Charter Hall

Charter Hall Social Infrastructure REIT

ARSN 102 955 939

Interim financial report
For the half year ended 31 December 2020

Important Notice

Contents

Directors' report

The Directors of Charter Hall Social Infrastructure Limited (Responsible Entity or CHSIL), the responsible entity of Charter Hall Social Infrastructure REIT, present the consolidated interim financial report and other information of Charter Hall Social Infrastructure REIT and its controlled entities (the REIT) for the half year period ended 31 December 2020.

Principal activities

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

Directors

The following persons have held office as Directors of the Responsible Entity during the half year period 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
- Sean Thomas Patrick McMahon - Executive Director and Chief Investment Officer (Charter Hall Group)
- Miriam Jane Patterson - Executive Director (appointed on 9 September 2020)

Distributions

Distributions paid or declared by the REIT to unitholders:

	31 Dec 2020			31 Dec 2019		
	Number of units on issue	**Cents per unit**	**$'m**	Number of units on issue	Cents per unit	$'m
Quarter ending 30 September	**360,371,362**	**3.75**	**13.6**	301,287,287	4.175	12.6
Quarter ending 31 December	**361,255,506**	**3.75**	**13.6**	301,858,943	4.175	12.6
Total distributions		**7.50**	**27.2**		8.350	25.2

A liability has been recognised in the consolidated financial statements as the 31 December 2020 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 period, 1,904,147 units were issued at an average issue price of $2.53 per unit.

Directors' report (continued)

Review and results of operations

The REIT recorded a statutory profit for the period of $57.8 million (31 December 2019: $49.0 million). Operating earnings amounted to $29.1 million (8.0 cents per unit) for the period ended 31 December 2020 (31 December 2019: $25.5 million, 8.5 cents per unit) and a distribution of $27.2 million (7.5 cents per unit) was declared for the same period (31 December 2019: $25.2 million, 8.35 cents per unit).

The 31 December 2020 financial results are summarised as follows:

	6 months to 31 Dec 2020	6 months to 31 Dec 2019
Revenue ($ millions)	**45.1**	42.6
Net profit ($ millions)	**57.8**	49.0
Basic earnings per unit (cents)	**16.0**	16.3
Operating earnings ($ millions)	**29.1**	25.5
Operating earnings per unit (cents)	**8.0**	8.5
Distributions ($ millions)	**27.2**	25.2
Distributions per unit (cents)	**7.5**	8.35

	31 Dec 2020	30 Jun 2020
Total assets ($ millions)	**1,374.2**	1,357.7
Total liabilities ($ millions)	**280.5**	307.7
Net assets ($ millions)	**1,093.7**	1,050.0
Units on issue (millions)	**361.3**	359.4
Net assets per unit ($)	**3.03**	2.92
Balance sheet gearing – total debt (net of cash) to total assets (net of cash)	**16.7%**	16.4%
Look through gearing – total debt (net of cash) to total assets (net of cash)	**18.1%**	18.0%

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

	Notes	**6 months to 31 Dec 2020 $'m**	6 months to 31 Dec 2019 $'m
Net property income		**34.4**	31.8
Distribution income		**1.3**	1.3
Other income		**0.1**	-
Share of operating earnings from equity accounted investments		**1.0**	0.9
Fund management fees		**(3.4)**	(3.1)
Finance costs		**(3.5)**	(4.3)
Administration and other expenses		**(0.8)**	(1.1)
Operating earnings	A1	**29.1**	25.5

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.

Directors' report (continued)

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

	6 months to 31 Dec 2020 $'m	6 months to 31 Dec 2019 $'m
Operating earnings	**29.1**	25.5
Net revaluation increment on investment properties	**25.3**	21.3
Net loss on derivative financial instruments	**(0.2)**	(0.2)
Gain on sale of investment properties	**0.1**	0.5
Straight lining of rental income and amortisation lease fees and incentives	**1.0**	1.1
Share of equity accounted non-operating profit	**2.7**	0.8
Unrealised/realised foreign exchange losses	**(0.2)**	-
Statutory profit for the period	**57.8**	49.0

Property valuation gains

Valuation gains totalling $26.9 million were recorded during the period (31 December 2019: $25.0 million). These gains were partially offset by revaluation decrements attributable to acquisition costs of $0.6 million (31 December 2019: $2.6 million) and straightlining of rental income, amortisation of lease fees and incentives of $1.0 million (31 December 2019: $1.1 million).

The uncertainty of the impact of COVID-19 did not have a significant impact on property valuations. Over the six months from 30 June 2020 to 31 December 2020 the REIT's directly owned portfolio valuation increased by 2.2%. External valuations were conducted at 31 December 2020 for 33.4% of the REIT's directly owned portfolio.

COVID-19 rent relief

Since March 2020, 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 through the Early Childhood Education and Care Relief Package ("ECECRP"). 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. These payments ceased with effect from 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 paid childcare services a Transition Payment of 25% of their fee revenue from 13 July until 27 September 2020.

In respect of childcare centres in Melbourne, childcare services were only available to permitted workers during the stage four restrictions imposed in response to Melbourne's second wave of COVID-19 infections which commenced in August 2020 and ended in October 2020. The Federal Government provided a temporary funding package to support centres located in Melbourne by providing a Recovery Payment through to January 2021 which was equal to 25% of average centre revenue for the two weeks up to 2 March 2020. As restrictions have eased, these centres have returned to normal trading conditions in line with the rest of Australia.

The introduction of the National Code of Conduct (Code of Conduct) which was subsequently legislated by the various Australian states created the 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. As at 30 June 2020, the REIT made a provision of $1.0 million for rent free incentives expected to be provided to SME tenants for the period April-June 2020 as it was still in the process of negotiating rental relief to be provided to these tenants. During the current reporting period, the REIT has concluded negotiations to provide $0.5 million of rent free incentives for the April-June 2020 period with the balance of $0.5 million still being negotiated. The REIT has not provided any further rental relief to SME tenants in respect of the period 1 July 2020 to 31 December 2020.

In respect of the REIT's non-SME tenants, the REIT announced at 30 June 2020 that it had provided $3.8 million of rental relief to non-SME tenants comprising $2.4 million of rent free incentives which were 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. During the current reporting period, the REIT agreed to provide a further $0.1 million of rent free incentives and $0.1 million of rent deferral to non-SME tenants.

Significant changes in the state of affairs

Acquisitions

In October 2020, the REIT announced that it had entered into an agreement to acquire a new 11-storey building in Newstead, Queensland in a sale and leaseback transaction with Mater Misericordiae (Mater). Mater is Queensland's largest Catholic not for profit health provider owning and operating an extensive network of hospitals, health centres and a world class research institute. The total acquisition price is $122.5 million and the property is expected to settle in the June 2021 quarter. As at 31 December 2020, the REIT had paid a $3.6 million deposit in respect of the Mater acquisition.

Directors' report (continued)

In November 2020, the REIT announced that it had entered into a transaction to acquire the new purpose-built South Australian Emergency Services Command Centre and adjacent multi-deck carpark currently under construction located in Keswick, South Australia. The total consideration payable for the acquisition is $80.0 million which is being paid for progressively as construction is completed. As at 31 December 2020, the REIT has paid $23.0 million for the land and works completed and will fund the remainder of the development on a progressive basis with expected completion in October 2021.

In addition to the above, the REIT also settled two existing child care centres for $8.4 million during the reporting period.

Disposals

During the period, the REIT settled the disposal of two Australian child care centres for total consideration of $2.1 million (gross of selling costs).

In November 2020, the REIT disposed its 15% interest in Charter Hall CIB fund for $18.4 million. The proceeds from the sale of the 15% interest represented a $0.5 million discount to the carrying value as at 30 June 2020. In December 2020 the REIT entered into an agreement to sell the remaining 20 child care properties located in New Zealand for a total consideration of NZ$40.1 million with settlement expected to occur in June 2021. In connection with this transaction, the REIT entered into forward foreign exchange contracts (FEC's) to sell NZ dollars and receive Australian dollars with a total notional amount of NZ$38.0 million to hedge the FX exposure on the sale proceeds.

As at 31 December 2020, a further 8 childcare centres located in Australia have been contracted for sale for total consideration of $16.2 million with all settlements expected to occur in the second half of FY21.

Events occurring after balance date

The Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this interim financial report that has significantly affected or may significantly affect the operations of the REIT, the results of its operations or the state of affairs of the REIT in future financial years.

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 8.

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 February 2021. The Directors have the power to amend and re-issue the financial statements.

Grant Bartley Hodgetts
Chair
Melbourne
11 February 2021

Auditor's independence declaration

Auditor's Independence Declaration

As lead auditor for the review of Charter Hall Social Infrastructure REIT for the half-year ended 31 December 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 review; and

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

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

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
11 February 2021

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Consolidated statement of comprehensive income

	Notes	31 Dec 2020 $'m	31 Dec 2019 $'m
Revenue			
Property income		**43.7**	41.3
Distribution income		**1.3**	1.3
Interest income		**0.1**	-
Total revenue		**45.1**	42.6
Other income			
Net fair value gain on investment properties	B1	**25.3**	21.3
Gain on sale of investment properties		**0.1**	0.5
Share of equity accounted profit		**3.7**	1.7
Total other income		**29.1**	23.5
Total revenue and other income		**74.2**	66.1
Expenses			
Property expenses		**(7.7)**	(7.5)
Fund management fees		**(3.4)**	(3.1)
Finance costs		**(3.5)**	(4.4)
Administration and other expenses		**(0.8)**	(1.1)
Amortisation of right-of-use assets (leasehold properties)		**(0.6)**	(0.7)
Net loss from derivative financial instruments		**(0.2)**	(0.2)
Realised and unrealised foreign exchange losses		**(0.2)**	(0.1)
Total expenses		**(16.4)**	(17.1)
Profit for the period		**57.8**	49.0
Other comprehensive income			
Gain on revaluation of financial assets	B3	**8.3**	1.7
Other comprehensive income		**8.3**	1.7
Total comprehensive income for the period		**66.1**	50.7
Basic and diluted earnings per ordinary unitholder of the REIT			
Earnings per unit (cents)	A2	**16.0**	16.3

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

Consolidated balance sheet

	Notes	31 Dec 2020 $'m	30 Jun 2020 $'m
Assets			
Current assets			
Cash and cash equivalents		**25.3**	75.6
Receivables		**4.4**	3.7
Other assets		**4.9**	5.5
Derivative financial instruments	C2	**0.2**	-
Investment properties held for sale	B1	**53.5**	3.5
Total current assets		**88.3**	88.3
Non-current assets			
Investment properties	B1	**1,216.2**	1,191.7
Investment accounted for using equity method	B2	**29.1**	26.4
Investment in financial assets	B3	**34.7**	44.9
Right-of-use assets		**5.9**	6.4
Total non-current assets		**1,285.9**	1,269.4
Total assets		**1,374.2**	1,357.7
Liabilities			
Current liabilities			
Trade and other payables		**12.6**	5.2
Distribution payable		**13.9**	12.8
Derivative financial instruments	C2	**-**	0.2
Lease liabilities		**1.1**	1.1
Total current liabilities		**27.6**	19.3
Non-current liabilities			
Borrowings	C1	**247.2**	282.6
Derivative financial instruments	C2	**1.4**	0.8
Lease liabilities		**4.3**	5.0
Total non-current liabilities		**252.9**	288.4
Total liabilities		**280.5**	307.7
Net assets		**1,093.7**	1,050.0
Equity			
Contributed equity	C3	**625.6**	620.8
Reserves	C3	**13.4**	15.2
Undistributed profit		**454.7**	414.0
Total equity		**1,093.7**	1,050.0

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 Jul 2019		490.8	20.9	378.5	890.2
Profit for the period		-	-	49.0	49.0
Other comprehensive income		-	1.7	-	1.7
Total comprehensive income for the period		-	1.7	49.0	50.7
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs		4.5	-	-	4.5
- Distributions paid and payable	A2	-	-	(25.2)	(25.2)
Total equity at 31 Dec 2019		495.3	22.6	402.3	920.2
Total equity at 1 Jul 2020		**620.8**	**15.2**	**414.0**	**1,050.0**
Profit for the period		**-**	**-**	**57.8**	**57.8**
Other comprehensive income		**-**	**8.3**	**-**	**8.3**
Total comprehensive income for the period		**-**	**8.3**	**57.8**	**66.1**
Transfer of reserves	C3	**-**	**(10.1)**	**10.1**	**-**
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C3	**4.8**	**-**	**-**	**4.8**
- Distributions paid and payable	A2	**-**	**-**	**(27.2)**	**(27.2)**
Total equity at 31 Dec 2020		**625.6**	**13.4**	**454.7**	**1,093.7**

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

Consolidated cash flow statement

	31 Dec 2020 $'m	31 Dec 2019 $'m
Cash flows from operating activities		
Property income received (inclusive of GST)	**47.4**	43.8
Cash payments in the course of operations (inclusive of GST)	**(14.6)**	(15.1)
Distributions received from interest in financial assets and joint ventures	**3.0**	1.7
Interest received	**0.1**	-
Finance costs paid	**(3.9)**	(5.5)
Net cash flows from operating activities	**32.0**	24.9
Cash flows from investing activities		
Proceeds from sale of investment properties	**2.2**	11.6
Payments for investment properties	**(45.6)**	(67.7)
Proceeds from sale of financial assets	**18.4**	-
Net cash flows from investing activities	**(25.0)**	(56.1)
Cash flows from financing activities		
Proceeds from borrowings	**-**	47.0
Repayment of borrowings	**(36.0)**	-
Distributions paid	**(21.3)**	(20.1)
Net cash flows from financing activities	**(57.3)**	26.9
Net decrease in cash held	**(50.3)**	(4.3)
Cash and cash equivalents at the beginning of the half year	**75.6**	8.9
Cash and cash equivalents at the end of the half year	**25.3**	4.6

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

About this report

The notes to these consolidated financial statements include additional information which is required to understand the operations, performance and financial position of the 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** – details of the REIT's capital structure.
- **Further information** – provides additional disclosures relevant in understanding the REIT's financial statements.

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 continued to consider 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;
  - availability and efficiency of the vaccine which is expected to be rolled out in 2021;
- 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.

Since March 2020, 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 through the Early Childhood Education and Care Relief Package ("ECECRP"). 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. These payments ceased with effect from 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 paid childcare services a Transition Payment of 25% of their fee revenue from 13 July until 27 September 2020.

In respect of childcare centres in Melbourne, childcare services were only available to permitted workers during the stage four restrictions imposed in response to Melbourne's second wave of COVID-19 infections which commenced in August 2020 and ended in October 2020. The Federal Government provided a temporary funding package to support centres located in Melbourne by providing a Recovery Payment through to January 2021 which was equal to 25% of average centre revenue for the two weeks up to 2 March 2020. As restrictions have eased, these centres have returned to normal trading conditions in line with the rest of Australia.

The introduction of the National Code of Conduct (Code of Conduct) which was subsequently legislated by the various Australian states created the 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. As at 30 June 2020, the REIT made a provision of $1.0 million for rent free incentives expected to be provided to SME tenants for the period April-June 2020 as it was still in the process of negotiating rental relief to be provided to these tenants. During the current reporting period, the REIT has concluded negotiations to provide $0.5 million of rent free incentives for the April-June 2020 period with the balance of $0.5 million still being negotiated. The REIT has not provided any further rental relief to SME tenants in respect of the period 1 July 2020 to 31 December 2020.

In respect of the REIT's non-SME tenants (which represent approximately 80% of the REIT's childcare tenants), the REIT announced at 30 June 2020 that it had provided $3.8 million of rental relief to non-SME tenants comprising $2.4 million of rent

A. REIT performance (continued)

free incentives which were 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. During the current reporting period, the REIT agreed to provide a further $0.1 million of rent free incentives and $0.1 million of rent deferral to non-SME tenants.

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 expect 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 31 December 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 340 properties valued in the first half of FY2021 which has resulted in a 2.2% increase on June 2020 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 half year ended 31 December 2020 are as follows:

	6 months to 31 Dec 2020 $'m	6 months to 31 Dec 2019 $'m
Net property income	**34.4**	31.8
Distribution income	**1.3**	1.3
Other income	**0.1**	-
Share of operating earnings from equity accounted investments	**1.0**	0.9
Fund management fees	**(3.4)**	(3.1)
Finance costs	**(3.5)**	(4.3)
Administration and other expenses	**(0.8)**	(1.1)
Operating earnings	**29.1**	25.5

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

	6 months to 31 Dec 2020 $'m	6 months to 31 Dec 2019 $'m
Operating earnings	**29.1**	25.5
Net revaluation increment on investment properties	**25.3**	21.3
Net loss on derivative financial instruments	**(0.2)**	(0.2)
Gain on sale of investment properties	**0.1**	0.5
Straight lining of rental income and amortisation lease fees and incentives	**1.0**	1.1
Share of equity accounted non-operating profit	**2.7**	0.8
Unrealised/realised foreign exchange losses	**(0.2)**	-
Statutory profit for the period	**57.8**	49.0

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.

Lease modification

Rent free incentives provided in respect of COVID-19 and documented by 31 December 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.

A. REIT performance (continued)

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	31 Dec 2020			31 Dec 2019		
	Number of units on issue	**Cents Per Unit**	**$m**	Number of units on issue	Cents Per Unit	$m
Quarter ending 30 September	**360,371,362**	**3.75**	**13.6**	301,287,287	4.175	12.6
Quarter ending 31 December	**361,255,506**	**3.75**	**13.6**	301,858,943	4.175	12.6
Total distributions		**7.50**	**27.2**		8.350	25.2

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.

(b) Earnings per unit

	6 months to Dec 2020	6 months to Dec 2019
Basic earnings per ordinary unitholder of the REIT		
Earnings per unit (cents)	**16.0**	16.3
Operating earnings per unit (cents)	**8.0**	8.5
Earnings used in the calculation of basic earnings per unit		
Net profit for the period ($'m)	**57.8**	49.0
Operating earnings for the period ($'m)	**29.1**	25.5
Weighted average number of units used in the calculation of basic earnings per unit (millions)*	**360.6**	301.4

* 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 period.

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

B. Property portfolio assets

The REIT's property portfolio assets comprise directly held investment properties, indirectly held interests in investment property held through joint ventures and investments in financial assets at fair value. Investment properties comprise investment interests in land and buildings held for long term rental yields.

The following table summarises the property portfolio assets detailed in this section:

	Notes	31 Dec 2020 $'m	30 Jun 2020 $'m
Non-current assets			
Investment properties	B1	**1,216.2**	1,191.7
Investments in joint ventures	B2	**29.1**	26.4
Investment in financial assets at fair value	B3	**34.7**	44.9
Total non-current assets		**1,280.0**	1,263.0
Current assets			
Assets held for sale	B1	**53.5**	3.5
Property portfolio assets, including interests in joint venture & financial assets		**1,333.5**	1,266.5

B1. Investment properties

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

	31 Dec 2020 $'m	30 Jun 2020 $'m
Valuations and carrying amounts		
Freehold properties at valuation	**1,137.7**	1,070.8
Freehold properties under development at cost	**98.4**	90.8
Leasehold properties at valuation	**33.6**	33.3
Capitalised transaction costs in relation to properties contracted and not settled	**-**	0.3
Total investment properties	**1,269.7**	1,195.2
Less: Investment properties held for sale	**(53.5)**	(3.5)
Carrying amount at the end of the period	**1,216.2**	1,191.7
Movements during the financial period		
Balance at the beginning of the period	**1,195.2**	1,098.7
Additions	**50.3**	106.0
Disposal of properties	**(2.1)**	(56.5)
Net revaluation increment	**25.3**	44.2
Straightlining of rental income, amortisation of incentives and leasing fees	**1.0**	2.8
Carrying amount at the end of the period	**1,269.7**	1,195.2

* For the period ended 31 Dec 2020, in accordance with *AASB123*, Additions includes $1.0 million of capitalised interest. Capitalised interest was calculated using 2.6% (31 Dec 2019: 3.3%), being the weighted average interest rate applicable to the REIT's borrowings during the period.

(b) Valuation process, techniques and key judgements

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.

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 was taken into consideration.

The uncertainty of the impact of COVID-19 has been considered in both our independent and director's valuations. During the period, the REIT's portfolio valuation increased by 2.2% due to valuations. External valuations were conducted at 31 December 2020 for 33.4% of the REIT's portfolio. Capitalisation rates on valuations of the investment properties conducted by Directors remain unchanged.

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)
December 2020	1,269.7		
Australia – Freehold		1,105 – 6,617	5.9
Australia – Leasehold		735 – 5,193	16.8
New Zealand – Freehold*		1,188 – 3,253	6.1
June 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

* 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, the fair value of investment properties would reduce by $45.4 million from the fair value as at 31 December 2020 and if the capitalisation rate compressed by 25 basis points, the fair value would increase by $47.5 million from the fair value as of 31 December 2020.

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.

Information relating to the joint venture entities is detailed below:

			Ownership interest			
Joint venture entity	Country of establishment	Principal activity	**31 Dec 2020 %**	30 Jun 2020 %	**31 Dec 2020 $m**	30 Jun 2020 $m
CH BBD Holding Trust	Australia	Property investment	**50.0%**	50.0%	**29.1**	26.4

B3. Investments in financial assets

	31 Dec 2020 $'m	30 Jun 2020 $'m
Units in listed securities (Arena REIT – ASX:ARF) – at market value	**34.7**	26.0
Units in unlisted securities (CHCIB Fund) – at Directors' valuation	**-**	18.9
Balance at the end of the period	**34.7**	44.9
Balance at the beginning of the period	**44.9**	48.4
(Disposals)/additions	**(18.5)**	2.2
Net fair value movement on investments	**8.3**	(5.7)
Balance at the end of the period	**34.7**	44.9

B4. Expenditure commitments

The REIT and joint venture entities may enter into contracts for the acquisition, construction and development of properties in Australia. As at 31 December 2020, the commitments of the REIT in relation to such contracts are as follows:

- $57.0 million to acquire South Australian Emergency Services Command Centre and adjacent multi-deck carpark currently under construction located in Keswick, South Australia;
- $118.9 million to acquire a new 11-storey building in Newstead Queensland in a sale and leaseback transaction with Mater Misericordiae (Mater); and
- $24.0 million of further capital commitments in respect of committed childcare developments.

As at 30 June 2020, the REIT's total commitments amounted to $78.6 million.

As at 31 December 2020, the REIT has no contingent liabilities (31 December 2019: nil).

The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (31 December 2019: nil).

C. Capital structure

C1. Borrowings and liquidity

(a) Borrowings

All borrowings are classified as non-current liabilities as they have maturities greater than 12 months

	31 Dec 2020		30 Jun 2020	
	Total carrying amount $'m	**Fair value $'m**	Total carrying amount $'m	Fair value $'m
Bilateral term facilities	**250.0**	**249.8**	286.0	286.0
Unamortised borrowing cost	**(2.8)**	**(2.8)**	(3.4)	(3.4)
Total	**247.2**	**247.0**	282.6	282.6
Balance available for drawing	**250.0**		214.0	

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 31 December 2020, the REIT complied with all of its debt covenant ratios and obligations.

Bilateral term facilities

	Maturity Date	**Facility limit $'m**	**Utilised amount $'m**
Dec 2020			
Bank Facilities	March 2023	**200.0**	**150.0**
	March 2025	**200.0**	**-**
Institutional term loan	August 2025	**100.0**	**100.0**
		500.0	**250.0**
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

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) maturing in May 2024. This facility was fully drawn at the reporting date.

C2. 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.

Amounts reflected in the financial statements are as follows:

Consolidated balance sheet

Balance Sheet	31 Dec 2020 Asset $'m	31 Dec 2020 Liability $'m	30 June 2020 Asset $'m	30 June 2020 Liability $'m
Current				
Interest rate swaps	**-**	**-**	-	0.2
Foreign exchange contracts	**0.2**	**-**	-	-
Total current derivative financial instruments	**0.2**	**-**	-	0.2
Non-current				
Interest rate swaps	**-**	**1.4**	-	0.8
Total non-current derivative financial instruments	**-**	**1.4**	-	0.8
Total derivative financial assets/liabilities	**-**	**1.4**	-	1.0

(b) Valuation techniques used to derive level 2 fair values

Derivatives are classified as level 2 on the fair value hierarchy as the inputs used to determine fair value are observable market data but not quoted prices.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. 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.

C3. Contributed equity and reserves

(a) Contributed equity

Details	No. of Units '000	$'m
Units on issue – 30 Jun 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 Jun 2020	**359,351**	**620.8**
Units issued via DRP	1,904	**4.8**
Transaction costs	-	**-**
Units on issue – 31 Dec 2020	**361,255**	**625.6**

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 equity 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 period 1,904,147 units were issued at an average issue price of $2.53 per unit.

(b) Reserves

	31 Dec 2020 $'m	30 Jun 2020 $'m
Accumulated net fair value gain on listed securities (Arena REIT – ASX:ARF)	**13.4**	4.7
Accumulated net fair value gain on unlisted securities (Charter Hall CIB Fund)	**-**	10.5
Balance at the end of the period	**13.4**	15.2
Balance at the beginning of the period	**15.2**	20.9
Net fair value movement on investments	**8.3**	(5.7)
Transfer to Undistributed profit	**(10.1)**	-
Balance at the end of the period	**13.4**	15.2

The REIT made an irrevocable election upon initial recognition of the financial assets above to present changes in fair value in other comprehensive income rather than profit or loss in line with the requirements of AASB 9. In accordance with the standard, the cumulative gains on such assets are transferred to undistributed profits following their disposal.

D. Further information

D1. Events occurring after balance date

The Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this interim financial report that has significantly affected or may significantly affect the operations of the REIT, the results of its operations or the state of affairs of the REIT in future financial years.

D2. Other significant accounting policies

(a) Basis of preparation

The half year 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 Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The REIT is a for-profit entity for the purpose of preparing the consolidated financial statements. The consolidated financial statements are presented in Australian dollars, which is the REIT's functional and presentation currency.

These interim financial reports do not include all notes normally included in an annual financial report. Accordingly, these reports should be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the REIT during the half year ended 31 December 2020 in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

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

Compliance with IFRS

The consolidated financial statements of the 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.

(b) Comparative information

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

(c) 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) New and amended standards adopted by the REIT

The REIT has applied the following standards and amendments for the first time in this financial report:

- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material [AASB 101 and AASB 108]*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform [AASB 9, AASB 139 and AASB 7]*
- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet issued in Australia [AASB 1054]*

The REIT did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

The REIT has also early adopted AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions* and elected to assess all rent concessions for applicability of lease modification accounting.

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 9 to 22 are in accordance with the *Corporations Act 2001*, including:

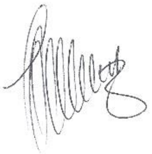
  i complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  ii giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the period 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 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 February 2021

Independent auditor's review report

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

Report on the interim financial report

Conclusion

We have reviewed the interim financial report of Charter Hall Social Infrastructure REIT (the Trust) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, significant accounting policies and explanatory notes and the directors of the Responsible Entity of the Trust's declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the interim financial report* section of our report.

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 & 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the directors of the Responsible Entity of the Trust for the interim financial report

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

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Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
11 February 2021