

Charter Hall Social Infrastructure REIT (ASX:CQE)

Half Year Report
December 2019



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Director's Report

The Directors of Charter Hall Social Infrastructure Limited (the Responsible Entity), being the Responsible Entity of the Charter Hall Social Infrastructure REIT and its controlled entities (the Trust or CQE), present the consolidated interim financial report and other information of the Trust for the period ended 31 December 2019. Effective 30 October 2019, the Trust was renamed from Charter Hall Education Trust to Charter Hall Social Infrastructure REIT.

Principal Activities

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

Directors

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

Grant Bartley Hodgetts	Chairman and Non-Executive Director
Michael Francis Johnstone	Non-Executive Director
Victor David Cottren	Non-Executive Director
Sean Thomas Patrick McMahon	Executive Director and Chief Investment Officer (Charter Hall Group)
Nicholas James Anagnostou (resigned 26 November 2019)	Executive Director/Head of Social Infrastructure Funds (Charter Hall Group)

Distributions

Distributions paid or declared during the period are as follows:

	31 Dec 2019			31 Dec 2018		
	Number of units on issue	Cents per unit	\$'m	Number of units on issue	Cents Per unit	\$'m
30 September	301,287,287	4.175	12.6	256,416,514	4.000	10.3
31 December	301,858,943	4.175	12.6	257,501,478	4.000	10.3
Total distributions		8.350	25.2		8.000	20.6

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 period, 1,232,047 units were issued at an average issue price of \$3.66 per unit.

Review and Results of Operations

The financial results of the Trust are summarised as follows:

	6 months to 31 Dec 2019 (\$'m)	6 months to 31 Dec 2018 (\$'m)
Revenue (\$'m)	66.1	61.0
Statutory profit for the period (\$'m)	49.0	42.2
Basic earnings per unit (cents)	16.3	16.4
Operating earnings (\$'m)	25.5	21.2
Operating earnings per unit (cents)	8.5	8.3
Distributions (\$'m)	25.2	20.6
Distributions per unit (cents)	8.350	8.000

	31 Dec 2019 (\$'m)	30 Jun 2019 (\$'m)
Total assets (\$'m)	1,273.5	1,186.4
Total liabilities (\$'m)	353.3	296.2
Net assets (\$'m)	920.2	890.2
Units on issue ('m)	301.9	300.6
Net assets per unit (\$)	3.05	2.96
Balance sheet gearing (%)	24.9	23.1
Look through gearing (%)	26.3	24.7

The Trust recorded a statutory profit of \$49.0 million for the period ended 31 December 2019 (31 December 2018: \$42.2 million). Operating earnings amounted to \$25.5 million (8.5 cents per unit) for the period ended 31 December 2019 (31 December 2018: \$21.2 million) and a distribution of \$25.2 million (8.350 cents per unit) was declared for the same period.

The operating earnings reported to the Board for the period ended 31 December 2019 are as follows:

	6 months to 31 Dec 2019 (\$'m)	6 months to 31 Dec 2018 (\$'m)
Net property income	32.1	29.5
Distribution income	1.3	1.2
Share of operating earnings from equity accounted investments	0.9	-
Fund management fees	(3.1)	(2.6)
Finance costs	(4.3)	(5.7)
Administration and other expenses	(1.4)	(1.2)
Operating earnings	25.5	21.2

* 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 that are not in the ordinary course of business or are capital in nature.

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.

The reconciliation between operating earnings to statutory profit is set out below:

	6 months to 31 Dec 2019 (\$'m)	6 months to 31 Dec 2018 (\$'m)
Operating earnings	25.5	21.2
Net fair value gain on investment properties	21.3	22.6
Net loss on derivative financial instruments	(0.2)	(2.6)
Gain/(loss) on sale of investment properties	0.5	(0.2)
Straightlining of rental income, amortisation of lease fees and incentives	1.1	1.1
Share of equity accounted non-operating profit	0.8	-
Other	-	0.1
Statutory profit for the period	49.0	42.2

Property valuation gains

Valuation gains totalling \$22.4 million were recorded during the period (31 December 2018: \$23.8 million). The gains were reduced by straight lining of rental income, amortisation of lease fees and incentives of \$1.1 million (31 December 2018: \$1.1 million).

Significant Changes in The State of Affairs

Acquisitions

During the period, the Trust acquired 7 existing centres for \$41.6 million and one development site for \$1.8 million.

Disposals

During the period, the Trust disposed of 8 centres receiving consideration of \$12.2 million.

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

Management appointment

On 26 November 2019 Travis Butcher was appointed as Fund Manager of CQE.

Matters Subsequent to the End of the Financial Period

On 12 February 2020, the Trust announced that it has received credit approved terms to increase debt facilities provided equally by Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited from \$297 million to \$400 million taking its total debt facilities to \$500 million.

There are no other 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.

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 5.

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 12 February 2020. The Directors have the power to amend and re-issue the financial statements.

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



Grant Hodgetts
Chairman
Charter Hall Social Infrastructure Limited
Melbourne, 12 February 2020

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the review of Charter Hall Social Infrastructure REIT for the half-year ended 31 December 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Charter Hall Social Infrastructure REIT and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Andrew Cronin', is placed over a light blue rectangular background.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
12 February 2020

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Consolidated Statement Of Comprehensive Income

Charter Hall Social Infrastructure REIT And Its Controlled Entities

As at 31 December 2019

	Notes	31 Dec 2019 \$m	31 Dec 2018 \$m
Revenue			
Property rental income	A1	35.6	32.4
Property outgoings recoveries	A1	5.7	4.8
Distribution income	A1	1.3	1.2
Total revenue		42.6	38.4
Other income			
Net fair value gain on investment properties	B1	21.3	22.6
Gain on sale of investment properties	B1	0.5	-
Share of equity accounted profit	B2	1.7	-
Total other income		23.5	22.6
Total revenue and other income		66.1	61.0
Expenses			
Finance costs		(4.4)	(5.7)
Property outgoings		(6.8)	(5.5)
Property valuation fees		(0.4)	(0.2)
Fund management fees		(3.1)	(2.6)
Rent on leasehold properties		-	(0.8)
Amortisation of right-of use assets (leasehold properties)		(0.7)	-
Administration and other expenses		(1.4)	(1.2)
Change in fair value of derivative financial instruments		(0.2)	(2.6)
Realised and unrealised foreign exchange losses		(0.1)	(0.0)
Loss on sale of investment properties	B1	-	(0.2)
Total expenses		(17.1)	(18.8)
Net profit attributable to unitholders for the half year		49.0	42.2
Gain on revaluation of financial assets		1.7	2.7
Total comprehensive income for the half year		50.7	44.9
Earnings per unit		Cents	Cents
Basic earnings per unit	A2	16.3	16.4
Diluted earnings per unit	A2	16.3	16.4

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

Consolidated Balance Sheet

Charter Hall Social Infrastructure REIT And Its Controlled Entities

As at 31 December 2019

	Notes	31 Dec 2019 \$m	30 Jun 2019 \$m
Assets			
Current Assets			
Cash and cash equivalents		4.6	8.9
Trade and other receivables		1.6	1.1
Other current assets		2.9	1.3
Investment properties expected to be sold within 12 months	B1	1.6	2.2
Total current assets		10.7	13.5
Non-Current assets			
Investment properties	B1	1,179.2	1,098.7
Investment accounted for using the equity method	B2	26.6	25.8
Investment in financial assets	B3	50.1	48.4
Right-of-use assets	D2	6.9	-
Total non-current assets		1,262.8	1,172.9
Total assets		1,273.5	1,186.4
Liabilities			
Current Liabilities			
Trade and other payables		8.8	6.5
Distribution payable	A2	12.9	12.2
Derivative financial instruments	C2	1.8	1.6
Lease liabilities	D2	1.5	-
Rent received in advance		0.2	0.6
Total current liabilities		25.2	20.9
Non-current liabilities			
Borrowings	C1	317.8	270.3
Derivative financial instruments	C2	5.0	5.0
Lease liabilities	D2	5.3	-
Total non-current liabilities		328.1	275.3
Total liabilities		353.3	296.2
Net assets		920.2	890.2
Equity			
Contributed equity	C3	495.3	490.8
Financial assets reserve		22.6	20.9
Undistributed profit		402.3	378.5
Total equity		920.2	890.2

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

Consolidated Statement Of Changes In Equity

Charter Hall Social Infrastructure REIT And Its Controlled Entities

For The Half Year Ended 31 December 2019

	Notes	Contributed Equity \$m	Financial asset reserve \$m	Undistributed Profit \$m	Total \$m
Balance at 1 July 2018		344.1	14.0	352.6	710.7
Profit attributable to unitholders		-	-	42.2	42.2
Other comprehensive income		-	2.7	-	2.7
Units issued	C3	4.7	-	-	4.7
Distribution paid or provided for	A2	-	-	(20.6)	(20.6)
Balance at 31 December 2018		348.8	16.7	374.2	739.7
Balance at 1 July 2019		490.8	20.9	378.5	890.2
Profit attributable to unitholders		-	-	49.0	49.2
Other comprehensive income		-	1.7	-	1.7
Units issued	C3	4.5	-	-	4.5
Distribution paid or provided for	A2	-	-	(25.2)	(25.4)
Balance at 31 December 2019		495.3	22.6	402.3	920.2

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

Consolidated Statement Of Cash Flows

Charter Hall Social Infrastructure REIT And Its Controlled Entities

For The Half Year Ended 31 December 2019

	31 Dec 2019 \$m	31 Dec 2018 \$m
Cash flows from operating activities		
Property income received (inclusive of GST)*	43.8	39.6
Cash payments in the course of operations (inclusive of GST)*	(15.1)	(17.0)
Distributions received from investments in financial assets and joint venture entities	1.7	1.2
Finance costs paid	(5.5)	(8.7)
Net cash inflow from operating activities	24.9	15.1
Cash flows from investing activities		
Proceeds from sale of investment properties	11.6	4.0
Payments for acquisition of investment properties (including construction costs)*	(67.7)	(30.4)
Net cash outflow from investing activities	(56.1)	(26.4)
Cash flows from financing activities		
Proceeds from borrowings	47.0	24.2
Distributions paid*	(20.1)	(15.1)
Net cash inflow from financing activities	26.9	9.1
Net decrease in cash held	(4.3)	(2.2)
Cash at the beginning of the half year	8.9	2.3
Cash at the end of the half year	4.6	0.1

* Some items for the comparative period have been re-classified. Please refer to Note D2 on page 17.

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

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** – 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.

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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 that are not in the ordinary course of business or are capital in nature.

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 period ended 31 December 2019 are as follows:

	6 months to 31 Dec 2019 (\$'m)	6 months to 31 Dec 2018 (\$'m)
Net property income	32.1	29.5
Distribution income	1.3	1.2
Share of operating earnings from equity accounted investments	0.9	-
Fund management fees	(3.1)	(2.6)
Finance costs	(4.3)	(5.7)
Administration and other expenses	(1.4)	(1.2)
Operating earnings	25.5	21.2

The reconciliation between operating earnings to statutory profit is set out below:

	6 months to 31 Dec 2019 (\$'m)	6 months to 31 Dec 2018 (\$'m)
Operating earnings	25.5	21.2
Net fair value gain on investment properties	21.3	22.6
Net loss on derivative financial instruments	(0.2)	(2.6)
Gain/(loss) on sale of investment properties	0.5	(0.2)
Straightlining of rental income, amortisation of lease fees and incentives	1.1	1.1
Share of equity accounted non-operating profit	0.8	-
Other	-	0.1
Statutory profit for the period	49.0	42.2

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:

	0 to 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
6 months to 31 Dec 2019	82.1	434.0	492.5	1,008.6
6 months to 31 Dec 2018	69.0	311.9	390.3	771.2

A2. Distributions and earnings per unit

	31 Dec 2019			31 Dec 2018		
	Number of units on issue	Cents per unit	\$'m	Number of units on issue	Cents Per unit	\$'m
30 September	301,287,287	4.175	12.6	256,416,514	4.000	10.3
31 December	301,858,943	4.175	12.6	257,501,478	4.000	10.3
Total distributions		8.350	25.2		8.000	20.6

Distributions paid and payable

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.

Earnings per unit

	6 months to 31 Dec 2019	6 months to 31 Dec 2018
Basic and diluted earnings		
Earnings per unit (cents)	16.3	16.4
Operating earnings per unit (cents)	8.5	8.3
Earnings used in the calculation of basic and diluted earnings per unit		
Net profit for the period (\$ millions)	49.0	42.2
Operating earnings of the Trust for the period (\$ millions)	25.5	21.2
Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)	301.4	256.8

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 period.

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 period.

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.

	Notes	31 Dec 2019 (\$'m)	30 Jun 2019 (\$'m)
Assets held for sale	B1	1.6	2.2
Investment properties	B1	1,179.2	1,098.7
Investments in joint ventures entities	B2	26.6	25.8
Investment in financial assets	B3	50.1	48.4
Total property portfolio assets		1,257.5	1,175.1

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

B1. Investment properties

(a) Reconciliation of the carrying amount of investment properties at the beginning and end of period:

	6 months to 31 Dec 2019 \$m	Year to 30 Jun 2019 \$m
Valuations and carrying amounts		
Freehold properties - at valuation	1,043.2	979.7
Development properties - at cost	102.4	89.2
Leasehold properties - at valuation	34.0	31.4
Capitalised transaction costs in relation to properties contracted and not settled	1.2	0.6
Total investment properties	1,180.8	1,100.9
Less: Investment properties held for sale	(1.6)	(2.2)
Carrying amount at the end of the period	1,179.2	1,098.7
Movements during the financial period		
Balance at the beginning of the period	1,098.7	980.6
Acquisition of properties (including construction costs) for development*	26.5	51.4
Acquisition of existing properties	41.6	33.5
Disposal of properties**	(8.9)	(4.0)
Investment properties held for sale	(1.6)	(2.2)
Net revaluation increment	21.3	36.6
Straightlining of rental income, amortisation of incentives and leasing fees	1.6	2.8
Carrying amount at the end of the period	1,179.2	1,098.7

* For the 6 months ended 31 Dec 2019, in accordance with AASB123, acquisition of properties (including construction costs) includes \$1.6 million of capitalised interest. Capitalised interest was calculated using 3.5% (31 Dec 2018: 4.0%), being the weighted average interest rate applicable to the Trust's borrowings during the period.

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

B2. Investment in joint venture entities

The Trust has an investment in a joint venture entity and accounts for investments in joint venture entities using the equity method. 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 period was property investment.

Information relating to the joint venture entities are detailed below:

Name of entity	Properties	31 Dec 2019 Ownership %	30 Jun 2019 Ownership %	31 Dec 2019 \$'m	30 Jun 2019 \$'m
CH BBD Holding Trust	Eagle Farm, Brisbane QLD	50.0	50.0	26.6	25.8

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

B3. Investments in financial assets

	6 months to 31 Dec 2019 \$'m	Year to 30 Jun 2019 \$'m
Units in listed securities (Arena REIT – ASX:ARF) – at market value	31.6	29.9
Units in unlisted securities (CHCIB Fund) – at Directors' valuation	18.5	18.5
Balance at the end of the period	50.1	48.4
Movements:		
Balance at the beginning of the period	48.4	39.6
Additions	-	1.9
Net fair value movement on investments	1.7	6.9
Balance at the end of the period	50.1	48.4

B4. Commitments and contingent liabilities

As at 31 December 2019, the Trust has no contingent liabilities (31 December 2018: nil).

The Trust's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (31 Dec 2018: nil).

(a) Capital Expenditure Commitments – Centre Acquisitions and Development

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

	6 months to 31 Dec 2019 \$'m	6 months to 31 Dec 2018 \$'m
Not later than 1 year	78.6	46.4

* Capital expenditure commitments only include contracts executed as at 31 December 2019 and does not include future development costs not yet contracted.

C. Capital Structure

C1. Borrowings and liquidity

(a) Borrowings

Borrowings are classified as non-current liabilities as they have maturities greater than 12 months.

	31 Dec 2019		30 Jun 2019	
	Total carrying amount \$'m	Fair Value \$'m	Total carrying amount \$'m	Fair value \$'m
Bilateral term facilities	320.5	320.5	273.5	273.5
Unamortised borrowing cost	(2.7)	(2.7)	(3.2)	(3.2)
Total	317.8	317.8	270.3	270.3
Balance available for drawing	76.5		123.5	

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 31 December 2019, the Trust complied with all of its debt covenant ratios and obligations.

Bilateral term facilities

	Maturity Date	Facility Limit \$'m	Utilised amount \$'m
Dec 2019			
Bank Facilities	September 2021	173.5	173.5
	September 2023	123.5	47.0
Institutional term loan	August 2025	100.0	100.0
Overdraft facility		10.0	-
		407.0	320.5
Jun 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

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 expiring in May 2024.

C2. 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

Amounts reflected in the financial statements are as follows:

	31 Dec 2019		30 Jun 2019	
	Asset \$'m	Liability \$'m	Asset \$'m	Liability \$'m
Current				
Interest rate swaps	-	1.8	-	1.6
Total current derivative financial instruments	-	1.8	-	1.6
Non-current				
Interest rate swaps	-	5.0	-	5.0
Total non-current derivative financial instruments	-	5.0	-	5.0
Total derivative financial assets/liabilities	-	6.8	-	6.6

(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.

C3. Contributed Equity

Details	No of Units	\$'m
Units on issue - 1 July 2018	255,753,736	344.1
Units issued via Institutional Placement/Unit Purchase Plan	41,579,714	139.2
Units issued via DRP	3,293,446	9.6
Transaction costs	-	(2.1)
Units on issue – 1 July 2019	300,626,896	490.8
Units issued via DRP	1,232,047	4.5
Units on issue – 31 Dec 2019	301,858,943	495.3

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 a 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 period, 1,232,047 units were issued at an average issue price of \$3.66 per unit.

D. Further Information

D1. Events Occurring After Balance Date

On 12 February 2020, the Trust announced that it has received credit approved terms to increase debt facilities provided equally by Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited from \$297 million to \$400 million taking its total debt facilities to \$500 million.

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 31 December 2019.

D2. Other Significant Accounting Policies

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.

These interim financial reports do not include all notes normally included in an annual financial report. Accordingly, these reports should be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Trust during the half year ended 31 December 2019 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Unless otherwise stated, the accounting policies adopted in the preparation of the interim financial reports are consistent with those of the previous financial year.

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).

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.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Charter Hall Social Infrastructure REIT as at 31 December 2019 and the results of all subsidiaries for the period then ended. The Charter Hall Social Infrastructure REIT and its subsidiaries together are referred to in this financial report as the Trust or CQE.

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.

Comparative information

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

Certain line items (marked with an asterisk) have been re-classified in the Consolidated Cash Flow Statement for the period ended 31 December 2018. The impact of these adjustments is to reduce net cash flows from operating activities by \$3.7 million from \$18.8 million to \$15.1 million and decrease net cash outflows from investing activities by \$3.7 million from (\$30.1) million to (\$26.4) million. In addition to the above, proceeds from issue of units was reduced by \$4.7 million to nil and distributions paid was reduced by \$4.7 million from (\$19.8) million to (\$15.1) million. The overall impact of the above changes on movement in cash was nil.

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.

New and amended standards adopted

A number of new or amended standards became applicable for the current reporting period and the Trust had to change its accounting policies and make retrospective adjustments as a result of adopting AASB 16 Leases.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have any impact on the Trust's accounting policies and did not require retrospective adjustments.

Impact of New Standards and Interpretations Issued and Adopted by the Trust

The Trust has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the previous reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Adjustments recognised on adoption of AASB16

The Trust holds 33 leasehold properties which are included in the carrying value of investment properties. On adoption of AASB 16, the Trust recognised lease liabilities in relation to the leases on leasehold properties owned by the Trust which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 3.7%.

Lease liability recognised as at 1 July 2019

	\$m
Current lease liabilities	1.5
Non-current lease liabilities	6.0
Total lease liabilities	7.5

The associated right-of-use assets for the leasehold property leases were measured on a retrospective basis as if the new rules had always been applied. The right-of-use assets relating to leasehold properties were measured at the modified amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use asset relate to the following types of assets:

	6 months to 31 Dec 2019 \$m	Year to 30 Jun 2019 \$m
Investment properties – leasehold	6.8	7.5
Total right-of-use assets	6.8	7.5

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets – increase by \$7,529,570; and
- lease liabilities – increase by \$7,529,570.

There was no impact on retained earnings on 1 July 2019.

Impact on earnings per share

Adjusted net profit attributable to Unitholders for the current reporting period increased by \$148,000 as a result of the change in accounting policy.

There was no material impact on earnings per share for the six months to 31 December 2019 as a result of the adoption of AASB 16.

Practical expedients applied

In applying AASB 16 for the first time, the Trust has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Trust has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Trust relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

The Trust's leasing activities in respect of leasehold properties and how they are accounted for

The Trust owns 33 leasehold properties which are subject to a head lease with a freehold owner of the property. The Trust has then leased these properties to childcare operators for terms consistent with the head lease. Rental contracts over the leasehold properties with the freehold property owner are typically made for periods of 15 - 20 years, with five year rolling options. Lease terms are negotiated on an individual basis and contain different terms and conditions.

Until the 30 June 2019 financial year, leases of leasehold investment properties were classified as operating leases. Payments made under the operating leases to the owner of the freehold property (net of any incentives received from the lessor) were charged to profit and loss as an expense on a straight-line basis over the period of the lease.

From 1 July 2019, leases over leasehold properties owned by the Trust are recognised as a right-of-use asset and a corresponding liability lease at this date. Each lease payment is allocated between liability and finance cost. The finance costs are charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- variable lease payment that are based on a fixed rate.

The lease payments paid on leasehold properties are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar economic environment with similar terms and conditions.

Right-of-use assets relating to leasehold properties owned by the Trust are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payment made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term lease are leases with a lease term of 12 months or less however there were no short term leases of low-value assets owned by the Trust.

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 31 December 2019 but are available for early adoption. The Trust has not assessed the impact of these new standards and interpretations (to the extent that they are relevant to the Trust).

Directors' Declaration

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

1. the financial statements and notes are in accordance with the Corporations Act 2001, including:
 - i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii) giving a true and fair view of the Trust's financial position as at 31 December 2019 and of its performance for the period 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.

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

Dated at Melbourne this 12 February 2020.



Grant Hodgetts
Chairman
Charter Hall Social Infrastructure Limited

Independent Auditor's Report



Independent auditor's review report to the unitholders of Charter Hall Social Infrastructure REIT

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Charter Hall Social Infrastructure REIT (the Trust) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors of the Responsible Entity of the Trust's declaration.

Directors of the Responsible Entity of the Trust's responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Charter Hall Social Infrastructure REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'Andrew Cronin'.

Andrew Cronin
Partner

Melbourne
12 February 2020

