

Charter Hall Social Infrastructure REIT

ARSN 102 955 939

Financial report

For the year ended 30 June 2020



Important Notice

Charter Hall Social Infrastructure Limited ACN 111 338 937; AFSL 281544 (CHSIL) is the responsible entity of Charter Hall Social Infrastructure REIT ARSN 102 955 939 (REIT). CHSIL is a controlled entity of Charter Hall Limited ABN 57 113 531 150 (Charter Hall).

Past performance is not a reliable indicator of future performance. Due care and attention have been exercised in the preparation of forecast information; however, forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of CHSIL. Actual results may vary from forecasts and any variation may be materially positive or negative.

This report has been prepared for general information purposes only and is not an offer or invitation for subscription or purchase of, or recommendation of, securities. It does not take into account the investment objectives, financial situation or needs of any investor. Before investing, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

CHSIL does not receive fees in respect of the general financial product advice it may provide; however, it will receive fees for operating the REIT which, in accordance with the REIT's constitution, are calculated by reference to the value of the assets and the performance of the REIT. Controlled entities of Charter Hall may also receive fees for managing the assets of, and providing resources to, the REIT. Charter Hall and its related entities, together with their officers and directors, may hold securities in the REIT from time to time.

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Directors' report

The Directors of Charter Hall Social Infrastructure Limited (Responsible Entity or CHSIL), the responsible entity of Charter Hall Social Infrastructure REIT, present their report together with the consolidated financial statements of Charter Hall Social Infrastructure REIT and its controlled entities (the REIT) for the year ended 30 June 2020.

Principal activities

The principal activity of the REIT during the year was property investment. There were no significant changes in the nature of the REIT's activities during the 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, unless otherwise stated:

- Grant Bartley Hodgetts - Chairman and Non-Executive Director
- Michael Francis Johnstone - Non-Executive Director
- Katrina (Kate) Mary Melrose - Non-Executive Director (appointed 11 March 2020)
- Sean Thomas Patrick McMahon - Executive Director and Chief Investment Officer (Charter Hall Group)
- Victor David Cottren - Non-Executive Director (resigned 11 March 2020)
- Nicholas James Anagnostou - Executive Director/Head of Social Infrastructure Funds (Charter Hall Group) (resigned 26 November 2019)

Distributions

Distributions paid or declared by the REIT to unitholders:

	2020			2019		
	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	4.00	10.2
31 December	301,858,943	4.175	12.6	257,501,478	4.00	10.3
31 March	302,723,384	4.175	12.6	258,562,728	4.00	10.3
30 June	359,351,359	3.475	12.6	300,626,896	4.00	12.0
Total distributions		16.00	50.4		16.00	42.8

A liability has been recognised in the consolidated financial statements as the final distribution had been announced to the market as at the balance date.

Distribution Reinvestment Plan

The REIT has established a Distribution Reinvestment Plan (DRP) under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new 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, 2,766,238 units were issued at an average issue price of \$3.16 per unit.

Directors' report (continued)

Review and results of operations

The REIT recorded a statutory profit for the year of \$85.9 million (2019: \$68.7 million). Operating earnings amounted to \$51.1 million (16.5 cents per unit) for the year ended 30 June 2020 (2019: \$44.2 million, 16.5 cents per unit) and a distribution of \$50.4 million (16.0 cents per unit) was declared for the same period (2019: \$42.8 million, 16.0 cents per unit).

The 30 June 2020 financial results are summarised as follows:

	2020	2019
Revenue (\$ millions)	86.2	78.7
Net profit (\$ millions)	85.9	68.7
Basic earnings per unit (cents)	27.7	25.7
Operating earnings (\$ millions)	51.1	44.2
Operating earnings per unit (cents)	16.5	16.5
Distributions (\$ millions)	50.4	42.8
Distributions per unit (cents)	16.0	16.0
<hr/>		
Total assets (\$ millions)	1,357.7	1,186.4
Total liabilities (\$ millions)	307.7	296.2
Net assets (\$ millions)	1,050.0	890.2
Units on issue (millions)	359.4	300.6
Net assets per unit (\$)	2.92	2.96
Balance sheet gearing - total debt (net of cash and derivatives) to total assets (net of cash and derivatives)	16.4%	22.5%
Look through gearing - total debt (net of cash and derivatives) to total assets (net of cash and derivatives)	18.0%	24.7%

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

	2020	2019
	\$'m	\$'m
Net property income*	64.3	59.6
Distribution income	2.6	2.5
Other Income	0.1	-
Share of operating earnings from equity accounted investments	1.9	-
Fund management fees*	(6.5)	(5.5)
Finance costs	(8.9)	(10.6)
Administration and other expenses*	(2.4)	(1.8)
Operating earnings	51.1	44.2

* The amounts for the year ending 30 June 2019 have been re-classified between property outgoings, fund management fees and administration and other expenses.

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 one-off items that are not in the ordinary course of business or are capital in nature. Operating earnings includes the rental revenue recognised in respect of tenants who have been (or will be) provided with rent free incentives as a result of COVID-19. This approach is consistent with the REIT'S treatment of rent free incentives provided in the ordinary course of its operations, which are amortised over the term of the lease.

The inclusion of operating earnings as a measure of the REIT's profitability provides investors with the same basis that is used internally for evaluating operating segment performance. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare. The distribution declaration for last quarter of \$12.6 million (3.475 cpu) considered operating earnings and the operational cashflow generated during the June 2020 quarter.

Directors' report (continued)

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

	2020 \$'m	2019 \$'m
Operating earnings	51.1	44.2
Net revaluation increment on investment properties	44.2	36.6
Net loss on derivative financial instruments*	(6.1)	(10.9)
Loss on sale of investment properties	(4.1)	(0.2)
Straightlining of rental income and amortisation lease fees and incentives	2.8	2.3
Share of equity accounted non-operating profit/(loss)	0.6	(3.2)
Provision for rent relief **	(1.0)	-
Unrealised/realised foreign exchange losses	(1.4)	-
Other	(0.2)	(0.1)
Statutory profit for the year	85.9	68.7
Basic weighted average number of units (millions)	309.7	267.6
Basic earnings per unit (cents)	27.7	25.7
Operating earnings per unit (cents)	16.5	16.5
Distribution per unit (cents)	16.0	16.0

* Included in net loss on derivative financial instruments is realised loss of \$11.7 million associated with resetting the REIT's interest rate swaps (2019: \$4.3 million).

** Rent free incentives relating to COVID-19 expected to be agreed post 30 June 2020.

COVID-19 Impact

During the period March to June 2020, the COVID-19 pandemic (COVID-19) impacted the REIT with our childcare tenant customers experiencing reduced demand for their services as parents elected to keep their children at home. The Federal Government has been proactive in providing support for the childcare industry to assist operators throughout the period that their operations have been adversely impacted by the COVID-19 pandemic. On 2 April 2020, the Federal Government announced a new Early Childhood Education and Care Relief Package ("ECECRP") which assisted childcare operators up until 12 July 2020. Under the ECECRP, CQE's eligible tenants received fortnightly payments equal to 50% of average centre revenue for the two weeks up to 2 March 2020. In addition to the ECECRP, CQE's childcare tenants were eligible to receive the JobKeeper payment which assisted in helping them to cover their eligible childcare workers' wages. On 8 June 2020, the Federal Government announced the ECECRP would cease on 12 July 2020 with the traditional Child Care Subsidy ("CCS") funding package returning and JobKeeper payments ceasing. In addition to the CCS, the Federal Government will pay childcare services a Transition Payment of 25% of their fee revenue during the relief package reference period from 13 July until 27 September 2020.

From Thursday 6 August 2020, childcare services in Melbourne will only be available to permitted workers under stage four restrictions imposed in response to Melbourne's second wave of COVID-19 infections. The Federal Government has announced a temporary funding package to support centres located in Melbourne by providing a significant proportion of their pre COVID-19 revenue throughout this period. The REIT has 70 properties located in Victoria comprising 22.8% of the REIT's property assets by value.

The introduction of the National Code of Conduct (Code of Conduct) which was subsequently legislated by the various Australian states created a framework to administer tenant support to those tenants who met the definition of an SME tenant and whose operations were negatively impact by COVID-19. Approximately 20% of the REIT'S childcare tenants are qualifying SME tenants. The final quantum of tenant support expected to be provided to SME tenants is still being negotiated however a provision for rental relief of \$1.0 million for SME tenants has been provided for as at 30 June 2020 representing the component of rent relief expected to be provided as a rent free incentive. In addition to the rent free incentive, the REIT expects to provide \$0.6 million of rental deferrals to SME tenants which will be paid back over a 2 year period.

The provision of rental relief for non-SME tenants (which represent approximately 80% of the REIT's childcare tenants) has been approached on a case by case basis depending on their scale, number of centres in the REIT's portfolio and existing lease terms. Rental relief provided to these tenants as a result of COVID-19 as at 30 June 2020 has amounted to \$3.8 million which has assisted them to trade through the pandemic period. As a result, leases to these operators have been extended for an average 6.2 years across 40 leases. The \$3.8 million of rental relief to non-SME tenants comprises \$2.4 million of rent free incentives to be provided over the period June to October 2020 and \$1.4 million of rent deferral over the same period and repayable in calendar year 2021.

Due to the uncertainty as to the impact of COVID-19, the REIT raised equity in May 2020 to strengthen the balance sheet and ensure it can withstand any unexpected cash flow and valuation impacts from an extended COVID-19 pandemic. This has reduced gearing and provides stability to the REIT.

The uncertainty of the impact of COVID-19 has been considered in both our independent and director's valuations. There have been 347 properties valued in the second half of 2020 which has resulted in a 6% increase on June 2019 carrying values. There has been no material impact to valuations as a result of COVID-19.

Directors' report (continued)

Significant changes in the state of affairs

Acquisitions

During the year, the REIT acquired 11 existing centres for \$64.8 million and 1 development site for \$1.8 million.

Disposals

During the year, the REIT disposed of 11 Australian centres receiving total proceeds of \$20.2 million (gross of selling costs) and 26 New Zealand centres receiving total consideration of NZD \$36.9 million.

Capital raising

In May 2020, the REIT completed an institutional placement, raising \$100 million through the issue of 45,454,546 new units at an issue price of \$2.20 per unit.

In June 2020, the REIT completed a Unit Purchase Plan (UPP), in connection with the institutional placement. A total of \$23.1 million was raised under the UPP, with 10,503,679 new units issued at an issue price of \$2.20 per unit.

Financing

In March 2020, the REIT increased its existing bilateral facilities with ANZ Bank and HSBC from \$297.0 million to \$400.0 million. In addition to the increase in the bilateral facility limits, the expiry dates of the 3 year and 5 year components of the facilities were refreshed to March 2023 and March 2025 respectively.

In May 2020, the REIT reduced its interest rate swap portfolio from \$255.0 million to \$160.0 million and reduced the hedged rate from 1.75% to 0.55% per annum. The cost of re-structuring its swaps was \$11.7 million which has been paid, with \$5.1 million of this cost being recognised in the current reporting period and \$6.6 million recognised in the prior reporting period in fair value movement on derivative instruments.

Business strategies and prospects

The REIT will continue with its strategy to provide predictable and secure long-term cash-flows with the opportunity for capital growth from social infrastructure investments. The REIT's stable financial position with minimal vacancy, long term leases and secured debt financing, positions the REIT 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 as part of its broadened social infrastructure investment mandate.

The material business risks faced by the REIT that are likely to have an effect on its financial performance are set out below. A dedicated risk and compliance team are responsible for the ongoing review and monitoring of compliance and risk management systems. The Board regularly review material risks to ensure they remain within the REIT's agreed risk appetite.

Directors' report (continued)

Risk	Description	Mitigation
External Risks	Property cycle risk and adverse market or economic conditions	We undertake a detailed annual strategic review for all assets to inform recycling of capital into higher quality assets By undertaking ongoing due diligence including demographics, catchments, competitor threats, and by leveraging consultant expertise we ensure that we remain informed of market changes.
Tenant Risk	The REIT relies on tenants to generate the majority of its revenue under the lease agreements entered into in 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 REIT's properties	In respect of tenant risk, the REIT's leases typically contain security clauses in the form of bank guarantees provided by tenants, typically 6 month's rent. As at 30 June 2020, the REIT holds approximately \$36.1 million in bank guarantees.
Concentration Risk	The REIT'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 2020, Goodstart Early Learning Limited (Goodstart) contributes 47% of the REIT's childcare rental income. Non-performance of Goodstart's rental or leasing obligations would significantly impact on the REIT's financial performance.	In respect of concentration risk, the REIT's leases with Goodstart contain financial reporting obligations that allow regular monitoring of the financial performance of Goodstart. In addition to this, the REIT has broadened its investment mandate to include other social infrastructure assets. Over time, it is the REIT's intention to diversify its asset base to mitigate the concentration risk it currently has in childcare properties.
Strategic challenges posed by COVID-19	COVID-19 will have tactical and economic impacts in the short term.	The senior management team is deeply connected to industry, tenants and key partners to inform ongoing planning to manage COVID-19 implications through the REIT. The focus on childcare places the portfolio in a resilient position as to the impacts of COVID-19.

Directors' report (continued)

Financial Risks	Debt and equity capital management	Effective capital management is required to meet the REIT's ongoing liquidity and funding requirements. The inability to raise new capital to pursue growth opportunities or to raise replacement capital at challenging points in the debt or equity markets cycle is a key risk.	We mitigate these risks by implementation of our debt diversity strategy combined with regular monitoring and reporting on debt covenants and stress testing of liquidity positions. We have demonstrated a strong performance and equity raising track record.
		A relationship breakdown or termination of a joint venture partnership may result in reputational or financial damage.	We manage our relationships with our partners through Investment agreements including investment committee oversight of all key decisions with structured and pre-agreed reporting.
Operational Risks	Work, Health & Safety (WHS) obligations, critical safety incident or significant crisis	We have a commitment to promote and protect the health, safety and wellbeing of our people, customers, contractors and all users of the REIT's assets.	Our Group WHS Manager collaborates closely with our property management teams to ensure the implementation of the Group WHS management system (WHSMS) and the WHS Strategy which sets the direction, objectives, targets, and associated activities to support and drive continuous improvement in WHS across the Group.
	Organisational culture and conduct	Our ongoing success depends on our ability to attract, engage and retain a motivated and high-performing workforce to deliver our strategic objectives and an inclusive culture that supports our values.	We have a Code of conduct in place with all employees and undertake consistent messaging and tone at the top regarding behaviour. We have a formal Whistleblower Policy in place and process to obtain regular employee feedback on culture and behaviours which is used to inform management decisions.
Environmental	Climate change	There is an Increasing interest and expectation amongst investor groups on reporting against climate change risk. There has been the introduction of Task Force on Climate-related Financial Disclosures (TCFD) as a framework to address climate change through governance, risk management, metrics and targets.	We have aligned with the TCFD framework and developed our Climate Strategy for a Low Carbon Economy and Business as Usual Scenario. We have created a TCFD Working Group to inform climate resilience and reporting approach. We have undertaken physical climate change risk exposure assessments across assets and planning for climate change adaptation. Climate change adaptation due diligence is undertaken during the acquisition process.

Directors' report (continued)

Regulatory	AFSL compliance	We are required to comply with Australian Financial Services Licence requirements through our established policies and frameworks.	Regular compliance reporting is undertaken to the Audit, Risk and Compliance Committee (ARCC) including mandatory annual compliance training requirements for all employees. In addition, we have formalised compliance committees with annual external audit of compliance plans.
	Management of conflicts of interest	Inadequate management of tenant and acquisition conflicts may arise between Charter Hall managed funds or related party transactions may be inappropriately managed. There is also a risk that the REIT fails to pay market rate for related party services.	Conflict of Interest protocols are embedded in the business including annual declarations from all employees and directors, board reporting / approval for all related party transactions. We have in place a Compliance Plan / function including oversight of Conflict of Interest / Related Party protocols and formalised asset allocation protocols.

Directors' report (continued)

Events occurring after balance date

There are no events that have occurred which the Directors believe significantly affect the operations of the REIT, the results of those operations.

Likely developments and expected results of operations

The consolidated financial statements have been prepared on the basis of current known market conditions which are influenced by the COVID-19 pandemic. The extent to which a potential deterioration in either the capital or property markets that may have an impact on the results of the REIT are unknown. Such developments could influence property market valuations, the ability to raise or refinance debt and the cost of such debt, or the ability to raise equity.

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

Indemnification and insurance of Directors, officers and auditor

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

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

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

Base management fees of \$6,538,879 (2019: \$5,493,904) were paid or are payable to the Responsible Entity, its associates or third party service providers for the services provided during the year, in accordance with the REIT's constitution as disclosed in Note D1 to the consolidated financial statements.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2020 and fees paid to its associates during the year are disclosed in Note D1 to the consolidated financial statements.

Interests in the REIT

The movement in units of the REIT during the year is set out below:

	2020	2019
Units on issue at the beginning of the year	300,626,896	255,753,736
Units issued during the year		
- via Distribution Reinvestment Plan	2,766,238	3,293,446
- via Placement issue	45,454,546	35,820,896
- via Unit Purchase Plan	10,503,679	5,758,818
Units on issue at the end of the year	359,351,359	300,626,896

Environmental regulations

The REIT 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 REIT. However, the Directors believe that the REIT 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 REIT.

Directors' report (continued)

Information on current Directors

Director	Experience	Special responsibilities	Interest in units of the REIT
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>	<p>Chairman, Member of Audit, Risk and Compliance Committee</p>	38,858
Michael Francis Johnstone	<p>Appointed 22 December 2004</p> <p>Michael has 45 years of global experience in Chief Executive and General Management roles and more recently in company directorships. His two principal corporate executive engagements have been with Jennings Industries Ltd and the National Australia Banking Group. At Jennings he was successively General Manager of AVJennings Homes, General Manager Commercial Property, CEO of Jennings Properties Limited (Centro etc) and president Jennings USA. Within NAB he was Global General Manager Real Estate for commercial property lending and corporate property investment. He has extensive experience in mergers and acquisition, capital raising, property investment and funds management. In the not for profit sector he has chaired the Cairnmillar Institute and been a board member of the Salvation Army and Yarra Community Housing. He is currently a Non-Executive Director of APN Funds Management, APN Industrial REIT(ADI) and APN Convenience Retail (AQR), of Charter Hall Social Infrastructure REIT (CQE) and in the private sector a Non-Executive Director of Dennis Family Holdings and Chairman of Dennis Family Homes.</p>	<p>Chairman of Audit, Risk & Compliance Committee</p>	84,728

Directors' report (continued)

Director	Experience	Special responsibilities	Interest in units of the REIT
Katrina (Kate) Mary Melrose	Appointed 11 March 2020 Kate is an experienced Executive General Manager with 30 years of experience in the property sector. She has spent 14 years with Lendlease in various development, business strategy, marketing and sales roles before joining Greengate Property Group, a privately-owned retirement living and aged care business as General Manager, Sales and Marketing. Since 2014, Kate has been the Executive General Manager, Project Sales for Ingenia Communities, an ASX listed Australian property group owning, operating and developing lifestyle and holiday communities. Kate holds a Bachelor of Business (Land Economy) from Western Sydney University.	Member of Audit, Risk and Compliance Committee	16,636
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	
	Eligible to attend	Attended	Eligible to attend	Attended
Grant Bartley Hodgetts	13	12	5	5
Michael Francis Johnstone	13	13	5	5
Katrina Mary Melrose	6	6	1	1
Sean Patrick McMahon	13	13	-	-
Victor David Cottren	7	7	4	4
Nicholas James Anagnostou	4	4	-	-

Company Secretary

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

Mark holds a Bachelor of Business (Accounting), a Bachelor of Laws (Hons), a Graduate Certificate in Legal Practice, and is admitted as a lawyer of the Supreme Court of NSW. Mark has over 15 years' experience as a lawyer, 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.

Directors' report (continued)

Non-audit services

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

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

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

Rounding of amounts to the nearest hundred thousand dollars

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

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

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 11 August 2020. The Directors have the power to amend and re-issue the financial statements.



Grant Bartley Hodgetts
Chair
Melbourne
11 August 2020

Auditor's independence declaration



Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Social Infrastructure REIT for the year ended 30 June 2020, 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 Social Infrastructure REIT and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Andrew Cronin', is positioned above the printed name and title.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
11 August 2020

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Consolidated statement of comprehensive income

		2020 \$'m	2019 \$'m
	Notes		
Revenue			
Property rental income		72.6	66.3
Property outgoings recoveries		10.9	9.8
Distribution income		2.6	2.5
Interest income		0.1	0.1
Total revenue		86.2	78.7
Other income			
Net fair value gain on investment properties	B1	44.2	36.6
Share of equity accounted profit	B2	2.5	-
Total revenue and other income		132.9	115.3
Expenses			
Finance costs		(9.1)	(10.6)
Property outgoings***		(14.2)	(12.1)
Property valuation fees		(1.0)	(0.6)
Fund management fees***	D1	(6.5)	(5.5)
Rent on leasehold properties		-	(1.7)
Amortisation of right-of-use assets (leasehold properties)		(1.2)	-
Administration & Other expenses***		(2.4)	(1.8)
Fair value movement on derivative financial instruments		(1.0)	(6.6)
Realised loss on derivative financial instruments		(5.1)	(4.3)
Share of equity accounted loss	B2	-	(3.2)
Loss on sale of investment properties		(4.1)	(0.2)
Provision for rent relief**		(1.0)	-
Realised and unrealised foreign exchange losses		(1.4)	-
Total expenses		(47.0)	(46.6)
Profit for the year		85.9	68.7
Other comprehensive income*			
(Loss)/gain on revaluation of financial assets		(5.7)	6.9
Other comprehensive income		(5.7)	6.9
Total comprehensive income for the year		80.2	75.6
Basic and diluted earnings per ordinary unitholder of the REIT			
Earnings per unit (cents)	A2	27.7	25.7

* All items in other comprehensive income can be reclassified into profit or loss.

** Rent free incentives relating to COVID-19 expected to be agreed post 30 June 2020.

*** The amounts for the year ending 30 June 2019 have been re-classified between property outgoings, fund management fees and administration and other expenses.

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

Consolidated balance sheet

	Notes	2020 \$'m	2019 \$'m
Assets			
Current assets			
Cash and cash equivalents		75.6	8.9
Receivables	D2	3.7	1.1
Other assets	D2	5.5	1.3
Investment properties held for sale	B1	3.5	2.2
Total current assets		88.3	13.5
Non-current assets			
Investment properties	B1	1,191.7	1,098.7
Investment accounted for using equity method	B2	26.4	25.8
Investment in financial assets	B3	44.9	48.4
Right-of-use assets	D8	6.4	-
Total non-current assets		1,269.4	1,172.9
Total assets		1,357.7	1,186.4
Liabilities			
Current liabilities			
Trade and other payables	D2	5.2	7.1
Distribution payable		12.8	12.2
Derivative financial instruments	C3	0.2	1.6
Lease liabilities	D8	1.1	-
Total current liabilities		19.3	20.9
Non-current liabilities			
Borrowings	C2	282.6	270.3
Derivative financial instruments	C3	0.8	5.0
Lease liabilities	D8	5.0	-
Total non-current liabilities		288.4	275.3
Total liabilities		307.7	296.2
Net assets		1,050.0	890.2
Equity			
Contributed equity	C4	620.8	490.8
Reserves		15.2	20.9
Undistributed profit		414.0	378.5
Total equity		1,050.0	890.2

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

Consolidated statement of changes in equity

	Notes	Contributed equity \$'m	Reserves \$'m	Undistributed profits \$'m	Total \$'m
Total equity at 1 July 2018		344.1	14.0	352.6	710.7
Profit for the year		-	-	68.7	68.7
Other comprehensive income		-	6.9	-	6.9
Total comprehensive income for the year		-	6.9	68.7	75.6
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C4	146.7	-	-	146.7
- Distributions paid and payable	A2	-	-	(42.8)	(42.8)
Total equity at 30 June 2019		490.8	20.9	378.5	890.2
Total equity at 1 July 2019		490.8	20.9	378.5	890.2
Profit for the year		-	-	85.9	85.9
Other comprehensive loss		-	(5.7)	-	(5.7)
Total comprehensive (loss)/income for the year		-	(5.7)	85.9	80.2
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C4	130.0	-	-	130.0
- Distributions paid and payable	A2	-	-	(50.4)	(50.4)
Total equity at 30 June 2020		620.8	15.2	414.0	1,050.0

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

Consolidated cash flow statement

		2020 \$'m	2019 \$'m
Cash flows from operating activities			
Property income received* (inclusive of GST)		88.1	80.9
Cash payments in the course of operations* (inclusive of GST)		(29.7)	(27.0)
Distributions received from interest in financial assets and joint ventures		2.8	2.3
Interest received		0.1	0.1
Finance costs paid*		(13.7)	(14.7)
Net cash flows from operating activities	A3	47.6	41.6
Cash flows from investing activities			
Proceeds from sale of investment properties		50.0	8.9
Payments for investment properties		(109.8)	(84.3)
Payments for financial assets		(2.2)	(1.9)
Payments for investments in joint venture entities		-	(29.1)
Net cash flows from investing activities		(62.0)	(106.4)
Cash flows from financing activities			
Proceeds from borrowings		142.5	177.0
Repayment of borrowings		(130.0)	(203.5)
Reset of derivative financial instruments*		(11.7)	(8.4)
Proceeds from issue of units, net of equity raising costs		121.3	137.2
Distributions paid		(41.0)	(30.9)
Net cash flows from financing activities		81.1	71.4
Net increase/(decrease) in cash held		66.7	6.6
Cash and cash equivalents at the beginning of the year		8.9	2.3
Cash and cash equivalents at the end of the year		75.6	8.9

* The amounts for the year ending 30 June 2019 have been re-classified between operating and financing activities.

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

Non-cash financing and investing activities

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

	Notes	2020 \$'m	2019 \$'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	A2, C5	8.7	9.6

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 REIT. They are organised in four key sections:

- **REIT performance** – provides key metrics used to define financial performance.
- **Property portfolio assets** – explains the structure of the investment property portfolio and investments in joint ventures and financial assets.
- **Capital structure and financial risk management** – details of how the REIT manages its exposure to various financial risks.
- **Further information** – provides additional disclosures not included in previous sections but relevant in understanding the financial statements.

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Critical accounting estimates

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

The areas involving significant estimates or judgements are:

- Consolidation decisions and classification of joint arrangements – B2 Investment in joint venture entities;
- Fair value estimation – B1 Investment properties, C2 Borrowings and liquidity and C3 Derivative financial instruments; and
- Provision for Expected credit losses – C5 (iii) Credit risk.

A. REIT performance

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

Operating earnings

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 one-off items that are not in the ordinary course of business or are capital in nature. Operating earnings includes the rental revenue recognised in respect of tenants who have been (or will be) provided with rent free incentives as a result of COVID-19. This approach is consistent with the REIT'S treatment of rent free incentives provided in the ordinary course of its operations, which are amortised over the term of the lease.

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

Coronavirus (COVID-19) impact

In preparing its financial statements the REIT has considered the current and ongoing impact that the COVID-19 pandemic has had on its business operations and upon the business operations of its tenant customers. In assessing such impacts management have relied upon certain key estimates to evaluate current and future business conditions. Inherent in any estimate is a level of uncertainty. In particular, due to COVID-19, estimation uncertainty is associated with:

- the extent and duration of the disruption to the REIT's tenant customers arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, including:
 - the disruption to capital markets;
 - deteriorating credit and liquidity concerns, impacting the ability of the REIT's tenants to meet their rental obligations; and
 - increasing unemployment and the impact this may have on demand for childcare services; which the REIT will continue to monitor and adapt as new information is available;
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn; and
- judgements in property valuations such as letting up time, incentives provided and vacancy.

During the period March to June 2020, the COVID-19 pandemic impacted the REIT with our childcare tenant customers experiencing reduced demand for their services as parents elected to keep their children at home. The Federal Government has been proactive in providing support for the childcare industry to support operators throughout the period that their operations have been adversely impacted by the COVID-19 pandemic. On 2 April 2020, the Federal Government announced a new Early Childhood Education and Care Relief Package ("ECECRP") which assisted childcare operators up until 12 July 2020. Under the ECECRP, CQE's tenants received fortnightly payments equal to 50% of average centre revenue for the two weeks up to 2 March 2020. In addition to the ECECRP, the REIT's childcare tenants were eligible to receive the JobKeeper payment which assisted in helping them to cover their eligible childcare workers' wages. On 8 June 2020, the Federal Government announced the ECECRP would cease on 12 July 2020 with the traditional Child Care Subsidy ("CCS") funding package returning and JobKeeper payments ceasing. In addition to the CCS, the Federal Government will pay childcare services a Transition Payment of 25% of their fee revenue during the relief package reference period from 13 July until 27 September 2020.

From Thursday 6 August 2020, childcare services in Melbourne will only be available to permitted workers under stage four restrictions imposed in response to Melbourne's second wave of COVID-19 infections. The Federal Government has announced a temporary funding package to support centres located in Melbourne by providing a significant proportion of their pre COVID-19 revenue throughout this period. The REIT has 70 properties located in Victoria comprising 22.8% of the REIT's property assets by value.

The introduction of the National Code of Conduct (Code of Conduct) which was subsequently legislated by the various Australian states created a framework to administer tenant support to those tenants who met the definition of an SME tenant and whose operations were negatively impact by COVID-19. Approximately 20% of the REIT'S childcare tenants are qualifying SME tenants. The final quantum of tenant support expected to be provided to SME tenants is still being negotiated however a provision for rental relief of \$1.0 million for SME tenants has been provided for as at 30 June 2020 representing the component of rent relief expected to be provided as a rent free incentive. In addition to the rent free incentive, the REIT expects to provide \$0.6 million of rental deferrals to SME tenants which will be paid back over a 2 year period.

A. REIT performance (continued)

The provision of rental relief for non-SME tenants (which represent approximately 80% of the REIT's childcare tenants) has been approached on a case by case basis depending on their scale, number of centres in the REIT's portfolio and existing lease terms. Rental relief provided to these tenants as a result of COVID-19 as at 30 June 2020 has amounted to \$3.8 million which has assisted them to trade through the pandemic period. As a result, leases to these operators have been extended for an average 6.2 years across 40 leases. The \$3.8 million of rental relief to non-SME tenants comprises \$2.4 million of rent free incentives to be provided over the period June to October 2020 and \$1.4 million of rent deferral over the same period and repayable in calendar year 2021.

In response to the increased uncertainty the REIT has assessed the carrying values of its assets and liabilities in light of COVID-19. Specific areas of assessment include impairment testing, refining methodologies and calculation of expected credit losses, fair value measurement of investment properties and associated disclosures within the financial statements. The REIT has developed various accounting estimates in this report based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the REIT. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in this report.

The uncertainty of the impact of COVID-19 has been considered in both our independent and director's valuations. There have been 347 properties valued in the second half of 2020 which has resulted in a 6% increase on June 2019 carrying values. There has been no material impact to valuations as a result of the COVID-19 pandemic.

A1. Segment information

(a) Description of segments

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The REIT has one 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 operating segment for the years ended 30 June 2020 and 30 June 2019 are as follows:

	2020 \$'m	2019 \$'m
Net property income*	64.3	59.6
Distribution income	2.6	2.5
Other Income	0.1	-
Share of operating earnings from equity accounted investments	1.9	-
Fund management fees*	(6.5)	(5.5)
Finance costs	(8.9)	(10.6)
Administration and other expenses*	(2.4)	(1.8)
Operating earnings	51.1	44.2

* The amounts for the year ending 30 June 2019 have been re-classified between property outgoings, fund management fees and administration and other expenses.

Property rental income

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

Minimum lease payments to be received includes future amounts to be received on non-cancellable operating leases, not recognised in the financial statements at balance date. The remainder will be accounted for as property rental income as it is earned. Amounts receivable under non-cancellable operating leases where the REIT's right to consideration for a service directly corresponds with the value of the service provided to the customer have not been included (for example, variable amounts payable by tenants for their share of the operating costs of the asset).

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

	0 to 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
2020	76.6	406.7	930.2	1,413.5
2019	76.4	414.1	500.8	991.3

A. REIT performance (continued)

Lease modification

Rent free incentives provided in respect of COVID-19 and documented by 30 June 2020 have been treated as lease modifications consistent with the accounting treatment for rent free incentives provided in the ordinary course of business. The impact of modification accounting is that the reduced rental income will be recognised on a straight-line basis over the remaining lease term.

Property expenses

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

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

	2020	2019
	\$'m	\$'m
Operating earnings	51.1	44.2
Net revaluation increment on investment properties	44.2	36.6
Net loss on derivative financial instruments*	(6.1)	(10.9)
Loss on sale of investment properties	(4.1)	(0.2)
Straightlining of rental income and amortisation of lease fees and incentives	2.8	2.3
Share of equity accounted non-operating profit/(loss)	0.6	(3.2)
Provision for rent relief **	(1.0)	-
Unrealised/realised foreign exchange losses	(1.4)	-
Other	(0.2)	(0.1)
Statutory profit for the year	85.9	68.7
Basic weighted average number of units (millions)	309.7	267.6
Basic earnings per unit (cents)	27.7	25.7
Operating earnings per unit (cents)	16.5	16.5
Distribution per unit (cents)	16.0	16.0

* Included in net loss on derivative financial instruments is realised loss of \$11.7 million associated with resetting the REIT's interest rate swaps (2019: \$4.3 million)

** Rent free incentives relating to COVID-19 expected to be agreed post 30 June 2020.

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	2020			2019		
	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	4.00	10.2
31 December	301,858,943	4.175	12.6	257,501,478	4.00	10.3
31 March	302,723,384	4.175	12.6	258,562,728	4.00	10.3
30 June	359,351,359	3.475	12.6	300,626,896	4.00	12.0
Total distributions		16.00	50.4		16.00	42.8

Pursuant to the REIT's constitution, the amount distributed to unitholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings (refer to Note A1) as a guide to assessing an appropriate distribution to declare.

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

Under current Australian income tax legislation, the REIT is not liable to pay income tax provided the trustee has attributed all the taxable income of the REIT to unitholders.

A. REIT performance (continued)

(b) Earnings per unit

	2020	2019
Basic earnings per ordinary unitholder of the REIT		
Earnings per unit (cents)	27.7	25.7
Operating earnings per unit (cents)	16.5	16.5
Earnings used in the calculation of basic earnings per unit		
Net profit for the year (\$'m)	85.9	68.7
Operating earnings for the year (\$'m)	51.1	44.2
Weighted average number of units used in the calculation of basic earnings per unit (millions)*	309.7	267.6

* Weighted average number of units is calculated from the date of issue.

Basic earnings per unit is determined by dividing the profit by the weighted average number of ordinary units on issue during the year.

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

Diluted earnings per unit is determined by dividing the profit by the weighted average number of ordinary units and dilutive potential ordinary units on issue during the year. The REIT has no dilutive or convertible units on issue.

A3. Reconciliation of net profit to operating cash flow

(a) Reconciliation of net profit to net cash flows from operating activities

Notes	2020 \$'m	2019 \$'m
Net profit	85.9	68.7
<i>Non-cash items</i>		
Straightlining and amortisation of leasing fees and lease incentives	(2.8)	(2.3)
Share of unrealised net (profit)/loss on investment in joint venture entities	(0.5)	3.2
Net fair value movements on investment properties	(44.2)	(36.6)
Loss on sale of investment properties	4.1	0.2
Non-cash movements on derivative financial instruments*	6.1	10.9
Net GST receivable on acquisition and disposal of investment properties	3.3	3.7
Interest capitalisation on development properties	(3.1)	(2.7)
Unrealised foreign exchange loss	0.7	-
Provision for rent relief	1.0	-
<i>Change in assets and liabilities</i>		
(Increase)/decrease in assets		
Receivables and other assets	(3.5)	(0.5)
Unamortised borrowing costs	(0.2)	(1.4)
Increase/(decrease) in liabilities		
Payables and other liabilities	0.8	(1.6)
Net cash flows from operating activities	47.6	41.6

* The realised loss on derivative financial instruments has been reclassified between operating and financing activities. Refer Consolidated Cash Flow statement.

B. Property portfolio assets

The REIT's property portfolio assets comprise directly held investment properties and indirectly held interests in investments held through joint ventures and financial assets. Investment properties comprise investment interests in land and buildings held for long term rental yields, including properties that are under development for future use as investment properties. Investments in joint ventures comprise indirect interests in investment properties held by a separate legal entity to the REIT.

The following table summarises the property portfolio assets detailed in this section, including those directly owned and the REIT's ownership share of the properties indirectly held:

	Notes	2020 \$'m	2019 \$'m
Non-current assets			
Investment properties	B1	1,191.7	1,098.7
Investments in joint ventures	B2	26.4	25.8
Investment in financial assets at fair value	B3	44.9	48.4
Total non-current assets		1,263.0	1,172.9
Current assets			
Assets held for sale	B1	3.5	2.2
Property portfolio assets, including interests in joint venture & financial assets		1,266.5	1,175.1

B1. Investment properties

Investment properties

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

Assets held for sale

Assets which are classified as held for sale are classified as current assets as it is expected they will be divested within the coming reporting period. Each asset is for sale in its current condition and is subject to an active marketing campaign or has an executed sales contract.

Development properties

The total cost of a development property is generally capitalised to its carrying value until development is complete. At the commencement of a development project, an estimated valuation on completion is obtained and the capitalised costs during the project are monitored against this initial valuation.

Post completion, the property is externally valued with a full formal report and thereafter the stabilised asset valuation process applies.

At each reporting date, the carrying values of development properties are reviewed to determine whether they are in excess of their fair value. Where appropriate, a write-down is made to reflect fair value.

(a) Valuation process

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

The use of independent external valuers is on a progressive basis over a two year period, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property. For properties not under development or classified as held for sale, all properties are externally valued by valuation experts at least once every two years. If a property is not externally valued at balance date, the REIT perform an internal valuation.

B. Property portfolio assets (continued)

(b) Valuation techniques and key judgements

In determining fair value of investment properties, management has considered the nature, characteristics and risks of its investment properties. Such risks include but are not limited to the property cycle and the current and future macro-economic environment. In particular, the impact of COVID-19 on underlying tenant businesses.

The uncertainty of the impact of COVID-19 has been considered in both our independent and director's valuations. There have been 347 properties valued in the second half of 2020 which has resulted in a 6% increase on June 2019 carrying values. There has been no material impact to valuations as a result of the COVID-19 pandemic.

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

Consolidated Group	Fair value \$'m	Passing Rent (\$ per licence place/p.a)	Passing Yield (% p.a)
2020	1,195.2		
Australia - Freehold		1,105 – 6,617	6.0
Australia - Leasehold		687 – 5,042	16.7
New Zealand – Freehold*		1,111 – 3,042	6.0
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

* New Zealand properties passing rent is in NZD

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).
Passing yield	The return represented by the income produced by an investment, expressed as a percentage.

In addition to the above, all valuations have considered the impact of COVID-19 including any rent relief to be provided to tenants under the Commercial Leases Code of Conduct.

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

Sensitivity analysis

Excluding the development sites, if the capitalisation rate expanded by 25 basis points, fair value would reduce by \$42.1 million from the fair value as at 30 June 2020 and if the capitalisation rate compressed by 25 basis points, fair value would increase by \$42.1 million from the fair value as of 30 June 2020.

B. Property portfolio assets (continued)

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

	2020 \$'m	2019 \$'m
Valuations and carrying amounts		
Freehold properties - at valuation	1,070.8	979.7
Development properties - at valuation and cost	90.8	89.2
Leasehold properties - at valuation	33.3	31.4
Capitalised transaction costs in relation to properties contracted and not settled	0.3	0.6
Total investment properties	1,195.2	1,100.9
Less: Investment properties held for sale	(3.5)	(2.2)
Carrying amount at the end of the year	1,191.7	1,098.7
Movements during the financial year		
Balance at the beginning of the year	1,098.7	980.6
Acquisition of properties (including construction costs) for development*	39.0	51.9
Acquisition of existing childcare properties	67.0	33.5
Disposal of properties**	(56.5)	(4.0)
Investment properties held for sale	(3.5)	(2.2)
Net revaluation increment	44.2	36.6
Straightlining of rental income, amortisation of incentives and leasing fees	2.8	2.3
Carrying amount at the end of the year	1,191.7	1,098.7

* For the year ended 30 June 2020, in accordance with AASB123, acquisition of properties (including construction costs) includes \$3.1 million of capitalised interest. Capitalised interest was calculated using 3.3% (2019: 3.9%), being the weighted average interest rate applicable to the REIT'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, 227 external property valuations were conducted, consisting of 200 for the freehold properties and 27 for the leasehold childcare centres across Australia. In addition, 121 director valuations were adopted, consisting of 101 in Australia and 20 in New Zealand.

As a result of these valuations the property values increased by \$52.3 million. The external valuations resulted in a 7.6 per cent increase on the carrying value as at 30 June 2019, which included Director valuations. The Director valuations resulted in a 2.7 per cent overall increase on the carrying value as at 30 June 2019, which included Director valuations. The Directors valuations included impairments of \$1.8 million (or 21.6 per cent) for 4 operating properties and \$6.0 million for 10 development properties.

In relation to the 5 completed development sites that became operational during the year there was an increment of \$2.2 million resulting from the difference in the cost to complete the development and the external valuation obtained. Acquisition costs of \$2.5 million in relation to the acquisition of operational properties were written off during the year.

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

Operator	% of Investment Property Portfolio by Income
Goodstart Early Learning Limited	47%
Only About Children	10%
G8 Education Limited	9%

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 REIT:

Goodstart Early Learning Limited (Goodstart) - representing 47% of the REIT'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 operates 644 childcare centres across Australia.

Only About Children - representing 10% of the REIT's investment portfolio by income, is a premium private operator of 77 centres throughout NSW, VIC and QLD.

G8 Education Limited (G8) - representing 9% of the REIT's investment property portfolio by income and is a publicly listed company on the ASX (ASX code: GEM). As at 30 June 2019, G8 operated 475 centres across Australia and a further 17 in Singapore. G8 operate under 21 different brands including Pelicans, Jellybeans, Greenwood and The Learning Sanctuary.

B. Property portfolio assets (continued)

B2. Investment in joint venture entities

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

The REIT regularly reviews equity accounted investments for impairment by reference to changes in circumstances or contractual arrangements, external independent property valuations and market conditions, using generally accepted market practices. The Trust's sole investment property was independently valued as at 30 June 2020. When a recoverable amount is estimated through a value in use calculation, critical judgements and estimates are made regarding future cash flows and an appropriate discount rate.

Information relating to the joint venture entities is detailed below:

Joint venture entity	Country of establishment	Principal activity	Ownership interest	
			2020 %	2019 %
CH BBD Holding Trust	Australia	Property investment	50.0%	50.0%

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

	2020 \$'m	2019 \$'m
Balance at the beginning of the year	25.8	-
Additions (including acquisition costs)	-	29.0
Share of equity accounted profit/(loss)	2.5	(3.1)
Distributions received and receivable	(1.9)	(0.1)
Balance at the end of the year	26.4	25.8

(b) Share of results attributable to joint venture entities

The tables following provide summarised information about the financial performance of the joint venture entities as a whole as at 30 June 2020.

	2020 \$'m	2019 \$'m
Summarised balance sheet:		
Cash and cash equivalents	1.9	0.5
Other current assets	0.5	0.3
Non-current assets	104.5	102.5
Current liabilities	(1.9)	(0.4)
Derivative financial instruments - non-current liabilities	(1.2)	(0.2)
Borrowings - non-current liabilities	(51.1)	(51.0)
Net assets	52.7	51.7
REIT's share in %	50	50
REIT's share of net assets	26.4	25.8
Summarised statement of comprehensive income:		
Revenue	6.8	0.6
Interest expense	(0.8)	0.1
Profit/(loss) for the year	4.9	(6.2)
Other comprehensive income	-	-
Total comprehensive income/(loss)	4.9	(6.2)
REIT's share of Total Comprehensive income/(loss)	2.5	(3.1)
REIT's share of distribution	1.9	0.1

B. Property portfolio assets (continued)

B3. Investments in financial assets

	2020 \$'m	2019 \$'m
Units in listed securities (Arena REIT – ASX:ARF) – at market value	26.0	29.9
Units in unlisted securities (CHCIB Fund) – at Directors' valuation	18.9	18.5
Balance at the end of the year	44.9	48.4
Movements:		
Balance at the beginning of the year	48.4	39.6
Additions	2.2	1.9
Net fair value movement on investments	(5.7)	6.9
Balance at the end of the year	44.9	48.4

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. The unlisted securities relate to the Charter Hall CIB Fund and the investment properties for this Fund were independently valued as at 30 June 2020.

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 REIT's right to receive payments is established.

B4. Expenditure commitments

The REIT and joint venture entities may enter into contracts for the acquisition, construction and development of properties in Australia. The commitments of the REIT in relation to such contracts are \$23.5 million (2019: \$79.3 million).

As at 30 June 2020, the REIT has no contingent liabilities (30 June 2019: nil).

The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (2019: nil).

C. Capital structure and financial risk management

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

C1. Capital risk management

The Responsible Entity's objective when managing capital is to ensure the REIT 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 REIT.

The REIT sources its capital through:

- debt sourced from a diverse mix of local banks and institutions; and
- the listed Australian equity market.

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

Its capital management approach is regularly reviewed by management and the Board to ensure compliance with gearing, interest cover ratios and other covenants within approved limits and continuing to operate as a going concern.

The REIT has a target long term gearing range of 30% to 40% of debt to total assets.

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 the 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.

	2020		2019	
	Total carrying amount \$'m	Fair value \$'m	Total carrying amount \$'m	Fair value \$'m
Bilateral term facilities	286.0	286.0	273.5	273.5
Unamortised borrowing cost	(3.4)	(3.4)	(3.2)	(3.2)
Total	282.6	282.6	270.3	270.3
Balance available for drawing	214.0		123.5	

The REIT has debt facilities totalling \$500 million, comprising bank facilities of \$400 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 2020, the REIT complied with all of its debt covenant ratios and obligations.

C. Capital structure and financial risk management (continued)

Assets Pledged as Security

A Security Trustee has been appointed to administer the security arrangements of the REIT and to facilitate any future debt issuing on behalf of the REIT. 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 REIT as further security.

Consolidated Group	2020 \$'m	2019 \$'m
Assets pledged as security:		
Collateral that has been pledged for secured liabilities is as follows:		
i) Financial assets pledged		
Cash and cash equivalents	75.6	8.9
Trade and other receivables	3.7	1.1
Available-for-sale financial assets	44.9	48.4
ii) Other assets pledged		
Other current assets	5.5	1.3
Investment properties	1,195.2	1,100.9
Total assets pledged	1,324.9	1,160.6

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

- to conduct the business of the REIT (including collecting debts owed) in a proper, orderly and efficient manner;
- not, without lenders' consent, to cease conducting the business of the REIT; 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 REIT Assets as security for Financial Accommodation other than Permitted Financial Accommodation.

Bilateral term facilities

	Maturity Date	Facility limit \$'m	Utilised amount \$'m
June 2020			
Bank Facilities	March 2023	200.0	186.0
	March 2025	200.0	-
Institutional term loan	August 2025	100.0	100.0
		500.0	286.0
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
		397.0	273.5

Borrowing in Joint Ventures

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

(b) Finance costs

	2020 \$'m	2019 \$'m
Finance costs paid or payable	12.2	13.3
Less: Capitalised finance costs	(3.1)	(2.7)
	9.1	10.6

Borrowing costs associated with development properties are capitalised based on the weighted average interest rate as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use. The weighted average interest rate takes into consideration the REIT's interest rate hedging profile, term debt and liquidity costs.

C. Capital structure and financial risk management (continued)

C3. Derivative financial instruments

(a) Derivative financial instruments

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

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The REIT designates certain derivatives as either fair value hedges or cash flow hedges. Hedge ineffectiveness may occur due to credit/debit value adjustments and differences in critical terms between the hedging instrument and the hedged item.

Fair value hedges

The gain or loss relating to interest payments on interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs. Changes in the fair value of derivative hedging instruments and the hedged fixed rate borrowings attributable to interest rate risk are recognised within 'Net gains/(losses) from derivative financial instruments'. The gain or loss relating to the ineffective portion is also recognised in profit or loss within 'Net gains/(losses) from derivative financial instruments'.

Cash flow hedges

The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within 'Net gains/(losses) from derivative financial instruments'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast transaction that is hedged takes place). The gain or loss relating to the effective portion of cross currency interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within 'Finance costs'.

Amounts reflected in the financial statements are as follows:

Consolidated balance sheet

Balance Sheet	2020		2019	
	Asset \$'m	Liability \$'m	Asset \$'m	Liability \$'m
Current				
Interest rate swaps	-	0.2	-	1.6
Total current derivative financial instruments	-	0.2	-	1.6
Non-current				
Interest rate swaps	-	0.8	-	5.0
Total non-current derivative financial instruments	-	0.8	-	5.0
Total derivative financial assets/liabilities	-	1.0	-	6.6

During the year, the REIT reduced its interest rate swap portfolio from \$255.0 million to \$160.0 million and reduced the hedged rate from 1.75% to 0.55% per annum. The cost of re-structuring its swaps was \$11.7 million which has been paid, with \$5.1 million of this cost being recognised this financial year and \$6.6 million recognised in the prior year in fair value movement on derivative instruments.

C. Capital structure and financial risk management (continued)

(b) Interest rate swaps

At 30 June 2020, the weighted average fixed rate is 0.55% per annum (2019: 1.75% per annum).

As at balance date the notional principal amounts and periods of expiry of the interest rate swap contracts which are linked to floating rates are as follows:

	1 year or less \$'m	2 - 3 years \$'m	3 - 4 years \$'m	4 - 5 years \$'m	More than 5 years \$'m	Net position - REIT pays fixed rate and receives floating rate \$'m
2020	-	-	60.0	100.0	-	160.0
2019	-	95.0	-	-	160.0	255.0

(c) 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. The fair value of cross currency interest rate swaps is determined using forward foreign exchange market rates and the present value of the estimated future cash flows at the balance date.

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

C4. Contributed equity and reserves

(a) Contributed equity

Details	No. of Units '000	\$'m
Units on issue - 1 July 2018	255,754	344.1
Units issued via equity raising	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
Units issued via equity raising	55,958	123.1
Units issued via DRP	2,766	8.7
Transaction costs	-	(1.8)
Units on issue - 30 June 2020	359,351	620.8

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

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 ASX Listing Rules. Units on issue are classified as equity and are recognised at the fair value of the consideration received by the REIT. Transaction costs arising on the issue of equity are recognised directly in equity as a reduction in the proceeds of units to which the costs relate.

Distribution Reinvestment Plan (DRP)

The REIT has established a 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 average of the volume weighted average market price of units traded on the ASX during the 10 business days commencing on the second business day following the distribution record date. During the year 2,766,238 units were issued at an average issue price of \$3.16 per unit.

Placement issue

In May 2020, the REIT completed an institutional placement, raising \$100 million through the issue of 45,454,546 new units at an issue price of \$2.20 per unit.

Unit Purchase Plan (UPP)

In June 2020, the REIT completed a Unit Purchase Plan (UPP), in connection with the institutional placement in May 2020. A total of \$23.1 million was raised under the UPP, with 10,503,679 new units issued at an issue price of \$2.20 per unit.

C. Capital structure and financial risk management (continued)

C5. Financial risk management

The REIT's principal financial instruments comprise cash and cash equivalents, receivables, payables, interest bearing liabilities and derivative financial instruments.

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

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

Risk	Definition	Exposure	Exposure management
Market risk – Interest rate risk	The risk that changes in interest rates will change the fair value or cash flows of the REIT's monetary assets and liabilities.	Cash and borrowings at fixed and floating rates.	<ul style="list-style-type: none"> Interest rate swaps are used to hedge any movement in interest rates.
Liquidity risk	The risk that the REIT has insufficient liquid assets to meet its obligations as they become due and payable.	Payables, borrowings and other liabilities.	<ul style="list-style-type: none"> Maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.
Credit risk	The risk a contracting counterparty will not complete its obligations under a contract and will cause the REIT to make a financial loss.	All financial assets including tenant receivables, financial instruments and derivatives.	<ul style="list-style-type: none"> Performing credit reviews on prospective tenants, obtaining tenant collateral and detailed review of tenant arrears. Reviewing the aggregate exposure of receivables and tenancies across the portfolio. Limiting the credit exposure to any one financial institution and limiting to investment grade counterparties. Monitoring the public credit rating of counterparties.

C. Capital structure and financial risk management (continued)

(i) Market risk – Interest rate risk

The REIT's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the REIT to cash flow interest rate risk. During 2020 and 2019, the REIT's borrowings at variable rate were denominated in Australian Dollars.

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

Consolidated Group	2020	2019
	\$'m	\$'m
Financial assets		
Cash and cash equivalents	75.6	8.9
Financial liabilities		
Borrowings (Gross)	(286.0)	(273.5)
Net exposure	(210.4)	(264.6)

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

Consolidated Group	2020	2019
	\$'m	\$'m
Financial assets		
Cash and cash equivalents	0.1%	0.25%
Financial liabilities		
Borrowings	2.56%	3.69%

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 REIT.

Sensitivity analysis

The table below reflects the potential net increase/(decrease) in the REIT's profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2020, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2019 (excluding joint venture investments and other financial assets).

	2020			2019		
	Interest expense	Net gain/(loss) from derivative financial instruments	Profit and loss	Interest expense	Net gain/(loss) from derivative financial instruments	Profit and loss
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
<i>Australian interest rates</i>						
+ 1.00%	(1.3)	7.3	6.0	(0.1)	10.8	10.7
- 1.00%	1.3	(7.3)	(6.0)	0.1	(10.8)	(10.7)

The effect of changes in interest rates on the REIT's profit and equity shown in the table above is mainly impacted by a change in interest payable on the REIT's floating rate interest bearing liabilities, offset by changes in the fair value of derivative financial instruments hedging this exposure.

C. Capital structure and financial risk management (continued)

(ii) Liquidity risk

The following table provides the contractual maturity of the REIT's fixed and floating rate financial liabilities and derivatives as at 30 June 2020. The amounts presented represent the future contractual undiscounted principal and interest cash inflows/(outflows) based on interest rates and foreign exchange rates prevailing at balance date and therefore do not equate to the value shown in the consolidated balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Carrying value \$'m	Less than 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
2020					
Financial liabilities					
Payables	(5.2)	-	-	-	(5.2)
Borrowings	-	-	(186.0)	(100.0)	(286.0)
Interest payments on hedged borrowings	(0.4)	(0.4)	(3.1)	-	(3.9)
Derivative financial instruments	(0.1)	(0.1)	(0.8)	-	(1.0)
Total financial liabilities	(5.7)	(0.5)	(189.9)	(100.0)	(296.1)
2019					
Financial liabilities					
Payables	(7.1)	-	-	-	(7.1)
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)
Total financial liabilities	(10.1)	(3.0)	(192.9)	(100.0)	(306.0)

The amount of credit facilities unused by the REIT at 30 June 2020 is \$214.0 million (2019: \$123.5 million).

(iii) Credit risk

Credit risk arises from the financial assets of the REIT, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The REIT'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.

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

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

The REIT'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 expected credit losses.

In addition, receivable balances are monitored on an ongoing basis (refer to Note D2).

The table below shows the ageing analysis of receivables of the REIT.

	Less than 30 days \$'m	31 to 60 days \$'m	61 to 90 days \$'m	More than 90 days \$'m	Total \$'m
2020					
Rent receivables	1.5	0.5	0.6	0.1	2.7
Provision for expected credit losses	-	-	-	-	(1.0)
2019					
Rent receivables	0.5	-	-	-	0.5
Provision for expected credit losses	-	-	-	-	-

The REIT 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.

C. Capital structure and financial risk management (continued)

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

In relation to COVID 19 the forward-looking judgements and assumptions include:

- the extent and duration of the pandemic and its impact on the ability of tenants to pay deferred rent;
- the impacts of actions by governments and other authorities, including trading restrictions on the REIT's tenants;
- tenant credit quality, assessed based on shared credit risk characteristics; and
- the effect of rental deferral options as at the reporting date.

Agreement to rental deferral options between the REIT and a tenant does not automatically indicate a deterioration of credit risk but is considered within the framework of the above indicators.

The deferral of lease payments offered to tenants have affected the REIT's normal levels of cash inflows from operations.

The forward-looking judgments and assumptions reflect the best estimate of management as at balance date, using information available to them at that date. Accordingly, the REIT's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

D. Further information

This section provides additional disclosures which are not covered in the previous sections.

D1. Related party information

(a) Responsible Entity

The Responsible Entity of the REIT is Charter Hall Social Infrastructure Limited, a wholly owned controlled entity of Charter Hall Limited. 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, unless otherwise stated:

- Grant Bartley Hodgetts	- Chairman and Non-Executive Director
- Michael Francis Johnstone	- Non-Executive Director
- Katrina (Kate) Mary Melrose	- Non-Executive Director (appointed 11 March 2020)
- Sean Thomas Patrick McMahon	- Executive Director and Chief Investment Officer (Charter Hall Group)
- Victor David Cottren	- Non-Executive Director (resigned 11 March 2020)
- Nicholas James Anagnostou	- Executive Director/Head of Social Infrastructure Funds (Charter Hall Group) (resigned 26 November 2019)

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

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

The Responsible Entity and its related parties held 31,554,980 units as at 30 June 2020 (2019: 31,554,980).

Following is a summary of related party transactions for the year ended 30 June 2020:

	2020 \$'m	2019 \$'m
Base management	6.5	5.5
Leasing fees	1.3	0.1
Selling fees	0.4	-
Acquisition/due diligence fees	0.1	0.1
Debt arrangement fees	0.5	0.3
Development fees	1.2	0.9
Accounting fees	0.6	0.3
Cost recoveries	0.5	0.2
Total related party fees paid	11.1	7.4

The above fees and transactions were based on market rates and normal commercial terms and conditions and were approved by the Independent Directors.

D. Further information (continued)

Investments

The REIT held investments in the following scheme managed by the Responsible Entity:

Unlisted Investment

Charter Hall CIB Fund	2020	2019
Number of units held	4,245,126	4,245,126
Interest percentage held	15.0%	15.0%
Distributions received / receivable by the REIT	\$1,018,830	\$976,379
Distributions receivable as at 30 June	\$286,546	\$275,933
Net fair value of investment	\$18,890,811	\$18,466,298

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

	2020 \$m	2019 \$m
Charter Hall Social Infrastructure Limited	1.8	1.8
	1.8	1.8

(e) Key management personnel

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

(f) Directors' interests in REIT 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 2020 is as follows:

	Units held 2020	Units held 2019
Grant Hodgetts	38,858	28,178
Michael Johnstone	84,728	71,092
Kate Melrose	16,636	-
Sean McMahon	-	-

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

	Units 2020	Units 2019
Grant Hodgetts	10,680	1,463
Michael Johnstone	13,636	-
Kate Melrose	16,636	-
Sean McMahon	-	-

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

No options in the REIT are held by Directors of the Responsible Entity.

D2. Working capital

The entity has existing cash reserves of \$75.6 million, readily accessible credit facilities with \$214.0 million of undrawn capacity at 30 June 2020 and future operating cash flows to meet current liabilities. The REIT does not foresee any issues in meeting the current liabilities over the course of the next 12 months, and therefore, these financial statements have been prepared on a going concern basis.

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

D. Further information (continued)

(a) Receivables and other assets

	2020 \$'m	2019 \$'m
Trade receivables	2.7	0.5
Provision for expected credit losses	(1.0)	-
Net rent receivable	1.7	0.5
Distributions receivable	2.0	0.6
Receivables	3.7	1.1
Accrued income	0.2	0.3
Accrued property settlement proceeds	4.1	-
Prepayments	1.2	1.0
Other assets	5.5	1.3

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

The REIT's receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for expected credit losses. The REIT applies the *AASB 9* simplified approach to measuring expected credit losses which involves a lifetime expected loss allowance for all trade and other financial assets. The REIT uses judgement in making these assumptions, refer to note C5 (iii).

(b) Payables and other liabilities

	2020 \$'m	2019 \$'m
Current		
Trade creditors	-	0.2
Accrued capital expenditure	0.2	2.7
Accrued expenses	1.4	1.3
Accrued RE management fees	1.8	1.3
Provision for income tax (FET NZ Sub-Trust)	0.9	0.5
Interest payable on interest bearing liabilities	0.6	0.5
Other	0.3	0.6
	5.2	7.1

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

D3. Parent entity information

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

(i) Investments in controlled entities

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

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

(ii) 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.

D. Further information (continued)

(iii) Recoverable amount of assets

The carrying amounts of investments in controlled entities 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. The write-down is expensed in the year in which it occurs.

(a) Summary financial information

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

	Parent 2020 \$'m	Parent 2019 \$'m
Balance sheet		
Current assets	77.3	11.6
Non-current assets	1,111.7	1,000.0
Total assets	1,189.0	1,011.6
Current liabilities	22.0	18.1
Non-current liabilities	283.6	276.9
Total liabilities	305.6	295.0
Equity		
Contributed equity	550.8	426.9
Retained Profits	332.7	289.7
Total equity	883.4	716.6
Statement of comprehensive income		
Profit	82.6	48.8
Total comprehensive income	82.6	48.8

(b) Guarantees and contingent liabilities

The parent entity did not have any other contingent liabilities which are material, either individually or as a class, at 30 June 2020 (2019: nil).

(c) Commitments

The parent entity may enter into contracts for the acquisition, construction and development of properties in Australia. The commitments of the parent entity in relation to such contracts are \$23.5 million (2019: \$79.3 million). These commitments have not been reflected in the financial information of the parent entity.

There have been no other material changes to the parent entity's commitments since the last financial statement.

D4. Significant contract terms and conditions

Pre-emptive rights

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

D5. Remuneration of the auditor

	2020 \$	2019 \$
Amounts paid or payable to PricewaterhouseCoopers Australian firm for: Audit services	90,700	86,700
Amounts paid or payable to PricewaterhouseCoopers Australian firm for: Taxation compliance services	34,800	30,700
Total amount paid or payable to PricewaterhouseCoopers Australian firm	125,500	117,400

D. Further information (continued)

D6. Interest in other entities

Subsidiaries

The REIT's subsidiaries at 30 June 2020 are set out below. Unless otherwise stated, it has contributed equity consisting solely of ordinary units that are held directly by the REIT, and the proportion of ownership interests held equals the voting rights held by the REIT.

Ownership interest held by the REIT

Name of entity	Country of incorporation	Place of business	2020	2019	Principal activities
FET Sub-Trust No.1	Australia	Australia	100%	100%	Property investment
FET Sub-Trust No.2	Australia	Australia	100%	100%	Property investment
FET NZ Sub-Trust	Australia	Australia	100%	100%	Property investment
CQE BBDT	Australia	Australia	100%	100%	Property investment

D7. Events occurring after balance date

There are no events that have occurred which the Directors believe significantly affect the operations of the REIT, the results of those operations.

D8. Other significant accounting policies

(a) Basis of preparation

The annual financial report of the Charter Hall Social Infrastructure REIT comprises the Charter Hall Social Infrastructure REIT and its controlled entities.

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

Compliance with IFRS

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

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except derivative financial instruments, investments in financial assets held at fair value 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 2020 that affect the REIT's operations or reporting requirements.

(b) Principles of consolidation

Controlled entities

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

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

(d) Comparative information

Where necessary, comparative information has been adjusted to conform to changes in presentation in the current year. No material adjustments have been made to comparative information in this report.

(e) Rounding of amounts

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

D. Further information (continued)

(f) Changes in accounting standards

The REIT 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 REIT holds 33 leasehold properties which are included in the carrying value of investment properties. On adoption of *AASB 16*, the REIT recognised lease liabilities in relation to the leases on leasehold properties owned by the REIT which had previously been classified as 'operating leases' under the principles of *AASB 117 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:

	Year to 30 Jun 2020	Year to 30 Jun 2019
	\$m	\$m
Investment properties – leasehold	6.4	7.5
Total right-of-use assets	6.4	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 \$241,000 as a result of the change in accounting policy.

There was no material impact on earnings per share for the year ending to 30 June 2020 as a result of the adoption of *AASB 16*.

D. Further information (continued)

Practical expedients applied

In applying *AASB 16* for the first time, the REIT 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 REIT 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 REIT relied on its assessment made applying *AASB 117* and Interpretation 4 Determining whether an Arrangement contains a Lease.

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

The REIT owns 33 leasehold properties which are subject to a head lease with a freehold owner of the property. The REIT 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 REIT 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.

The actual lease payments made in the financial year was \$1.7 million and interest expensed due to the change associated with the new standard was \$260,000.

Right-of-use assets relating to leasehold properties owned by the REIT 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 REIT.

The REIT adopted *AASB 16 Leases* from 1 July 2019. The REIT has elected to utilise the retrospective transitional concessions. There is no material impact on the REIT's financial statements upon adopting the new standard.

Directors' declaration to unitholders

In the opinion of the Directors of Charter Hall Social Infrastructure Limited, the Responsible Entity of Charter Hall Social Infrastructure REIT:

- a the consolidated financial statements and notes set out on pages 16 to 44 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 consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
- b there are reasonable grounds to believe that the REIT will be able to pay its debts as and when they become due and payable.

The Directors have been given declarations by the Fund Manager, who performs the Chief Executive Officer function, and the Head of Diversified Finance, 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 Board of Directors.



Grant Bartley Hodgetts
Chair
Charter Hall Social Infrastructure Limited
Melbourne

11 August 2020

Independent auditor's report



Independent auditor's report

To the unitholders of Charter Hall Social Infrastructure REIT

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Charter Hall Social Infrastructure REIT (the REIT) 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 2020 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 2020
- 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, as contained in the "About this report" section, which include a summary of significant accounting policies and the information in the "About this report" section
- the Directors' declaration to unitholders.

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 (including Independence Standards)* (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

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Directors' declaration 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.

<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<ul style="list-style-type: none"> • For the purpose of our audit we used overall Group materiality of \$2.55 million, which represents approximately 5% of the Group's operating earnings. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose operating earnings (which is an adjusted profit metric disclosed in note A) as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured and is a generally accepted benchmark within the property industry. • We selected 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 Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group operates in Australia and the audit is conducted by one engagement team based primarily in Melbourne. 	<ul style="list-style-type: none"> • Amongst other relevant topics, we communicated the following key audit matter to the Audit, Risk & Compliance Committee: <ul style="list-style-type: none"> - Valuation of investment properties, including investment properties held in joint ventures accounted for under the equity method • This is further described in the <i>Key audit matters</i> section of our report.

Independent auditor's 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 matter was 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 this matter. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties, including investment properties held in joint ventures accounted for under the equity method (Refer to notes B1 & B2) \$1,222 million</p> <p>The Group's investment property portfolio comprises 394 childcare properties across Australia and New Zealand. At 30 June 2020, the carrying value of the Group's total investment property portfolio in the financial report was \$1,222m (2019: \$1,127m). This includes the carrying value of the group's interest in the Brisbane Bus Depot investment property, which is held by the Group's joint venture vehicle of \$26.4m (2019: \$25.8m), refer to note B2.</p> <p>In measuring the carrying value of investment properties, the Group applied the principles of accounting for investment properties at fair value under Australian Accounting Standards and applied the valuation methodology described in note B of the financial report. The Charter Hall Group's valuation policy, applied by the Group, requires all properties to be externally valued by valuation experts at least once in every 2 years. If a property is not externally valued at balance sheet date, the Directors perform an internal valuation.</p> <p>We considered this a key audit matter because of:</p> <ul style="list-style-type: none"> the importance of the valuation uncertainty to users' understanding of the financial report the financial significance of the investment property balance in the consolidated balance sheet the material quantum of revaluations that directly impact the consolidated statement of comprehensive income through the net fair value gain on investment properties 	<p>We developed an understanding of the Group's process for valuing investment properties. This included discussing with management the key drivers affecting the value of the investment property portfolio such as, significant new leases entered into and expiries during the year, capital expenditure and capitalisation rates. We also enquired about the impact of COVID-19 on investment property valuations and how this was considered in determining fair values at 30 June 2020. We inspected recent external property market reports and market commentary detailing market conditions relevant to the Group, including the impact of COVID-19 on investment property valuations. This included assessing the impact of COVID-19 on the tenant profile of the Group and the impact of rent relief measures.</p> <p>We assessed the Group's methodologies used in the valuation of investment properties for consistency with Australian Accounting Standards and Group policies.</p> <p>Fair value at period end – External Valuations For a sample of properties where the Group was assisted by external valuers, we:</p> <ul style="list-style-type: none"> assessed the competency and capabilities of the valuer 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 report, including the valuation models used based on our industry knowledge agreed key inputs and assumptions in the valuation reports back to source data in lease agreements agreed the external valuation to the underlying accounting records <p>Fair value at period end – Directors' Valuations In respect of those properties internally valued by the Directors, we met with members of executive management including both the Fund Manager and Head of Finance to discuss the key inputs and</p>

Directors' declaration to unitholders



<ul style="list-style-type: none"> the inherently subjective nature of investment property valuations due to the use of assumptions in the valuations. At 30 June 2020, COVID 19 heightened the judgement required by the Group in forecasting future income, including forecasts of future market rental income and tenant relief significant estimation uncertainty exists with respect to the key inputs and assumptions used by the Group in developing fair value estimates including capitalisation rates, terminal yield, gross market rent and discount rates. <p>External valuations were obtained for 227 properties as at 30 June 2020 resulting in an increment of \$45m. However, in addition to these:</p> <ul style="list-style-type: none"> 5 development sites completed during the year were externally valued upon completion 11 operating properties acquired during the year were externally valued upon acquisition 24 development sites that are in various stages of construction were valued by an external expert as at 30 June 2020 on an "as if complete" basis 1 social infrastructure asset that is held within an equity accounted joint venture investment was externally valued as at 30 June 2020. <p>For the remaining properties, 127 directors' valuations have been adopted, resulting in an increment of \$9.5m. Incorporated within these properties subject to directors valuations are 20 assets in the New Zealand portfolio.</p>	<p>assumptions used in the valuations. For a sample of valuations, we:</p> <ul style="list-style-type: none"> agreed key inputs back to source data assessed the competence and capabilities of the internal valuation experts compared inputs in the valuation to the external valuations for similar properties to look for unusual trends or anomalies in the valuation outcomes agreed the valuations to the underlying accounting records. <p>Other procedures</p> <ul style="list-style-type: none"> performed relevant industry benchmarking of capitalisation rates used in external and directors' valuations at year end we developed an understanding of the controls relevant to the valuations computation and approval process and assessed whether they were appropriately designed. We tested whether a sample of these controls were operating effectively throughout the year where valuations were performed at a date other than 30 June 2020, we have considered if the fair values adopted remain appropriate at 30 June 2020 we assessed the appropriateness of the Group's disclosures in the financial report in light of the requirements of Australian Accounting Standards. In particular, we considered the adequacy of the disclosures made in notes A and B of the financial report which explain that there is significant estimation uncertainty in relation to the valuation of investment properties, particularly in light of COVID-19.
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Other information

The directors of the Responsible Entity of the REIT (the directors) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, 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.

Independent auditor's report



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 for the financial report

The directors are 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 determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', is written over a faint, larger version of the same signature.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Andrew Cronin', is written over a faint, larger version of the same signature.

Andrew Cronin
Partner

Melbourne
11 August 2020