limited (BestStart) - representing 7% of the Trust's investment property portfolio by income is the largest provider of childcare in New Zealand. BestStart is a not-for-profit organisation with over 250 centres operating under different brands from Kaitiaki to Invercargill. These brands include EduKids, TopKids, First Steps, Early Years, Community Kindy, Montessori, Kids to Five, ABC and Kiwicare Preschool.

B. Property Portfolio Assets Cont.

B2. Investment in joint venture entities

The Trust has an investment in a joint venture entity. The Trust exercises joint control over the joint venture entity, but neither the Trust nor its joint venture partner have control in their own right, irrespective of their ownership interest. The principal activity of the joint venture entity during the year was property investment.

Information relating to the joint venture entities are detailed below:

Name of entity	Properties	2019	2018	2019	2018
		Ownership %	Ownership %	\$'m	\$'m
CH BBD Holding Trust	Eagle Farm, Brisbane QLD	50.0	-	25.8	-
				25.8	-

The 50% ownership of the CH BBD Holding Trust is held by CQE BBDT.

B. Property Portfolio Assets Cont.

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

	2019 \$'m	2018 \$'m
Balance at the beginning of the year	-	-
Additions (including acquisition costs)	29.0	-
Share of equity accounted loss	(3.1)	-
Distributions received and receivable	(0.1)	-
Balance at the end of the year	25.8	-

(b) Summarised financial information for material joint ventures

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

	CH BBD Trust \$'m	Total \$'m
2019		
Summarised balance sheet:		
Cash and cash equivalents	0.5	0.2
Other current assets	0.3	0.1
Non-current assets	102.5	51.3
Current liabilities	0.4	0.2
Derivative financial instruments - non-current liabilities	0.2	0.1
Borrowings - non-current liabilities	51.0	25.5
Net assets	51.7	25.8
Trust's share in %		50
Trust's share in \$'m and carrying value		25.8
Summarised statement of comprehensive income:		
Revenue	0.6	0.3
Interest expense	0.1	-
Loss for the year	(6.2)	(3.1)
Other comprehensive income	-	-
Total comprehensive (loss)	(6.2)	(3.1)
Trust's share in \$'m		(3.1)
Trust's share of distribution received in		0.1

Joint ventures

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

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

Unrealised gains on transactions between the Trust and its joint venture entities are eliminated to the extent of the Trust'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 Trust.

B. Property Portfolio Assets Cont.

B3. Investments in financial assets

	2019 \$'m	2018 \$'m
Units in listed securities (Arena REIT – ASX:ARF) – at market value	29.9	22.3
Units in unlisted securities (CHCIB Fund) – at Directors' valuation	18.5	17.3
Balance at the end of the year	48.4	39.6
Movements:		
Balance at the beginning of the year	39.6	36.0
Additions	1.9	-
Net fair value movement on investments	6.9	3.6
Balance at the end of the year	48.4	39.6

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

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

When securities increase at fair value, the increments are recognised directly in other comprehensive income. When securities are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the Consolidated Statement of Comprehensive Income as gains and losses. Distribution income from financial assets through profit and loss is recognised in the Consolidated Statement of Comprehensive Income as part of revenue when the Trust's right to receive payments is established.

B4. Commitments and contingent liabilities

As at 30 June 2019, the Trust has no contingent liabilities (30 June 2018: nil).

The Trust's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (2018: nil).

(a) Capital Expenditure Commitments – Centre Acquisitions and Development

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

Consolidated Group	2019 \$'m	2018 \$'m
not later than 1 year	79.3	32.3

*Capital expenditure commitments only include contracts executed as at 30 June 2019 and does not include future development costs not yet contracted.

C. Capital Structure And Financial Risk Management

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

C1. Capital risk management

The Responsible Entity's objective when managing capital objective is to ensure the Trust continues as a going concern as well as to maintain optimal returns to Unitholders and benefits for other stakeholders. The Responsible Entity also aims to maintain a capital structure that ensures the lowest cost of capital available to the Trust.

The proportion of capital is largely determined by the Trust's targeted long term gearing range of 30 to 40 per cent.

The Responsible Entity has a policy of paying out as distributions only net income earned by the Trust for the year.

C2. Borrowings and liquidity

(a) Borrowings

Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing debt is stated at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Consolidated Balance Sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in Consolidated Statement of Comprehensive Income as finance costs. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

	2019		2018	
	Total carrying amount	Fair value	Total carrying amount	Fair value
	\$'m	\$'m	\$'m	\$'m
Bilateral term facilities	273.5	273.5	300.0	300.0
Unamortised borrowing cost	(3.2)	(3.2)	(1.8)	(1.8)
Total	270.3	270.3	298.2	298.2
Balance available for drawing	123.5		47.0	

The Trust has debt facilities totalling \$397 million, comprising bank facilities of \$297 million provided equally by Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited, 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 30 June 2019, the Trust complied with all of its debt covenant ratios and obligations.

C. Capital Structure And Financial Risk Management Cont.

Assets Pledged as Security

A Security Trustee has been appointed to administer the security arrangements of the Trust and to facilitate any future debt issuing on behalf of the Trust. Financers share security in the form of real property mortgages. In addition, the Security Trustee has a registered security interest over the assets of the Trust as further security.

Consolidated Group	2019 \$'m	2018 \$'m
Assets pledged as security:		
Collateral that has been pledged for secured liabilities is as follows:		
i) Financial assets pledged		
Cash and cash equivalents	8.9	2.3
Trade and other receivables	1.1	0.8
Available-for-sale financial assets	48.4	39.6
ii) Other assets pledged		
Other current assets	1.3	1.2
Investment properties	1,100.9	985.5
Total assets pledged	1,160.6	1,029.4

The principal terms and conditions with respect to the assets pledged are:

- to conduct the business of the Trust (including collecting debts owed) in a proper, orderly and efficient manner;
- not, without lenders' consent, to cease conducting the business of the Trust; and
- not, without lenders' consent (such consent not to be unreasonably withheld) raise any Financial Accommodation from any other party other than Permitted Financial Accommodation or give any Encumbrance over Trust Assets as security for Financial Accommodation other than Permitted Financial Accommodation.

C. Capital Structure And Financial Risk Management Cont.

Bilateral term facilities

	Maturity Date	Facility limit \$'m	Utilised amount \$'m
June 2019			
Bank Facilities	September 2021	173.5	158.5
	September 2023	123.5	15.0
Institutional term loan	August 2025	100.0	100.0
Overdraft facility		10.0	-
		407.0	273.5
June 2018			
Bank Facilities	September 2019	91.75	91.75
	June 2020	116.75	108.25
	June 2021	56.75	54.25
	June 2022	81.75	45.75
Overdraft facility		10.0	-
		357.0	300.0

Borrowing in Joint Ventures

As at balance date, CH BBD Holding Trust has a \$51.3 million debt facility (CQE share \$25.6 million) with a 5-year term.

C3. Derivative financial instruments

The Trust 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 Trust has entered into interest rate swaps totalling \$255 million that entitle it to receive interest, at monthly 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 Trust to raise long term borrowings at a floating rate and effectively swap them into a fixed rate.

At 30 June 2019, the fixed rate is from 1.75% per annum (2018: 3.0% per annum).

Amounts reflected in the financial statements are as follows:

Balance Sheet	2019		2018	
	Asset \$'m	Liability \$'m	Asset \$'m	Liability \$'m
Current				
Interest rate swaps	-	1.6	-	1.3
Total current derivative financial instruments	-	1.6	-	1.3
Non-current				
Interest rate swaps	-	5.0	-	2.8
Total non-current derivative financial instruments	-	5.0	-	2.8
Total derivative financial assets/liabilities	-	6.6	-	4.1

During the year, the Trust increased and extended its hedging positions which also included lowering the hedging rate. The cost of this was \$8.4 million.

As at 30 June 2019, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	1 year or less \$'m	1 - 2 years \$'m	2 - 3 years \$'m	3 - 4 years \$'m	More than 4 years \$'m	Total \$'m
2019	-	-	95.0	-	160.0	255.0
2018	-	27.0	20.0	10.0	100.0	157.0

C. Capital Structure And Financial Risk Management Cont.

(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 Trust's credit risk using debt financing available to the Trust as a benchmark.

C. Capital Structure And Financial Risk Management Cont.

C4. Financial risk management

The Trust's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest risk), credit risk and liquidity risk. The Trust's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. The Trust uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments. The Trust uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange, and aging analysis for credit risk. The Trust's financial instruments consist of deposits with banks, accounts receivable and payable, derivatives, loans from banks and other financial intermediaries and a loan to a subsidiary.

The Responsible Entity manages the Trust's exposure to key financial risks in accordance with its Risk Management Plan. The objective of the plan is to support the delivery of the Trust's financial targets whilst protecting future financial security.

The Board is committed to identifying, monitoring and mitigating risks as well as capturing opportunities. Day to day responsibility for risk management has been delegated to executive management, with review at Board level.

Other than financial instruments, the Trust 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 Trust'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 the Trust has insufficient liquid assets to meet its obligations as they become due and payable.	Payables, borrowings and other liabilities.	Maintaining sufficient cash and marketable units, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.
Credit risk	The risk a contracting entity will not complete its obligations under a contract and will cause the Trust to make a financial loss.	All financial assets including tenant receivables.	Performing credit reviews on perspective tenants, obtaining tenant collateral and detailed review of tenant arrears. Review 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.

C. Capital Structure And Financial Risk Management Cont.

(a) Market risk – Interest rate risk

The Trust's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. During 2019 and 2018, the Trust's borrowings at variable rate were denominated in Australian Dollars.

The Trust has the following classes of financial assets and financial liabilities that are exposed to interest rate risk:

	2019	2018
Consolidated Group	\$'m	\$'m
Financial assets		
Cash and cash equivalents	8.9	2.3
	8.9	2.3
Financial liabilities		
Borrowings (Gross)	273.5	300.0
	273.5	300.0
Net exposure	(264.6)	(297.7)

The weighted average interest rates relating to the above financial assets and financial liabilities were as follows:

	2019	2018
Consolidated Group	%	%
Financial assets		
Cash and cash equivalents	0.25%	0.25%
Financial liabilities		
Borrowings	3.69%	4.11%

Financial assets are not hedged and are exposed to variable rate risk. The Responsible Entity believes that this exposure is relatively low and does not pose a material risk to the Trust.

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 2019, with all other variables remaining constant. The movements in profit are due to the net impact of higher/lower interest costs from variable rate debt and cash balances and the increase/decrease in the fair value of derivative instruments. Due to the hedging arrangements, increases in interest rates increase profit due to increases in the fair value of derivative financial instruments. Such movements are reflected in the Consolidated Statement of Comprehensive Income.

	2019			2018		
	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
<i>Australian interest rates</i>						
+ 1.00%	(0.1)	10.8	10.7	-	3.5	-
- 1.00%	0.1	(10.8)	(10.7)	-	(3.5)	-

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 Trust in the future periods.

C. Capital Structure And Financial Risk Management Cont.

(b) Liquidity risk

Liquidity risk is managed by adhering to restrictions under the Trust's investment strategy from entering into contractual arrangements that produce an exposure not covered by sufficient liquid assets or a total investment exposure in excess of total Unitholders' funds. Further, the Responsible Entity ensures that sufficient cash and cash equivalents are maintained to meet the needs of the Trust through cash flow monitoring and forecasting.

The table following reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial liabilities, including derivative financial instruments as at 30 June 2019. For derivative financial instruments, the market value is presented, whereas for the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing as at 30 June 2019.

The remaining contractual maturities of the Trust's financial liabilities are:

	2019	2018
Consolidated Group	\$'m	\$'m
6 months or less	9.5	8.7
6 to 12 months	3.0	2.9
1 to 5 years	192.9	312.9
Later than 5 years	100.0	-
	305.4	324.5

Maturity analysis of financial liabilities based on management expectations

The table as follows is a maturity analysis of financial liabilities based on management's expectations.

	6 months or less	6 to 12 months	1 to 5 years	Later than 5 years	Total
Consolidated Group	\$'m	\$'m	\$'m	\$'m	\$'m
2019					
Payables	6.5	-	-	-	6.5
Borrowings	-	-	173.5	100.0	273.5
Interest payments on hedged borrowings	2.2	2.2	14.4	-	18.8
Derivative financial instruments	0.8	0.8	5.0	-	6.6
	9.5	3.0	192.9	100.0	305.4
2018					
Payables	5.8	-	-	-	5.8
Borrowings	-	-	300.0	-	300.0
Interest payments on hedged borrowings	2.3	2.3	10.1	-	14.7
Derivative financial instruments	0.6	0.6	2.8	-	4.0
	8.7	2.9	312.9	-	324.5

C. Capital Structure And Financial Risk Management Cont.

(c) Credit risk

Credit risk arises from the financial assets of the Trust, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Trust's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable Note.

Receivables are received within the terms of the individual property lease, except for the amounts due to the Parent Entity from FET Sub-Trust No.1, FET Sub-Trust No. 2 and FET NZ Sub-Trust which have no fixed date of repayment (refer to Note D6).

The Trust does not hold any credit derivatives to offset its credit exposure.

The Trust trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Trust's policy to secure its trade and other receivables.

The Trust's credit exposure is concentrated with one debtor, Goodstart Early Learning Limited, who contributed 47 per cent of rental income. The total credit risk for financial instruments contained in the Balance Sheet is limited to the carrying amount disclosed in the Consolidated Balance Sheet, net of any provisions for doubtful debts.

In addition, receivable balances are monitored on an ongoing basis with the result that the Trust's exposure to bad debts is not significant (refer to Note D2).

	Less than 30 days \$'m	31 to 60 days \$'m	61 to 90 days \$'m	More than 90 days \$'m	Total \$'m
2019					
Rent receivable	0.5	-	-	-	0.5
Distributions receivable	0.6	-	-	-	0.6
2018					
Rent receivable	0.2	-	-	-	0.2
Distributions receivable	0.6	-	-	-	0.6

The Trust applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other financial assets. The Trust considers its financial asset balances to be low risk and thus the methodology has not resulted in the recognition of any material impairment of financial assets.

The loss allowances for rent receivables and other financial assets are based on assumptions about risk of default and expected loss rates. The Trust uses judgement in making these assumptions, based on the Trust's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

C. Capital Structure And Financial Risk Management Cont.

C5. Contributed Equity

Details	No. of Units '000	\$'m
Units on issue - 1 July 2017	250,561	330.4
Units issued via DRP	5,193	13.7
Units on issue - 30 June 2018	255,754	344.1
Units issued via Institutional Placement/Unit Purchase Plan	41,580	139.2
Units issued via DRP	3,293	9.6
Transaction costs	-	(2.1)
Units on issue - 30 June 2019	300,627	490.8

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

Each unit confers the right to vote at meetings of unitholders, subject to any voting restrictions imposed on an unitholder under the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules.

Distribution Reinvestment plan

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

The DRP issue price is determined at a discount of 1.5% to the daily volume weighted average price of all units traded on the ASX during the 10 business days commencing on the second business day following the distribution record date. During the year, 3,293,446 units were issued at an average issue price of \$2.91 per unit.

Equity raising

In March 2019, the Trust undertook a fully underwritten \$120 million institutional placement at an issue price of \$3.35 per unit (less equity raising costs of approximately \$2.1 million) to fund the acquisition of 13 childcare centres and associated transaction costs.

The Trust also undertook a \$19.3 million underwritten Unit Purchase Plan to eligible unitholders in Australia and New Zealand, proceeds of which were received in April 2019.

D. Further Information

D1. Related Party Information

(a) Responsible Entity

The Responsible Entity of the Trust is Charter Hall Social Infrastructure 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:

- Grant Bartley Hodgetts - Non-Executive Director
- Michael Francis Johnstone - Non-Executive Director
- Victor (Vic) David Cottren - Non-Executive Director
- Nicholas (Nick) James Anagnostou - Head of Social Infrastructure Funds
- Sean Thomas Patrick McMahon - Chief Investment Officer (appointed 17 December 2018)

No payments were made by the Trust or by the Responsible Entity on behalf of the Trust 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 31,554,980 units as at 30 June 2019 (2018: 30,687,878).

Following is a summary of related party transactions for the year ended 30 June 2019:

Type of fee	Fee amount	
	2019 \$'m	2018 \$'m
Base management	5.5	4.9
Accounting/administration services	0.5	0.5
Leasing fees	0.1	0.4
Acquisition/due diligence fees	0.1	0.2
Debt arrangement fees	0.3	-
Development fees	0.9	0.6
	7.4	6.6

Investments

The Trust held investments in the following schemes managed by the Responsible Entity or its affiliates:

Unlisted Investment

	2019	2018
<i>Charter Hall CIB Fund</i>		
Number of units held	4,245,126	4,245,126
Interest percentage held	15.0%	15.0%
Distributions received / receivable by the Trust	\$976,379	\$891,823
Distributions receivable as at 30 June	\$275,933	\$241,972
Net fair value of investment	\$18,466,298	\$17,277,663

The Charter Hall CIB Fund owns a portfolio of Victorian police stations and law court complexes. The fund has strong financial metrics with 100 per cent occupancy and conservative gearing levels with secured loan term borrowings.

D. Further Information Cont.

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

	2019 \$'m	2018 \$'m
Charter Hall Social Infrastructure Limited - Management Fee	1.8	1.5
Folkestone Limited - Distribution	-	1.2
Charter Hall Co-Investment Trust 3 - Distribution	1.2	-
Charter Hall Co Invest - Distribution	0.3	-
	3.3	2.7

(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 Trust. These powers have not been delegated by the Responsible Entity to any other person. Details of management fees charged to the Trust by the Responsible Entity and its related parties are included in Note D1(c).

(f) Directors' interests in Trust units

The number of units held directly, indirectly or beneficially by the Directors of the Responsible Entity or the Directors' related parties at 30 June 2019 is as follows:

	Units held 2019	Units held 2018
Grant Hodgetts	28,178	26,715
Michael Johnstone	71,092	71,092
Vic Cottren	143,054	134,100
Nick Anagnostou	35,102	30,625
Sean McMahon	-	-
Total	277,426	262,532

The aggregate number of units of the Trust acquired by the Directors of the Responsible Entity or their related parties during the year is set out below.

	Units acquired 2019	Units acquired 2018
Grant Hodgetts	1,463	1,422
Michael Johnstone	-	-
Vic Cottren	8,954	-
Nick Anagnostou	4,477	-
Sean McMahon	-	-
Total	14,894	1,422

No units of the Trust were sold by the Directors of the Responsible Entity or their related parties during the year (2018: 175,000 units were sold by Vic Cottren).

D. Further Information Cont.

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

	2019 \$'m	2018 \$'m
Receivables		
Trade receivables	0.5	0.2
Distributions receivable	0.6	0.6
	1.1	0.8
Other Assets		
Prepayments	1.0	0.6
Accrued income	0.3	0.6
	1.3	1.2

Trade receivables includes property income receivable together with receivables relating to revenue from contracts with customers.

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

	2019 \$'m	2018 \$'m
Payables		
Trade creditors	0.2	1.8
Accrued expenses	1.8	1.9
Accrued RE management fee	1.3	-
Accrued capital expenditure	2.7	0.8
Interest payable	0.5	0.6
GST Payable	-	0.7
	6.5	5.8
Other liabilities		
Rent received in advance	0.6	0.8
	0.6	0.8

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

D. Further Information Cont.

D3. Parent Entity Information

The financial information for the parent entity of the Trust has been prepared on the same basis as the 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 units 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:

	2019 \$'m	2018 \$'m
Balance Sheet		
Current assets	11.6	4.6
Non-current assets	1,000.0	870.4
Total assets	1,011.6	875.0
Current liabilities	18.1	14.5
Non-current liabilities	276.9	302.3
Total liabilities	295.0	316.8
Equity		
Contributed equity	426.9	274.3
Retained profits	289.7	283.9
Total equity	716.6	558.2
Statement of comprehensive income		
Profit for the year	48.8	79.9
Total comprehensive income	48.8	79.9

(b) Guarantees and contingent liabilities

The parent entity did not have any material contingent liabilities, either individually or as a class, at 30 June 2019 (2018: \$nil).

(c) Commitments

The parent entity's contractual commitments for the acquisition of the property, plant and equipment as at 30 June 2019 was \$79.3 million (30 June 2018: \$32.3 million). Refer Note B4(a).

D. Further Information Cont.

D4. Significant Contract Terms and Conditions

Pre-emptive rights

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

D5. Remuneration of the Auditor

	2019 \$	2018 \$
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	86,700	84,500
Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for:		
Taxation compliance services		
- Recognised in the profit or loss	26,400	11,200
	113,100	95,700

D6. Interest in Other Entities

Material subsidiaries

The Trust's principal subsidiaries at 30 June 2019 are set out below. Unless otherwise stated, they have contributed equity consisting solely of ordinary units that are held directly by the Trust, and the proportion of ownership interests held equals the voting rights held by the Trust.

Name of entity	Country of incorporation / Place of business	Ownership interest held by the Trust		Principal activities
		2019	2018	
FET Sub-Trust No. 1	Australia	100%	100%	Property Investment
FET Sub-Trust No. 2	Australia	100%	100%	Property Investment
FET NZ Sub-Trust	Australia	100%	100%	Property Investment
CQE BBDT	Australia	100%	-	Property Investment

D7. Events Occurring After Balance Date

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 Trust, the results of those operations or the state of affairs of the Trust in the financial years subsequent to 30 June 2019.

D8. Other Significant Accounting Policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the Trust's constitutions, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Trust 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 Trust's functional and presentation currency.

Compliance with IFRS

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

D. Further Information Cont.

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 2019 that affect the Trust's operations or reporting requirements.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Charter Hall Education Trust as at 30 June 2019 and the results of all subsidiaries for the year then ended. The Charter Hall Education Trust and its subsidiaries together are referred to in this financial report as the Trust.

Subsidiaries are all entities over which the Trust has control. The Trust controls an entity when the Trust 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 Trust. 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 Trust.

(b) Comparative information

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

Certain line items (marked with an asterisk) have been re-classified in the Consolidated Cash Flow Statement for the year ended 30 June 2018. The impact of these adjustments is to reduce net cash flows from operating activities by \$4.2 million from \$47.4 million to \$43.2 million and reduce net cash flows from investing activities by \$4.2 million from (\$73.6) million to (\$69.4) million. The overall impact of this change on movement in cash was nil.

(c) Rounding of amounts

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.

D. Further Information Cont.

(d) Impact of new standards and interpretations issued and adopted by the Trust

The Trust adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. The Trust has elected to utilise the retrospective transitional concessions. 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 but has resulted in classification changes on initial application at 1 July 2018. These changes are illustrated in the table below.

Financial Asset	Classification under AASB 139	Classification under AASB 9	Carrying amount as at 30 June 2019 \$'m
Receivables	Loans and receivables	Financial asset at amortised cost	1.1
Other assets	Loans and receivables	Financial asset at amortised cost	1.4

Financial assets at amortised cost are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method less any impairment.

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 (FVOCI). 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 materially impacted by the adoption of this standard.

Hedging

The Trust does not apply hedge accounting. 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.

D. Further Information Cont.

Type of revenue	Description	Revenue recognition policy under AASB 118	Revenue recognition policy under AASB 15
Recoveries revenue	The Trust recovers the costs associated with tenancy operations from certain 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 Trust 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.	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.

(e) 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 period ended 30 June 2019 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 for year commencing 1 July 2019)

The accounting by lessors will not significantly change. The Trust will 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.

The Trust has 23 investment properties under leasehold arrangements which have non-cancellable leases and future rental obligations. See note A1(b). Additional disclosures will be made in relation to these leasehold properties under AASB 16.

Directors' Declaration To Unitholders

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 consolidated financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - giving a true and fair view of the Trust's financial position as at 30 June 2019 and of its performance for the 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.

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 the declarations by the Head of Social Infrastructure Funds, who performs the Chief Executive Officer function, and the General Manager – Finance, Diversified, 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 of Charter Hall Social Infrastructure Limited.



Grant Bartley Hodgetts

Chairman
Charter Hall Social Infrastructure Limited
Melbourne, 7 August 2019

Independent Auditor's Report To Unitholders



Independent auditor's report

To the unitholders of Charter Hall Education Trust

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Charter Hall Education Trust (the Trust) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 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 Group financial report comprises:

- the consolidated balance sheet as at 30 June 2019
- 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 cash flow statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the declaration of the directors of the Responsible Entity of the Trust.

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if

PricewaterhouseCoopers, ABN 52 780 433 757
 2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
 T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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Independent Auditor's Report To Unitholders



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 Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$2.2 million, which represents approximately 5% of the Group's profit before tax, adjusted for significant non-cash items such as investment property and financial instrument revaluations. 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 Group profit before tax adjusted for significant non-cash items because, in our view, it is the benchmark against which performance of the Group is most commonly measured. We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the directors of the Responsible Entity of the Trust made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events, like the valuation of investment properties. The Group's accounting processes and controls are performed at its Melbourne head office, where we predominately performed our audit procedures. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit, Risk and Compliance Committee: <ul style="list-style-type: none"> Valuation of investment properties These are further described in the <i>Key audit matters</i> section of our report.

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.

Independent Auditor's Report To Unitholders



Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties (Refer to note B1) \$1,101 million</p> <p>The Group's investment property portfolio consists of 421 childcare properties across Australia and New Zealand. At 30 June 2019, the carrying value of the Trust's total investment property portfolio in the financial report was \$1,101 million.</p> <p>The valuation of investment properties was a key audit matter because of:</p> <ul style="list-style-type: none"> the magnitude of the investment property balance in the consolidated balance sheet the quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of investment properties the inherently subjective nature of investment property valuations due to the use of assumptions in the valuations, and the sensitivity of valuations to key inputs and assumptions. <p>The key assumptions in estimating fair values are yield and passing rent.</p> <p>External valuations were obtained for 124 properties during the year resulting in an increment of \$16.6 million. However, 6 development sites that were completed during the year also had independent valuations carried out upon completion, resulting in an incremental uplift of \$3.8 million.</p> <p>For the remaining properties, 229 directors' valuations have been adopted, resulting in an increment of \$18.6 million.</p> <p>Further property adjustments of \$2.4 million were made in relation to development sites that became operational in the year, costs written off on the acquisition of operational properties, and straight line rental adjustments.</p>	<p>Fair value at period end – External Valuations</p> <p>In respect of those properties where the Group was assisted by external valuations, for a sample of the external valuations reports, we:</p> <ul style="list-style-type: none"> assessed the competency and capabilities of the valuer and relied on their work as an expert read the valuer's terms of engagement – we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation assessed the valuation reports based on our industry knowledge agreed key inputs and assumptions in the valuation report back to lease contracts, including passing rent, lease term and lease end date agreed the external valuation to the accounting records. <p>Fair value at period end – Directors' Valuations</p> <p>In respect of those properties subject to directors' valuations, we met with members of executive management including both the Head of Social Infrastructure Funds and General Manager – Finance, Diversified to discuss the key inputs and assumptions. For a sample of valuations we:</p> <ul style="list-style-type: none"> agreed key inputs back to lease contracts, including passing rent, lease term and lease end date compared inputs in the directors' valuation to the external valuations to look for unusual trends or anomalies in the directors' valuation outcomes

Independent Auditor's Report To Unitholders



Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> evaluated the outcomes of a sample of independent property valuations subsequent to 30 June 2019 to check there were no material inconsistencies with the valuation positions adopted at 30 June 2019 agreed the director valuation adopted to the accounting records.

Other information

The directors of the Responsible Entity of the Trust are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information 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.

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

The directors of the Responsible Entity of the Trust is responsible for the preparation of the 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 of the Responsible Entity of the Trust determines 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 of the Responsible Entity of the Trust are responsible for assessing the ability of the Group 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 of the Responsible Entity of the Trust either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report To Unitholders



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.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Andrew Cronin'.

Andrew Cronin
Partner

Melbourne
7 August 2019

Charter Hall 