Charter Hall Social Infrastructure REIT

Annual Report 2021

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To view our Corporate Governance Statement, go to charterhall.com.au/about-us/corporate-governance

Charter Hall
Social Infrastructure REIT

Charter Hall Social Infrastructure REIT (CQE or the REIT) is the largest Australian ASX-listed real estate investment trust that invests in social infrastructure properties. CQE is focused on pursuing high quality opportunities in social infrastructure to enhance income stability, resilience and capital growth.

Backed by 30 years' experience

CQE is managed by Charter Hall Group (ASX:CHC). Celebrating 30 years this year, Charter Hall Group has been investing in the value of place since 1991.

Find out more at charterhall.com.au/30years

Cover, clockwise from top right: Brisbane City Council Bus Network Terminal, Eagle Farm Qld; CQE Centre, Bexley, NSW; CQE Centre, Northcote, Vic.
Above: Mater Corporate Headquarters and Training Facilities, Newstead Qld.

Strategy

The REIT is dedicated to enhancing the portfolio and providing income stability, resilience and capital growth by pursuing high quality opportunities in social infrastructure.

Enhancing income sustainability and resilience

- Improving the quality of tenants and leases within a diversified social infrastructure portfolio
- Targeting properties providing essential services underpinned by Government support

Targeting ongoing capital growth

- Focus on assets with the following attributes:
  - Modern assets with limited competition and low substitution risk, driving high tenant retention rates
  - Strategic locations with high underlying land values
  - Predominantly triple net lease structures with minimal capex

Portfolio curation

- Active portfolio curation through acquisitions, developments and divestments
- Increased weighting to larger scale assets with high quality tenant covenants and divesting smaller non non-core assets

Above: Brisbane City Council Bus Network Terminal, Eagle Farm Qld.

FY21 Performance Highlights

15.7c
Distribution per unit[1]

24.5%
Gearing[2]

$207m
Investment capacity[2]

15.2yrs
WALE
↑19.7% from 12.7 years at 30 June 2020

$1.6bn
Gross assets
↑13.3% from 30 June 2020

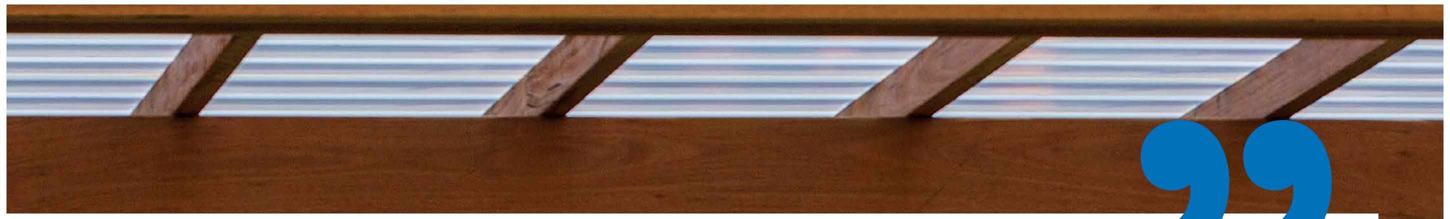
$3.25
NTA per unit
↑11.3% from 30 June 2020

100%
Occupancy

2.9%
Forecast WARR

3.4%
Lease income expiring in next 5 years

1. FY21 distribution per unit comprised 15.7 cent ordinary distribution per unit and a 4.0 cent special distribution per unit.
2. After adjustments made for contractual commitments.
Right: Brighton East Early Learning Centre, Melbourne Vic.



> CQE continued delivering on its strategy of enhancing income resilience and capital growth. It has been an active year which has included the acquisition of two new social infrastructure properties with strong tenant covenants and the extension of 106 leases to an average 20 years with CQE's major tenant customer, Goodstart. CQE is well positioned with low gearing and $207 million of investment capacity to deliver secure income and capital growth to investors.

Travis Butcher
Fund Manager

Chair and Fund Manager's Message

CQE delivered another year of resilient performance despite the challenging environment.

Dear Unitholder

Charter Hall Social Infrastructure REIT (CQE or the REIT) continues to focus on its strategy of providing income stability and resilience through investment in quality social infrastructure with a disciplined approach to asset acquisitions and disposals, as well as leasing and development, matched with prudent capital management.

For the year, CQE generated earnings per unit of 16.0 cents and distributed 19.7[1] cents per unit (cpu). Operating earnings of $58.0 million represents an increase of 13.5% on the prior year with net tangible assets as at 30 June 2021 of $3.25 per unit, an increase of 11.3% on the prior year.

CQE's statutory profit for the year of $174.1 million has increased by 103.4% on the $85.6 million level achieved for FY20.

It has been an active year which has included the acquisition of two new social infrastructure properties with strong tenant covenants and the extension of 106 leases to an average of 20 years with CQE's major tenant customer, Goodstart Early Learning.

CQE has strong property fundamentals with its long weighted average lease expiry (WALE) portfolio of 15.2 years and 100% occupancy. The portfolio is heavily weighted towards properties providing essential services underpinned by Government support.

CQE is well positioned with low gearing and $207[2] million of investment capacity to deliver secure income and capital growth to investors. In line with its strategy, CQE will continue to pursue opportunities in both social infrastructure and childcare to enhance the portfolio.

Property portfolio performance

During the year, CQE has continued delivering on strategy, improving both the quality and metrics of its portfolio.

CQE has increased the portfolio's weighting to larger social infrastructure assets, diversifying from a pure childcare focus. This includes the acquisition of two social infrastructure properties which are the Mater Health corporate headquarters and training facilities located in Brisbane and the South Australian Emergency Services Command Centre being developed in Adelaide. Both of these properties will improve the quality and diversification of CQE's income.

During the year, CQE extended the term of 106 leases by an average of 13 years with its major tenant customer Goodstart Early Learning, demonstrating CQE's strong tenant customer relationships and ability to partner to create mutually beneficial outcomes.

Overall, CQE has seen a significant improvement in the portfolio's metrics through FY21, as follows:

- Increase in WALE from 12.7 years to 15.2 years;
- Majority of leases (73.2%, up from 53.6%) now on fixed rent reviews for FY22 and beyond;
- Improved lease expiry profile with only 3.4% of leases expiring within the next five years, as at June 2021, down from 4.4% at June 2020; and
- 100% occupancy of CQE's properties.

1. Comprising ordinary distribution of 15.7 cpu and special distribution of 4.0 cpu.
2. After adjustments made for contractual commitments.

Right, from top: Grant Hodgetts, Chair; Travis Butcher, Fund Manager; Only About Children Childcare Centre, Northcote Vic.

CQE has continued delivering on its strategy of enhancing the resilience of its income and targeting capital growth through investment in quality social infrastructure properties.

Travis Butcher
Fund Manager

Social infrastructure acquisitions

During the period, CQE acquired two social infrastructure properties with a combined on-completion value of $202.5 million, providing improved income quality and diversification.

In June 2021, CQE settled the acquisition of the Mater Misericordiae Limited ("Mater") corporate headquarters and training facilities located in Newstead, approximately 2.6 kilometres north-east of the Brisbane CBD. The purchase price of $122.5 million reflects a passing yield of 4.8%, underpinned by a new 10-year lease to Mater and fixed annual rental increases of 3.0%.

CQE acquired the property in a sale and leaseback transaction with the Mater, Queensland's largest Catholic, not-for-profit health provider, with net assets of over $1 billion.

In November 2020, CQE contracted to purchase the new purpose-built South Australian Emergency Services Command Centre and adjacent multi-deck carpark currently under construction for a total consideration of $80 million.

On completion, it will be leased to the South Australian Government (85% of the property's total income) and occupied by four Government emergency services agencies on a 15-year lease, with fixed 2.5% annual rent escalations and two 5-year options.

The settlement of land and works completed to date occurred in December 2020. As at 30 June 2021, CQE had funded $50.4 million of the development with the remaining $29.6 million of development funding to be provided on a progressive basis through to completion which is expected to occur in November 2021. The total fixed cost of $80 million reflects a passing yield of 4.8%.

Childcare portfolio

Childcare acquisition activity during the year included the settlement of 3 brand new childcare properties for $12.6 million at a purchase yield of 6.4%. These acquisitions are all leased to ASX listed tenants on average lease expiries of 20 years and are well-located for childcare and to also deliver long term capital growth.

CQE continued to divest non-core assets to recycle capital into properties with more favourable property fundamentals to improve the quality of the portfolio. During the period, there were 44 property divestments totalling $85.3 million which included the remaining 20 New Zealand assets. These divestments comprised smaller centres (average of 67 places), short WALE (average 6.6 years) and lower socio-economic locations. The average yield achieved on these divestments was 5.9% resulting in a 5.7% premium to book value.

Ten developments were completed in FY21 with a completion value of $69.7 million at a yield on cost of 6.1%. CQE's childcare development pipeline comprises a further 14 projects, of which 9 are forecast to be completed during FY22, contributing to continued improvement in the quality of the portfolio and adding to the earnings profile of CQE.

Property valuations

Revaluations of the property portfolio completed through FY21 resulted in an aggregate valuation uplift of $119.4 million over 30 June 2020 values, reflecting a 11.1% increase net of capital expenditure and a passing yield of 5.6%.

Childcare transaction volumes remain strong with $550[3] million in sales during FY21. Childcare property yields continue to compress, reflecting limited supply and ongoing strong demand for long WALE assets in 'essential' sectors with stable income.

The average yield covering 61 transactions ($289 million) during the last six months was 5.5%, with the average yield on transactions within metropolitan Melbourne at 5.2%.

Capital management

In June 2021, CQE increased its debt facilities to $600 million with an additional $100 million being provided by a new financier, further diversifying CQE's funding sources. This will provide CQE with investment capacity of $207 million after adjusting for contractual commitments[4].

As at 30 June 2021, CQE's balance sheet gearing is 24.5% and look-through gearing is 25.6%[4].

CQE has diversified funding sources with no debt maturity until May 2024 and a weighted average debt maturity of 4.1 years.

Childcare market

The essential nature of childcare has been demonstrated with centres remaining open during the COVID-19 pandemic and associated restrictions. Childcare continues to be an essential labour supply mechanism to the Australian economy, in addition to providing significant learning benefits to young children. Importantly, there has not been any structural change to the market as a result of COVID-19 and occupancy for operators has returned to pre COVID-19 levels.

Government funding, which was critical to support the operators during the pandemic period continues to grow, underlining the importance to the economy and educational and learning benefits being provided. The Federal Government, through the Child Care Subsidy, provides funding of approximately of $9.0 billion and as announced in May 2021, additional funding of $1.7 billion per annum will be provided to improve childcare affordability commencing in FY23. The additional funding is targeted at lower-middle income families and expected to benefit approximately 250,000 families.

As at 30 June 2021, there are 8,332[5] long day care (LDC) centres in Australia, a net increase of 297 (3.7%) for FY21. The annual growth rate of 3.7% has moderated from 3.8% growth which occurred in FY20. The softening in supply growth is evidenced by 159 new centres opening between January and June 2021, being lower than the corresponding period in previous years (2020: 181; 2019: 204).

Outlook

CQE is well positioned, with resilient and growing income, low gearing and $207 million of investment capacity. CQE will continue to execute on its strategy to pursue new social infrastructure opportunities.

Recent acquisitions and completion of developments will continue to drive earnings and distribution growth in future years.

CQE is pleased to announce that based on information currently available, continued tenant performance and barring any unforeseen events or a further deterioration in the COVID-19 environment, the FY22 forecast distribution guidance is 16.7 cpu, an increase of 6.4% from FY21. CQE will continue to pay quarterly distributions.

Finally, we would like to thank our Unitholders for your continuing support of CQE.

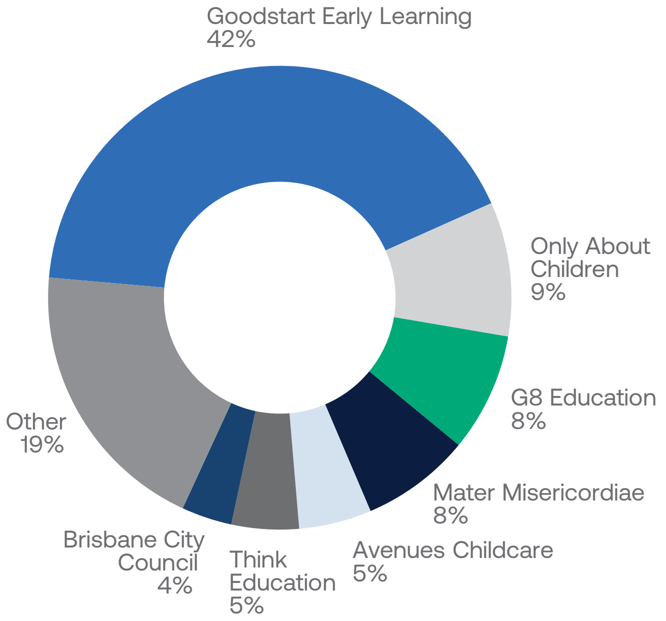
Grant Hodgetts
Non-Executive Chair

Travis Butcher
Fund Manager

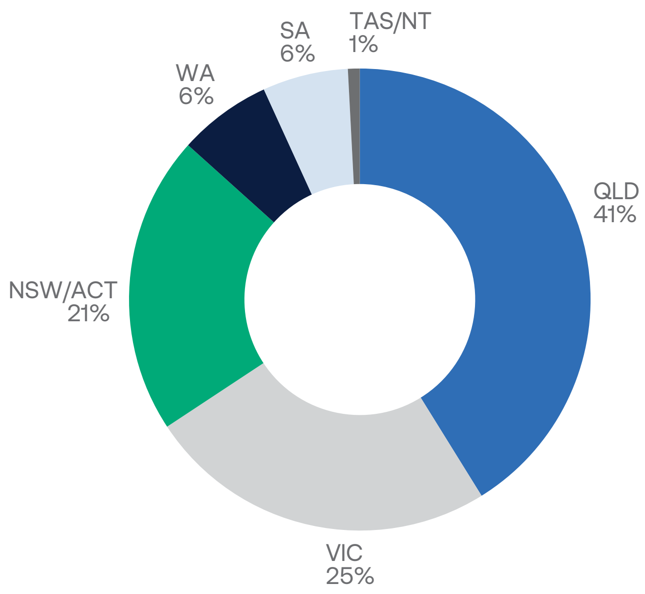
3. Charter Hall data.
4. Adjusted to include the completion of SA Emergency Command Centre, childcare development pipeline and payment of the June quarter distribution.
5. ACECQA data.
Above: Mater Corporate Headquarters and Training Facilities, Newstead Qld.

Portfolio Performance

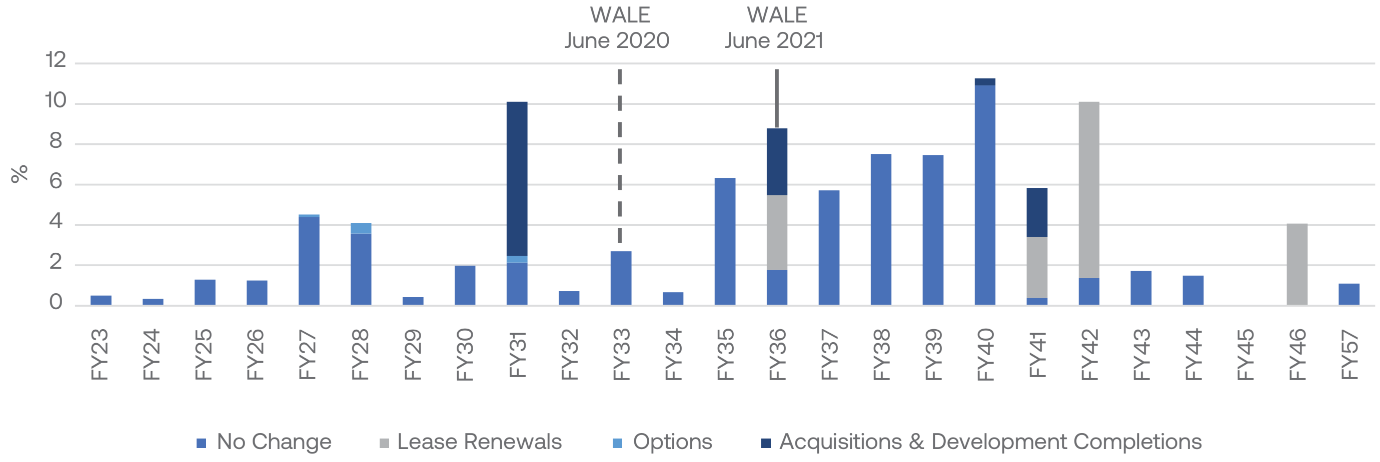
Tenant profile by % of annual rent: June 2021



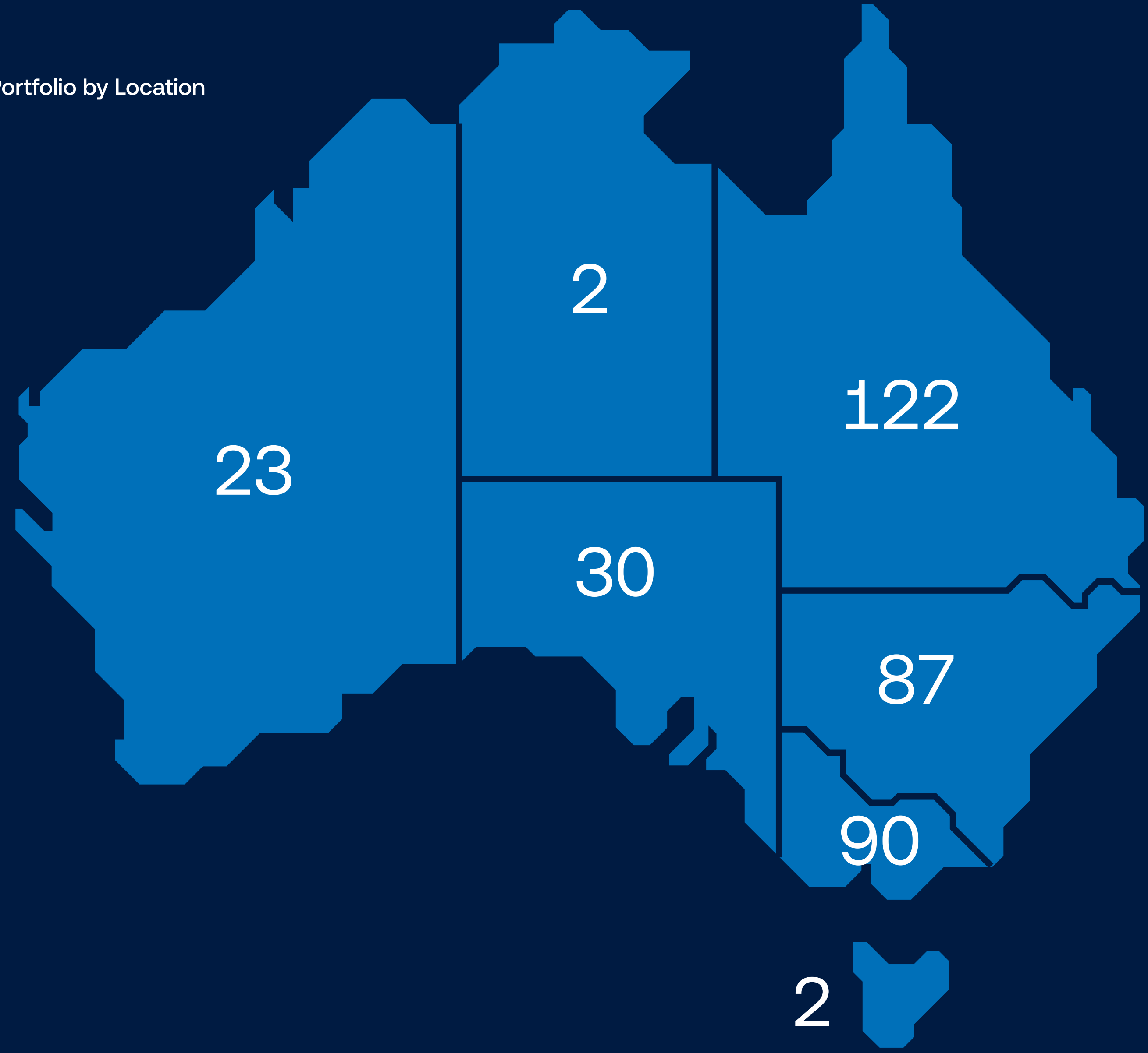
Geographical profile by % of annual rent: June 2021



Lease expiry profile by % of annual rent: FY23 – FY57



Portfolio by Location



WALE
15.2yrs

Occupancy
100%

Forecast weighted average rent reviews
2.9%

Lease income expiring in next 5 years
3.4%

Sustainability

Three things drive us. Mutual success underpins our goals; active partnership governs our relationships; and our insistence on being a sustainable business over the long term shapes our strategy and actions.

We focus our sustainability actions on where we have the greatest impact and influence – acting on climate change, building the resilience of communities and operating as a responsible investment manager.

Sustainability is integrated into how we think and work and is the lens used to assess, manage and achieve our environmental, social and governance (ESG) goals. It's also part of how we work in partnership with our customers, to create long-term risk adjusted returns for investors and healthier places for our communities.

We benefit from Charter Hall Group's sustainability initiatives and achievements, as Charter Hall Group is the manager of CQE. Charter Hall Group manages all of its funds, including CQE, with the same sustainability goals.

The 17 United Nations Sustainable Development Goals (SDGs) are the blueprint to achieve a better and more sustainable future. Charter Hall Group seeks to align our responses and targets to the UN Sustainable Development Goals.

Environment: Climate Resilience

We are working in partnership with our customers to deliver meaningful action on climate change.

Focus areas	Progress this year	Looking forward
Carbon and climate change 13 CLIMATE ACTION 11 SUSTAINABLE CITIES AND COMMUNITIES	– Charter Hall Group became a signatory to the WGBC Net Zero Carbon Commitment, aligned with its net zero target for Scope 1 and 2 emissions by 2030. – Charter Hall Group was recognised for 2020 PRI Leaders Group for climate related disclosure. – Completed physical risk assessments using RCP8.5 as worst case.	Develop a local nature-based offset strategy for residual emissions during FY22. Develop a Scope 3 emissions target aligned to science-based target methodology during FY23.
Resilience and adaptation 13 CLIMATE ACTION 11 SUSTAINABLE CITIES AND COMMUNITIES	– Completed physical risk assessments using RCP8.5 as worst case.	Complete Climate Change and Adaptation Plans (CCAP) by FY25 and incorporate CCAP in onboarding of new assets.

Focus areas	Progress this year	Looking forward
Energy efficiency 13 CLIMATE ACTION	– Incorporating energy efficiency in new developments.	Explore partnering with tenants to improve energy efficiency through LED lighting upgrades.
Clean energy 7 AFFORDABLE AND CLEAN ENERGY	– Exploring partnering with tenants to install solar.	Commence solar installation program at select locations.
Water 6 CLEAN WATER AND SANITATION	– Incorporating water efficiency in new developments.	Explore partnering with tenants to improve water efficiency.
Waste 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	– Reducing construction waste in new developments.	Continue to look for opportunities to reduce waste from developments.

Right: CQE Centre, Elwood, Vic.

Social: Strong Communities

We are always looking for ways to increase the strengths of the communities in which we operate.

Focus areas	Progress this year	Looking forward
Social value: Through partnership, deliver positive impacts for the communities in which we operate 1 NO POVERTY 3 GOOD HEALTH AND WELL-BEING 8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES	– Charter Hall Group continued to lead with purpose in its quest to lift the futures of communities. This is measured through ongoing participation in the Pledge 1% initiative: – $739,000 total donations to social enterprises and charitable organisations. – >41,000sqm of space, valued at over $1.8million, provided to community groups. – 35% of employees volunteered a total 1,200 hours in the community, in a year impacted by COVID-19 restrictions.	Continue to contribute 1% of our profits, space and people's time to community partners per year for positive social impact. Increase our employee volunteering to 6,000 hours in the community by FY25.
Employment opportunities 8 DECENT WORK AND ECONOMIC GROWTH	– Charter Hall Group established state-based partnerships with four social enterprises to support employment for vulnerable youth. This will enable over 100 employment opportunities per year. – Charter Hall Group supported 11 youths to receive employment training and >4,500 hours of trainee hours worked at Kick Start cafes in NSW. Since our partnership began, 12 trainees have graduated from the program.	Continue to support disadvantaged youth by creating 400 meaningful youth employment outcomes by FY25. Those opportunities will increase to 1200 youth employment outcomes by 2030.
Employee: Create a diverse and inclusive culture and environment 1 NO POVERTY 3 GOOD HEALTH AND WELL-BEING 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES	– Charter Hall Group in its aim to become a high performing, diverse and inclusive culture: – Achieved 90% employee engagement. 95% of employees recommend Charter Hall as a good place to work. – Recorded strong results across all culture measures and high performing employee experience compared to benchmarks. – Achieved WGEA Employer of Choice for Gender Equality citation. – Continued to grow LGBT+ network of allies. Improved ranking in the Australian Workplace Equality Index. – Ranked second in Property, Construction & Transport category in 2021 AFR BOSS Best Places to Work list.	Sustain levels of engagement that align with being a global high performing culture.
Health, safety and wellbeing 3 GOOD HEALTH AND WELL-BEING	– Cared for tenant customers through COVID with rent relief, hygiene initiatives, adaptation of digital engagement and support with returning to workplace. – Charter Hall Group recorded a lost time injury and lost time injury frequency rate of zero, and a total recordable injury frequency rate of 1.11.	Implement new incident management software for consistency of data capture used across Charter Hall Group.
First Nations engagement 10 REDUCED INEQUALITIES	– Charter Hall Group submitted inaugural Reconciliation Action Plan (RAP) for review with Reconciliation Australia.	Launch a RAP in early FY22. Focus then shifts to bringing RAP to life in a meaningful and purposeful way.

Nurturing wellbeing

This year, Charter Hall Group provided its employees with the wellbeing resources and tools they need to approach each day with confidence, safely adapt to new working conditions and help customers and stakeholders better navigate uncertainty.

What Charter Hall Group did

- Black Dog Institute 'Managing for Team Well-Being' sessions focused on development of skills to identify and address mental health challenges.
- Banksia Project 'Connection Room' program, where employees join a safe space to share personal stories and tips on coping strategies.
- 'Financial Well-Being' sessions focused on wealth creation and protection.
- 'Managing for Team Productivity' and 'Well-Being for Kids' resources and activities.
- Updated Domestic Violence and Mental Health disclosures to allow for alternate work location, increased flex in hours, 'safe word' communication and 'critical worker' access to sites during lockdown.
- Implemented new space booking and utilisation technologies to support safe return to our offices.
- Supported Victorian employees through prolonged lockdown with 10 days personal leave for home-schooling.

What Charter Hall Group employees said

83%
agree Charter Hall Group promotes a healthy work environment, 18% above the Australian norm.

76%
favoured Charter Hall Group's wellbeing approach, 14% above the Australian norm.

35%
uptake of home-schooling leave.

Governance: Responsible Business

We want our systems and practices to reflect a high standard of corporate governance and for our culture to demonstrate exemplary ethical standards.

Focus areas	Progress this year	Looking forward
Ethics: Conduct business activities in line with the highest ethical standards 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	– All employees received learning on governance and risk management policies, including our Code of Conduct. – All employees undertook training relating to business ethics, management's approach to compliance and ethical business practice and our social license to operate. Scored 90% in employee engagement. – Charter Hall Group joined the Ethical Alliance (managed by The Ethics Centre). This community of organisations is committed to leading, inspiring and shaping better futures.	Deliver ethics and good decision making training for all employees during FY22. Continue to embed values based decision making into everything we do.
Data security: Actively protect the privacy of individuals and companies 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	– Charter Hall Group joined the Sustainable Digitalisation Project as a Silver Member to be part of an industry approach to responsible, ethical and sustainable digitalisation. – Charter Hall Group actively engaged in the Property Council of Australia's Cyber Security Roundtable to address emerging cyber threats as an industry. – Charter Hall Group reported no major cyber security incidents for the year. Cyber security strategy is modelled on internationally recognised standard ISO27001 and audited annually.	Embed and continuously evolve information security and privacy practices in our operations. Continue to drive technology and innovation to enhance experience and wellbeing, operate efficiently and sustainably, and safeguard against risk.
Responsible supply chain: Create an integrated sustainable supply chain strategy and ensure delivery on UNGC commitment 1 NO POVERTY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES	– Identified five Charter Hall Group suppliers for independent review to identify opportunities for improving their risk ratings. – Implemented the Supplier Code of Conduct outlining mandatory modern slavery compliance for all Charter Hall Group suppliers. – All employees received modern slavery refresher training, including training on the process of reporting issues if employees find or suspect modern slavery in our operations or supply chains.	In FY22 we will identify the next tranche of suppliers to be invited to complete the modern slavery pre-qualification, with a focus on suppliers in the industries identified as most high risk for Charter Hall, specifically cleaning, security and maintenance. Publish our annual UN Global Compact and Modern Slavery Statement in FY22.

Climate related risks and opportunities

Global climate change will generate impacts on the environment and in the communities in which we operate that will pose a serious challenge to our business. In response, Charter Hall Group initiated a range of actions and partnerships with its customers to create low carbon solutions across its assets and funds.

These are some of the measures Charter Hall Group have undertaken this year:

Governance

- Charter Hall Group Board continued to oversee sustainability strategy and policies (including approach to climate change and integrating ESG) through Audit Risk and Compliance Committee (ARCC).
- Executive and Non-Executive Directors engaged on Climate Change and Scenarios.
- Executive Committee continued to have strategic oversight of ESG strategy and implementation, bolstered by the establishment of an ESG Committee to drive platform wide alignment and implementation.
- Cross-business Task Force on Climate-related Financial Disclosures (TCFD) Working Group established. Includes representation from Chief Financial Officer, Chief Investment Officer, Chief Experience Officer, General Counsel and Company Secretary, and Group Head of Risk and Compliance.

Strategy

- Developed and disclosed our Scenarios.
- Published our TCFD approach.
- Committed to Net Zero Carbon in operation by 2030 (Scope 1 & Scope 2).

Risk management

- Created a climate and carbon transaction framework for acquisition and investment strategies.
- Completed physical risk assessments portfolio wide.
- Commenced CCAP for Industrial & Logistics sector (70% complete by floor area) using RCP8.5 as worst case. Office and Retail sectors CCAP will commence in FY22.

Metrics and targets

Business operations:

Target:
Established Net Zero Carbon Scope 1 & Scope 2 by 2030

Target:
100% renewables for Scope 2

Achieved:
7%[1] reduction in carbon emission intensity (Scope 1 and 2) since FY17, despite a 37%[1] increase in area

New projects:

- Piloted net zero developments (embodied carbon and construction emissions) at two childcare centres located within Retail shopping centres in WA.
- Piloted Climate Active certified construction services on 140 Lonsdale Street, Melbourne development.
- Designing for net zero in operations at 60 King William Street, Adelaide development.

Charter Hall climate scenarios

As a business our strategy has adopted two scenarios to test resilience and enable us to prepare for physical and transitional risks.

Transition to a low carbon economy (RCP2.6) scenario

Outcome:
Not likely to exceed 2°C by 2100 in accordance with the Paris Agreement

Business-as-usual (RCP8.5) scenario

Outcome:
Likely to exceed 4°C+ by 2100

1. As at FY20, noting FY21 environmental data will be reported in the Charter Hall 2021 Sustainability Report.

Board and Management

Travis Butcher
Fund Manager

Travis joined Charter Hall Group following the acquisition of Folkestone Limited in November 2018 where he held the position of Chief Financial Officer – Funds since September 2012.

Travis has over 21 years' financial experience in Australia and overseas. Travis is a Chartered Accountant who began his career at PricewaterhouseCoopers specialising in transaction services and audit.

Travis is a member of the Institute of Chartered Accountants and holds a Bachelor of Accounting from Monash University.

Above, from left: Sean McMahon, Executive Director; Kate Melrose, Non-Executive Director; Grant Hodgetts, Non-Executive Chairman; Miriam Patterson, Executive Director; Michael Johnstone, Non-Executive Director. See pages 30-31 for Director bios.

Nathan Chew
Deputy Fund Manager

Nathan joined Charter Hall in May 2020, bringing over 19 years' experience in the property investment industry. Prior to Charter Hall, he led a range of portfolio asset management, valuation, reporting and analysis functions across Blackstone's diversified APAC real estate portfolio, as well as Australian Unity's healthcare property portfolio.

Nathan brings extensive funds management and banking expertise having covered transactions through Asia, Europe and the US in roles with 151 Property, Macquarie Group and Westpac Institutional Bank.

Nathan holds a Bachelor of Finance from the University of Adelaide.

Scott Martin
Head of Finance - Diversified

Scott joined Charter Hall Group following the acquisition of Folkestone Limited in November 2018 where he held the position of Chief Financial Officer & Company Secretary since December 2005.

Scott has over 21 years' financial experience in Australia specialising in the property and construction industries. Scott is a Chartered Accountant who began his career at Deloitte specialising in accounting, taxation and transaction services.

Scott is a member of the Institute of Chartered Accountants and holds a Bachelor of Commerce from the University of Melbourne.

Mark Bryant
Group General Counsel - Charter Hall and Company Secretary

Mark Bryant was appointed as Company Secretary for Charter Hall Group on 24 August 2015 and has been the sole Company Secretary since 1 March 2017.

Mark holds a Bachelor of Business (Accounting) and a Bachelor of Laws (Hons) and has over 15 years' experience as a lawyer, including advising on listed company governance, securities law, funds management, real estate and general corporate law.

Directors' Report and Financial Report

For the year ended 30 June 2021

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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 2021.

The REIT is a registered scheme, and CHSIL is a company limited by shares. The REIT and CHSIL are incorporated and domiciled in Australia with the registered office and principal place of business located at Level 20, 1 Martin Place, Sydney NSW 2000. CHSIL is a controlled entity of Charter Hall Limited.

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 Hodgetts – Chair and Non-Executive Director
- Michael Johnstone – Non-Executive Director
- Kate Melrose – Non-Executive Director
- Sean McMahon – Executive Director and Chief Investment Officer (Charter Hall Group)
- Miriam Patterson – Executive Director (appointed on 9 September 2020)

Distributions

Distributions paid or declared by the REIT to unitholders:

	2021			2020		
	Number of units on issue	**Cents Per Unit**	**$'m**	Number of units on issue	Cents Per Unit	$'m
30 September	**360,371,362**	**3.75**	**13.6**	301,287,287	4.175	12.6
31 December	**361,255,506**	**3.75**	**13.6**	301,858,943	4.175	12.6
31 March	**361,963,847**	**4.10**	**14.8**	302,723,384	4.175	12.6
30 June*	**362,627,160**	**8.10**	**29.4**	359,351,359	3.475	12.6
Total distributions		**19.70**	**71.4**		16.00	50.4

*The 30 June 2021 distribution of 8.10 cents per unit includes a special distribution of 4.0 cents per unit.

A liability for the 30 June 2021 distribution has been recognised in the consolidated financial statements as it has 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 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, 3,275,801 units were issued at an average issue price of $2.78 per unit. An additional $3.9 million was raised from the DRP for the 30 June 2021 distribution allotted on 21 July 2021 (2020: $2.4 million from DRP for the 30 June 2020 distribution allotted on 21 July 2020).

Directors' Report (continued)

Review and results of operations

The REIT recorded a statutory profit for the year of $174.1 million (2020: $85.6 million). Operating earnings amounted to $58.0 million (16.0 cents per unit) for the year ended 30 June 2021 (2020: $51.1 million, 16.5 cents per unit) and a distribution of $71.4 million (19.7 cents per unit) was declared for the same period (2020: $50.4 million, 16.0 cents per unit).

The 30 June 2021 financial results are summarised as follows:

	2021	2020
Revenue ($ millions)	**90.6**	86.2
Net profit ($ millions)	**174.1**	85.6
Basic earnings per unit (cents)	**48.2**	27.6
Operating earnings ($ millions)	**58.0**	51.1
Operating earnings per unit (cents)	**16.0**	16.5
Distributions ($ millions)	**71.4**	50.4
Distributions per unit (cents)	**19.7**	16.0
Total assets ($ millions)	**1,542.0**	1,357.4
Total liabilities ($ millions)	**363.7**	307.7
Net assets ($ millions)	**1,178.3**	1,049.7
Units on issue (millions)	**362.6**	359.4
Net assets per unit ($)	**3.25**	2.92
Balance sheet gearing - total debt (net of cash) to total assets (net of cash)	**19.2%**	16.4%
Look through gearing - total debt (net of cash) to total assets (net of cash)	**20.4%**	18.0%

The table below sets out income and expenses that comprise operating earnings on a proportionate consolidation basis:

		2021 $'m	2020 $'m
Net property income		**72.0**	66.9
Distribution income		**2.2**	2.6
Interest income		**0.2**	0.1
Fund management fees		**(7.2)**	(6.5)
Finance costs		**(7.2)**	(9.6)
Administration and other expenses		**(2.0)**	(2.4)
Operating earnings	A1	**58.0**	51.1

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 straightlining 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:

	2021 $'m	2020 $'m
Operating earnings	**58.0**	51.1
Net fair value movements on investment properties	**100.6**	42.7
Net fair value movements on derivative financial instruments	**2.4**	(6.1)
Gain/(loss) on sale of investment properties	**1.3**	(4.1)
Straightlining of rental income, amortisation of lease fees and incentives	**2.9**	2.8
Share of equity accounted non-operating profit	**8.9**	0.6
Ground rent on leasehold properties	**1.4**	1.4
Interest on lease liabilities	**(0.2)**	(0.2)
Provision for rent relief*	–	(1.0)
Unrealised/realised foreign exchange losses	**(0.3)**	(1.4)
Other	**(0.9)**	(0.2)
Statutory profit for the year	**174.1**	85.6
Basic weighted average number of units (millions)	**361.4**	309.7
Basic earnings per unit (cents)	**48.2**	27.6
Operating earnings per unit (cents)	**16.0**	16.5
Distribution per unit (cents)	**19.7**	16.0

* Rent free incentives relating to COVID-19 agreed after 30 June 2020.

Property valuation gains

Valuation gains totalling $110.8 million were recorded during the period (2020: $48.0 million). These gains were partially offset by revaluation decrements attributable to acquisition costs of $7.3 million (2020: $2.5 million), straightlining of rental income, amortisation of lease fees and incentives of $2.9 million (2020: $2.8 million).

The uncertainty of the impact of COVID-19 did not have a significant impact on property valuations.

Significant changes in the state of affairs

Acquisitions

During the year, the REIT acquired the following assets:

	Acquisition date	Acquisition price $'m
40 Whadjuk Drive, Hammond Park WA	August 2020	4.3
Lots 434-438 Nyilla Approach, Baldivis WA	December 2020	4.1
SA Emergency Command Centre, Keswick SA*	November 2020	50.4
Mater, Newstead QLD	June 2021	122.5
216 – 218 Flinders Street, Yokine WA	June 2021	4.6
		185.9

* Acquisition price reflects payments for land and works completed to 30 June 2021.

Directors' Report (continued)

Disposals

During the year, the REIT disposed of the following assets:

	Disposal price $'m
Charter Hall CIB Fund (15% interest)	18.4
Portfolio of Australian Childcare Assets (24 properties)	47.6
Portfolio of New Zealand Childcare Assets (20 properties)*	37.3
	103.3

* Settlement occurred in June 2021 for total consideration of NZ$40.1 million.

Debt arrangements and hedging

In June 2021, the REIT increased its debt facilities from $500 million to $600 million with the additional $100 million being provided by a new financier, further diversifying CQE's funding sources. The new $100 million facility is for a five-year term expiring in May 2026. The REIT also extended the maturity date of its existing $400 million of bilateral facilities to May 2024 and May 2026 in equal proportions.

In June 2021, the REIT entered into a new $65 million swap maturing in December 2024.

COVID-19 rent relief

During the current reporting period, the COVID-19 pandemic did not have a material impact on the REIT as all of the REIT's properties remained open and in operation. The Federal Government has continued to provide support for those operators adversely impacted by the COVID-19 pandemic. 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. In the prior reporting period, the REIT provided for $3.4 million of rent free incentives for both its SME and non-SME tenants. A further $0.1 million of rent free incentives for non-SME tenants were provided in the current reporting period. As -at the date of this report, all rent relief agreements with tenants have been finalised.

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.

Risk		Description	Mitigation
External Risks	Property cycle risk and adverse market or economic conditions	Failure to insulate against property cycle downturns and slowing economic conditions may have an impact on asset values and investor returns.	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.

Directors' Report (continued)

Risk		Description	Mitigation
External Risks (continued)	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 2021, the REIT holds approximately $43.5 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 2021, Goodstart Early Learning Limited (Goodstart) contributes 42% of the REIT's rental income.	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 the 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 against the impacts of COVID-19.
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. A relationship breakdown or termination of a joint venture partnership may result in reputational or financial damage.	We mitigate these risks by the 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. 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.

Directors' Report (continued)

Risk		Description	Mitigation
Operational Risks (continued)	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 from the top down regarding desired behaviours. 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 the 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 and report on climate resilience. 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.
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.

Matters subsequent to the end of the financial period

There are no events that have occurred which the Directors believe significantly affect the operations of the REIT or 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 could 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,

Directors' Report (continued)

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 an insurance 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 $7,156,752 (2020: $6,538,879) and other fees of $5,549,972 (2020: $5,756,000) 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 2021 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:

	2021	2020
Units on issue at the beginning of the year	**359,351,359**	300,626,896
Units issued during the year		
- via Distribution Reinvestment plan	**3,275,801**	2,766,238
- via Placement issue	**–**	45,454,546
- via Unit Purchase Plan	**–**	10,503,679
Units on issue at the end of the year	**362,627,160**	359,351,359

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 Hodgetts	Appointed 24 October 2012 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 Woodstock Holdings Pty Ltd, 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.	Chairman, Member of Audit, Risk and Compliance Committee	40,982
Michael Johnstone	Appointed 22 December 2004 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 acquisitions, 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), and in the private sector a Non-Executive Director of Dennis Family Holdings and Chairman of Dennis Family Homes.	Chairman of Audit, Risk & Compliance Committee	84,728
Kate Melrose	Appointed 11 March 2020 Kate has 30 years experience in ASX listed and private property sectors. She is an experienced executive and has spent 14 years with Lendlease creating large scale urban communities as a Development Manager, Development Director & Global Strategic Marketing Manager before joining Greengate and Mark Moran Vaucluse, creating integrated retirement and aged care communities. Kate has been an Executive with Ingenia Communities (ASX:INA) and is General Manager (Sales) since 2014 and is a Director on the Sungenia Group Board. Kate is a graduate of Australian Institute of Company Directors (GAICD), holds a Bachelor of Business (Land Economics), a Real Estate Licence (NSW), is a member of UDIA and committee member of API and has completed the Melbourne Business School - Leading for Organisational Change; has a Corporate Real Estate Certificate and has Artificial Intelligence and Machine Learning Masterclass from UTS.	Member of Audit, Risk and Compliance Committee	20,735

Directors' Report (continued)

Director	Experience	Special responsibilities	Interest in units of the REIT
Sean 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 Charter Hall 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 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
Miriam Patterson	Appointed 9 September 2020 Miriam is the Fund Manager for Charter Hall's Direct business, with over $8 billion of funds under management. She is responsible for growing the institutional quality of investments available to retail investors. Before joining Charter Hall Direct, Miriam worked at Telstra Super as Head of Real Assets, overseeing a $4 billion real estate and infrastructure portfolio. Prior to this, Miriam worked at Hastings Funds Management Ltd where she worked across asset management and transactions. With her prior experience in investments and as an equity owner, Miriam brings a real assets perspective to the Board. Miriam has over 15 years' experience in property and infrastructure and is a member of the Australian Institute of Company Directors and member of the Institute of Chartered Accountants Australia and New Zealand.	Nil	Nil

Meetings of Directors

Name	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
Grant Hodgetts	11	11	5	5
Michael Johnstone	11	11	5	5
Kate Melrose	11	10	5	5
Sean McMahon	11	11	–	–
Miriam Patterson	8	8	–	–

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 D6 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 D6 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 33.

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

Grant Hodgetts
Chair
Melbourne
12 August 2021

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Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Social Infrastructure REIT for the year ended 30 June 2021, 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.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
12 August 2021

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Consolidated statement of comprehensive income

	Notes	2021 $'m	2020 $'m
Revenue			
Property income	A1	**88.2**	83.5
Distribution income		**2.2**	2.6
Interest income		**0.2**	0.1
Total revenue		**90.6**	86.2
Other income			
Net fair value gain on investment properties	B1	**100.6**	42.7
Gain on sale of investment properties		**1.3**	–
Net gain from derivative financial instruments		**2.4**	–
Share of equity accounted profit	B2	**11.0**	2.5
Total revenue and other income		**205.9**	131.4
Expenses			
Property expenses		**(15.5)**	(15.2)
Fund management fees	D1	**(7.2)**	(6.5)
Finance costs		**(6.8)**	(9.1)
Administration and other expenses		**(2.0)**	(2.4)
Net loss from derivative financial instruments		**–**	(6.1)
Loss on sale of investment properties		**–**	(4.1)
Provision for rent relief		**–**	(1.0)
Realised and unrealised foreign exchange losses		**(0.3)**	(1.4)
Total expenses		**(31.8)**	(45.8)
Profit for the year		**174.1**	85.6
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gain/(loss) on revaluation of financial assets	B3	**16.8**	(5.7)
Other comprehensive income		**16.8**	(5.7)
Total comprehensive income for the year		**190.9**	79.9
Basic and diluted earnings per ordinary unitholder of the REIT			
Earnings per unit (cents)	A2	**48.2**	27.6

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

Consolidated balance sheet

	Notes	2021 $'m	2020 $'m
Assets			
Current assets			
Cash and cash equivalents		**5.3**	75.6
Receivables	D2	**6.2**	3.7
Other assets	D2	**2.5**	5.5
Investment properties held for sale	B1	**–**	3.5
Total current assets		**14.0**	88.3
Non-current assets			
Investment properties	B1	**1,448.0**	1,197.8
Investment accounted for using equity method	B2	**35.3**	26.4
Investment in financial assets	B3	**43.4**	44.9
Derivative financial instruments	C3	**1.3**	–
Total non-current assets		**1,528.0**	1,269.1
Total assets		**1,542.0**	1,357.4
Liabilities			
Current liabilities			
Trade and other payables	D2	**31.3**	5.2
Distribution payable	A2	**29.4**	12.8
Derivative financial instruments	C3	**–**	0.2
Lease liabilities	D3	**1.3**	1.1
Total current liabilities		**62.0**	19.3
Non-current liabilities			
Borrowings	C2	**297.1**	282.6
Derivative financial instruments	C3	**–**	0.8
Lease liabilities	D3	**4.6**	5.0
Total non-current liabilities		**301.7**	288.4
Total liabilities		**363.7**	307.7
Net assets		**1,178.3**	1,049.7
Equity			
Contributed equity	C4	**629.9**	620.8
Reserves	C4	**21.9**	15.2
Undistributed profit		**526.5**	413.7
Total equity		**1,178.3**	1,049.7

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 2019		490.8	20.9	378.5	890.2
Profit for the year		–	–	85.6	85.6
Other comprehensive loss		–	(5.7)	–	(5.7)
Total comprehensive income for the year		–	(5.7)	85.6	79.9
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	413.7	1,049.7
Total equity at 1 July 2020		**620.8**	**15.2**	**413.7**	**1,049.7**
Profit for the year		**–**	**–**	**174.1**	**174.1**
Other comprehensive income		**–**	**16.8**	**–**	**16.8**
Total comprehensive income for the year		**–**	**16.8**	**174.1**	**190.9**
Transfer of reserves	C4	**–**	**(10.1)**	**10.1**	**–**
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C4	**9.1**	**–**	**–**	**9.1**
- Distributions paid and payable	A2	**–**	**–**	**(71.4)**	**(71.4)**
Total equity at 30 June 2021		**629.9**	**21.9**	**526.5**	**1,178.3**

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

Consolidated cash flow statement

	Notes	2021 $'m	2020 $'m
Cash flows from operating activities			
Property income received		**94.3**	88.1
Cash payments in the course of operations		**(36.2)**	(29.7)
Distributions received from interest in financial assets and joint ventures		**4.4**	2.8
Interest received		**0.2**	0.1
Finance costs paid		**(6.6)**	(10.6)
Net cash flows from operating activities	A3	**56.1**	50.7
Cash flows from investing activities			
Proceeds from sale of investment properties		**84.4**	50.0
Payments for investment properties		**(197.6)**	(112.9)
Proceeds from / (payments for) financial assets		**18.3**	(2.2)
Net cash flows from investing activities		**(94.9)**	(65.1)
Cash flows from financing activities			
Proceeds from borrowings		**115.0**	142.5
Repayment of borrowings		**(101.0)**	(130.0)
Reset of derivative financial instruments		**–**	(11.7)
Proceeds from issue of units, net of equity raising costs		**–**	121.3
Distributions paid		**(45.5)**	(41.0)
Net cash flows from financing activities		**(31.5)**	81.1
Net increase/(decrease) in cash held		**(70.3)**	66.7
Cash and cash equivalents at the beginning of the year		**75.6**	8.9
Cash and cash equivalents at the end of the year		**5.3**	75.6

The above consolidated cash flow statements 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	2021 $'m	2020 $'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	C4	**9.1**	8.7

About this report

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

A. REIT performance – provides key metrics used to measure financial performance.

B. Property portfolio assets – explains the structure of the investment property portfolio and investments in joint ventures and financial assets.

C. Capital structure and financial risk management – details of how the REIT manages its exposure to various financial risks.

D. Further information – provides additional disclosures not included in previous sections but relevant in understanding the financial statements.

Critical accounting estimates and judgements

The preparation of the consolidated financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the 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; and
- Fair value estimation - B1 Investment properties.

Coronavirus (COVID-19) impact

The COVID-19 pandemic's current and ongoing impact on the REIT's business operations and business operations of the REIT's tenant customers has been considered. 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;
  - timing and efficiency of the roll out of the vaccination program; 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

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- judgements in property valuations such as letting up time, incentives provided and vacancy.

During the current reporting period, the COVID-19 pandemic did not have a material impact on the REIT, as all of the REIT's properties remained open and in operation. The Federal Government has continued to provide support for those operators adversely impacted by the COVID-19 pandemic. 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. In the prior reporting period, the REIT provided for $3.4 million of rent free incentives for both its SME and non-SME tenants. A further $0.1 million of rent free incentives for non-SME tenants were provided in the current reporting period. As of the date of this report, all rent relief agreements with tenants have been finalised.

In response to the increased uncertainty of COVID-19, the REIT has assessed the carrying values of its assets and liabilities. 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 2021 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 directors' valuations. There has been no material impact to valuations as a result of the COVID-19 pandemic.

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 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.

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 presented on a proportionate consolidation basis and reported to the Board for the operating segment for the years ended 30 June 2021 and 30 June 2020 are as follows:

	2021 $'m	2020 $'m
Property lease revenue	**83.7**	78.0
Services income	**4.5**	5.5
Property income	**88.2**	83.5
Non-cash adjustments	**(2.9)**	(2.8)
Ground rent on leasehold properties	**(1.4)**	(1.4)
Share of net property income from joint venture	**2.7**	2.6
Property expenses	**(15.5)**	(15.2)
Development rebate and other	**0.9**	0.2
Net property income	**72.0**	66.9
Distribution income	**2.2**	2.6
Interest income	**0.2**	0.1
Fund management fees	**(7.2)**	(6.5)
Finance costs	**(7.2)**	(9.6)
Administration and other expenses	**(2.0)**	(2.4)
Operating earnings	**58.0**	51.1

The table below sets out top three tenants' contribution to annual rent:

Tenant	2021 %	2020 %
Goodstart Early Learning Limited	**42%**	47%
Only About Children	**9%**	10%
G8 Education Limited	**8%**	9%

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

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

Goodstart Early Learning Limited (Goodstart) was formed in 2009 by a partnership of four of Australia's leading charities when it acquired the ABC Learning business. The four founding members are The Benevolent Society, Mission Australia, the Brotherhood of St Laurence and Social Ventures Australia. Goodstart is a not-for-profit organisation and operates 649 childcare centres across Australia.

A. REIT performance (continued)

Only About Children is a premium private operator of over 75 centres throughout Sydney, Melbourne and Brisbane.

G8 Education Limited (G8) is a publicly listed company on the ASX (ASX code: GEM). As at 30 June 2021, G8 operated more than 470 centres across Australia. G8 operates under 21 different brands including Pelicans, Jellybeans, Greenwood, The Learning Sanctuary and Buggles.

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

	2021 $'m	2020 $'m
Operating earnings	**58.0**	51.1
Net fair value movements on investment properties	**100.6**	42.7
Net fair value movements on derivative financial instruments	**2.4**	(6.1)
Gain/(loss) on sale of investment properties	**1.3**	(4.1)
Straightlining of rental income, amortisation of lease fees and incentives	**2.9**	2.8
Share of equity accounted non-operating profit	**8.9**	0.6
Ground rent on leasehold properties	**1.4**	1.4
Interest on lease liabilities	**(0.2)**	(0.2)
Provision for rent relief*	–	(1.0)
Unrealised/realised foreign exchange losses	**(0.3)**	(1.4)
Other	**(0.9)**	(0.2)
Statutory profit for the year	**174.1**	85.6
Basic weighted average number of units (millions)	**361.4**	309.7
Basic earnings per unit (cents)	**48.2**	27.6
Operating earnings per unit (cents)	**16.0**	16.5
Distribution per unit (cents)	**19.7**	16.0

* Rent free incentives relating to COVID-19 agreed after 30 June 2020.

Property rental income

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

Minimum lease payments to be received include future amounts to be received on non-cancellable operating leases, not recognised in the financial statements at balance date. The lease payments 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:

	2021 $'m	2020 $'m
Less than 1 year	**81.5**	80.2
1 - 2 years	**82.1**	80.2
2 - 3 years	**83.8**	82.1
3 - 4 years	**85.1**	84.2
4 - 5 years	**84.0**	86.3
Over 5 years	**1,031.7**	739.6
Total	**1,448.2**	1,152.6

Lease modification

Rent free incentives provided in respect of COVID-19 and documented by 30 June 2021 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)

Services income

Other income principally includes non-lease income derived under lease agreements with tenants. Non-lease income relates to the proportion of property operating costs which are recoverable from tenants in accordance with lease agreements and relevant legislative acts.

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.

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	2021			2020		
	Number of units on issue	**Cents Per Unit**	**$'m**	Number of units on issue	Cents Per Unit	$'m
30 September	**360,371,362**	**3.75**	**13.6**	301,287,287	4.175	12.6
31 December	**361,255,506**	**3.75**	**13.6**	301,858,943	4.175	12.6
31 March	**361,963,847**	**4.10**	**14.8**	302,723,384	4.175	12.6
30 June*	**362,627,160**	**8.10**	**29.4**	359,351,359	3.475	12.6
Total distributions		**19.70**	**71.4**		16.00	50.4

*The 30 June 2021 distribution of 8.10 cents per unit includes a special distribution of 4.0 cents per unit.

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.

(b) Earnings per unit

	2021	2020
Basic earnings per ordinary unitholder of the REIT		
Earnings per unit (cents)	**48.2**	27.6
Operating earnings per unit (cents)	**16.0**	16.5
Earnings used in the calculation of basic earnings per unit		
Net profit for the year ($'m)	**174.1**	85.6
Operating earnings for the year ($'m)	**58.0**	51.1
Weighted average number of units used in the calculation of basic earnings per unit (millions)*	**361.4**	309.7

* 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.

A. REIT performance (continued)

A3. Reconciliation of net profit to operating cash flow

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

	Notes	**2021 $'m**	2020 $'m
Net profit		**174.1**	85.6
Non-cash and non-operating items			
Straightlining and amortisation of leasing fees and lease incentives		**(2.9)**	(2.8)
Share of unrealised net profit on investment in joint venture entities		**(8.9)**	(0.6)
Net fair value gain on investment properties		**(100.6)**	(42.7)
(Gain)/loss on sale of investment properties		**(1.3)**	4.1
Net fair value gain/(loss) on derivative financial instruments		**(2.4)**	6.1
Net GST (paid)/received on acquisition and disposal of investment properties		**(3.7)**	3.3
Unrealised foreign exchange loss		**0.3**	1.4
Provision for rent relief		**–**	1.0
Change in assets and liabilities			
(Increase)/decrease in assets			
Receivables and other assets		**5.3**	(4.1)
Unamortised borrowing costs		**(0.2)**	(0.2)
Increase/(decrease) in liabilities			
Payables and other liabilities		**(3.6)**	(0.4)
Net cash flows from operating activities		**56.1**	50.7

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	2021 $'m	2020 $'m
Non-current assets			
Investment properties	B1	**1,448.0**	1,197.8
Investments in joint ventures	B2	**35.3**	26.4
Investment in financial assets at fair value	B3	**43.4**	44.9
Total non-current assets		**1,526.7**	1,269.1
Current assets			
Assets held for sale	B1	**–**	3.5
Property portfolio assets, including interests in joint venture and financial assets		**1,526.7**	1,272.6

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.

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.

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

(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.

Each investment property is valued by an independent external valuer at least once every 12 months, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property. Independent valuers are engaged on a rotational basis. If a property is not externally valued at balance date, the REIT performs an internal valuation.

As at 30 June 2021, 63% of non-development investment properties, including joint ventures, were externally valued (2020: 58%). During the year ended 30 June 2021, 100% of these non-development investment properties, including joint ventures, were externally valued (2020: 100%).

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 was considered.

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

Consolidated Group	Fair value $'m	Passing Rent ($ per licence place/p.a.)	Passing Yield (% p.a.)
2021	**1,268.6**		
Australia – Freehold		**1,105 – 6,832**	**5.5**
Australia – Leasehold		**735 – 5,193**	**13.9**
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.

The fair value of Mater, Newstead QLD of $123.1 million is derived using the following inputs:

- net market rent of $716 per square metre per year;
- 4.75% p.a. adopted capitalisation rate;
- 5.00% p.a. adopted terminal yield; and
- 6.25% p.a. adopted discount rate.

As at 30 June 2021, $50.4 million has been incurred in the development of SA Emergency Services Command Centre, Keswick SA. As this property is still under development it is carried at cost.

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.
Net Market rent	A net market rent is the estimated amount for which a property or space within a property, should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. On a net rent basis, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Capitalisation rate	The return represented by the income produced by an investment, expressed as a percentage
Terminal yield	A percentage return applied to the expected net income following a hypothetical sale at the end of the cash flow period.
Discount rate	A rate of return used to convert a future monetary sum or cash flow into present value.
Passing rent	The passing rent being paid by the lessee(s) as specified by the terms of the lease(s)/tenancy agreement(s).

Sensitivity analysis

Excluding the development sites, if the capitalisation rate expanded by 25 basis points, the fair value would reduce by $56.7 million from the fair value as at 30 June 2021 and, if the capitalisation rate compressed by 25 basis points, the fair value would increase by $61.9 million from the fair value as of 30 June 2021.

The REIT considers capitalisation rates the most significant assumption that is subject to estimation uncertainty given the nature of its portfolio. Accordingly, sensitivities to the fair value of investment properties (including those owned by the REIT's interest in joint ventures) have been provided around reasonable possible movements in the capitalisation rate.

B. Property portfolio assets (continued)

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

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

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

	2021 $'m	2020 $'m
Valuation and carrying amounts		
Freehold properties at valuation	**1,308.6**	1,070.8
Freehold properties under development at cost	**102.1**	90.8
Leasehold properties at valuation	**31.4**	33.3
Right-of-use assets	**5.9**	6.1
Capitalised transaction costs in relation to properties contracted and not settled	**–**	0.3
Total investment properties	**1,448.0**	1,201.3
Less: Investment properties held for sale	**–**	(3.5)
Carrying amount at the end of the year	**1,448.0**	1,197.8
Movements during the financial year		
Balance at the beginning of the year	**1,201.3**	1,098.7
Additions*	**217.5**	103.5
Acquisition costs incurred	**7.3**	2.5
Disposal of properties	**(82.0)**	(56.5)
Initial recognition and re-measurement of right-of-use assets	**0.4**	7.5
Revaluation increment	**110.8**	48.1
Revaluation decrement attributable to acquisition costs, straightlining of rental income, and amortisation of incentives and leasing fees	**(10.2)**	(5.3)
Straightlining of rental income, amortisation of incentives and leasing fees	**2.9**	2.8
Carrying amount at the end of the year	**1,448.0**	1,201.3

* Includes $2.1 million (2020: $3.1 million) of interest capitalised on investment properties. Capitalised interest was calculated using 3.2% (2020: 3.3%), being the weighted average interest rate applicable to the REIT's borrowings during the year.

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 2021. 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:

			Ownership interest	
Joint venture entity	Country of establishment	Principal activity	2021 %	2020 %
CH BBD Holding Trust	Australia	Property investment	**50.0%**	50.0%

B. Property portfolio assets (continued)

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

	2021 $'m	2020 $'m
Balance at the beginning of the year	**26.4**	25.8
Share of equity accounted profit	**11.0**	2.5
Distributions received and receivable	**(2.1)**	(1.9)
Balance at the end of the year	**35.3**	26.4

(b) Share of results attributable to joint venture entities

The following tables provide summarised information about the financial performance of the joint venture entities as a whole, as at 30 June 2021

	2021 $'m	2020 $'m
Summarised balance sheet:		
Cash and cash equivalents	**2.2**	1.9
Other current assets	**0.5**	0.5
Non-current assets	**122.0**	104.5
Current liabilities	**(2.3)**	(1.9)
Derivative financial instruments - non-current liabilities	**(0.7)**	(1.2)
Borrowings - non-current liabilities	**(51.1)**	(51.1)
Net assets	**70.6**	52.7
REIT's share in %	**50**	50
REIT's share of net assets	**35.3**	26.4
Summarised statement of comprehensive income:		
Revenue	**6.9**	6.8
Interest expense	**(1.2)**	(0.8)
Profit for the year	**22.0**	4.9
Other comprehensive income	**–**	–
Total comprehensive income/(loss)	**22.0**	4.9
REIT's share of Total Comprehensive income/(loss)	**11.0**	2.5
REIT's share of distribution	**2.1**	1.9

B3. Investments in financial assets

	2021 $'m	2020 $'m
Units in listed securities (Arena REIT - ASX:ARF) - at market value	**43.4**	26.0
Units in unlisted securities (Charter Hall CIB Fund) - at Directors' valuation	**–**	18.9
Balance at the end of the year	**43.4**	44.9
Movements:		
Balance at the beginning of the year	**44.9**	48.4
Additions	**–**	2.2
Disposals	**(18.3)**	–
Net fair value movement on investments	**16.8**	(5.7)
Balance at the end of the year	**43.4**	44.9

Listed securities are valued at the closing bid price on the last business day of the financial year (Level 1 on the fair value hierarchy).

When securities increase at fair value, the increments are recognised directly in Other Comprehensive Income. When securities are sold, the accumulated fair value adjustments recognised in Other Comprehensive Income is reclassified into Undistributed profit. Distribution income from financial assets is recognised in the Consolidated Statement of Comprehensive Income as part of revenue when the REIT's right to receive payments is established.

During the year, the REIT sold its interest in Charter Hall CIB Fund for $18.3 million. Accumulated fair value adjustments of $10.1 million previously recognised in Other Comprehensive Income were reclassified into Undistributed profit (Note C4(b)).

B. Property portfolio assets (continued)

B4. Commitments and contingent liabilities

The REIT and joint venture entities may enter into contracts for the acquisition, construction and development of properties in Australia. As at 30 June 2021, the commitments of the REIT in relation to such contracts are $33.0 million (2020: $23.5 million). In addition, capital commitments under lease agreements are $14.5 million (2020: nil).

The REIT has $29.6 million in commitments in relation to the development of SA Emergency Command Centre, Keswick SA.

As at 30 June 2021, the REIT has no contingent liabilities (30 June 2020: nil).

The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (2020: nil).

C. Capital structure and financial risk management

The REITs 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. The Responsible Entity also protects assets of the REIT by taking out insurance with creditworthy insurers.

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.

The REIT's 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

Borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition, the borrowings are stated at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in profit or loss over the expected life of the borrowings.

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

	2021		2020	
	Total carrying amount $'m	**Fair value* $'m**	Total carrying amount $'m	Fair value* $'m
Bilateral term facilities	**300.0**	**302.0**	286.0	286.0
Unamortised borrowing cost	**(2.9)**		(3.4)	
Total	**297.1**		282.6	
Balance available for drawing	**300.0**		214.0	

* Level 2 of fair value hierarchy

The REIT has debt facilities totalling $600 million, comprising bank facilities of $400 million provided equally by Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited. In addition, the REIT entered into a new $100 million 5-year facility with Westpac Banking Corporation. In addition to the bank debt facilities the REIT has 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 2021, the REIT complied with all of its debt covenant ratios and obligations.

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. The Security Trustee has a registered security interest over the assets of the REIT as further security.

C. Capital structure and financial risk management (continued)

	2021 $'m	2020 $'m
Assets pledged as security:		
Collateral pledged for secured liabilities is as follows:		
i) Financial assets pledged		
Cash and cash equivalents	**5.3**	75.6
Receivables	**6.2**	3.7
Investments in financial assets	**43.4**	44.9
ii) Other assets pledged		
Other current assets	**2.5**	5.5
Investment properties	**1,442.1**	1,195.2
Total assets pledged	**1,499.5**	1,324.9

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 2021			
Bank Facilities	May 2024	**200.0**	**200.0**
	May 2026	**200.0**	**–**
	June 2026	**100.0**	**–**
Institutional term loan	August 2025	**100.0**	**100.0**
		600.0	300.0
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

Net debt reconciliation

The table below sets out an analysis of net debt and the movements in net debt during the year.

	2019 $'m	Movement in borrowing costs $'m	Movement in cash $'m	2020 $'m	Movement in borrowing costs $'m	Movement in cash $'m	2021 $'m
Bank debt	273.5	–	12.5	286.0	**–**	**14.0**	**300.0**
Borrowing costs	(3.2)	(0.2)	–	(3.4)	**0.5**	**–**	**(2.9)**
Total borrowings	270.3	(0.2)	12.5	282.6	**0.5**	**14.0**	**297.1**
Cash	(8.9)	–	(66.7)	(75.6)	**–**	**70.3**	**(5.3)**
Net debt	261.4	(0.2)	(54.2)	207.0	**0.5**	**84.3**	**291.8**

C. Capital structure and financial risk management (continued)

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) which matures in May 2024.

(b) Finance costs

	2021 $'m	2020 $'m
Finance costs paid or payable	**8.9**	12.2
Less: Capitalised finance costs	**(2.1)**	(3.1)
	6.8	9.1

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.

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.

Amounts reflected in the financial statements are as follows:

Consolidated balance sheet

	2021 Asset $'m	2021 Liability $'m	2020 Asset $'m	2020 Liability $'m
Current				
Interest rate swaps	**–**	**–**	–	0.2
Total current derivative financial instruments	**–**	–	–	0.2
Non-current				
Interest rate swaps	**1.3**	**–**	–	0.8
Total non-current derivative financial instruments	**1.3**	**–**	–	0.8
Total derivative financial assets/liabilities	**1.3**	**–**	–	1.0

During the year, the REIT entered into a new $65 million interest rate swap to bring the total swap portfolio to $225 million.

At 30 June 2021, the weighted average fixed rate under interest rate swap is 0.54% per annum (2020: 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	1 - 2 years $'m	2 - 3 years $'m	3 - 4 years $'m	4 - 5 years $'m	More than 5 years $'m	Total $'m
2021	**–**	**–**	**–**	**65.0**	**160.0**	**–**	**225.0**
2020	–	–	–	–	–	160.0	160.0

(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.

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.

C. Capital structure and financial risk management (continued)

C4. Contributed equity and reserves

(a) Contributed equity

Details	No. of Units '000	$'m
Units on issue - 1 July 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**
Units issued via DRP	3,276	**9.1**
Units on issue - 30 June 2021	362,627	**629.9**

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, 3,275,801 units were issued at an average issue price of $2.78 per unit. An additional $3.9 million was raised from the DRP for the 30 June 2021, distribution allotted on 21 July 2021 (2020: $2.4 million from DRP for the 30 June 2020, distribution allotted on 21 July 2020).

(b) Reserves

	Reserve - Financial assets at FVOCI $'m
Opening balance 1 July 2019	20.9
Changes in the fair value of reserves	(5.7)
Balance 30 June 2020	15.2
Opening balance 1 July 2020	**15.2**
Changes in the fair value of reserves	**16.8**
Transfer to Undistributed profit	**(10.1)**
Balance 30 June 2021	**21.9**

In accordance with the REIT's constitution, amounts may be transferred from reserves or contributed equity to fund distributions.

The REIT has elected to recognise changes in the fair value of certain investments in financial assets in Other Comprehensive Income (Note B3). These changes are accumulated within the FVOCI reserve within equity. The REIT transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

C. Capital structure and financial risk management (continued)

C5. Financial risk management

The REIT's principal financial instruments comprise cash and cash equivalents, receivables, investment in financial assets, payables, borrowings, lease 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.	– Interest rate swaps are used to hedge certain movement in interest rates.
Market risk – Security prices	The risk that changes in security prices will change the fair value of the REIT's investment in financial assets.	Investment in financial assets.	– Limiting the exposure to investments which the REIT considers long-term and strategic.
Liquidity risk	The risk the REIT has insufficient liquid assets to meet its obligations as they become due and payable.	Payables, borrowings and other liabilities.	– 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 entity will not complete its obligations under a contract and will cause the REIT to make a financial loss.	All financial assets including tenant receivables.	– Performing credit reviews on prospective tenants, obtaining tenant collateral and detailed review of tenant arrears. – Review the aggregate exposure of receivables and tenancies across the portfolio. – Limiting the credit exposure to any financial institution and limiting to investment grade counterparties. – Monitoring the public credit rating of counterparties.

C. Capital structure and financial risk management (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 2021 and 2020, 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:

	2021 $'m	2020 $'m
Floating rate		
Cash	**(5.3)**	(75.6)
Cash - joint venture entities[1]	**(1.1)**	(1.0)
Borrowings	**300.0**	286.0
Borrowings - joint venture entities[1]	**25.6**	25.6
	319.2	235.0
Derivative financial instruments		
Interest rate swaps - floating to fixed[2]	**(225.0)**	(160.0)
Interest rate swaps - floating to fixed - joint venture	**(15.0)**	(15.0)
Net floating rate exposure	**79.2**	60.0

[1] The REIT's share of financial assets and liabilities included within its net investments in joint venture entities.
[2] The amounts represent the notional principal payable under the derivative contracts.

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

Consolidated Group	2021	2020
Financial assets		
Cash and cash equivalents	**–**	0.1%
Financial liabilities		
Borrowings	**2.7%**	2.6%

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 2021, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2020 (excluding joint venture investments and other financial assets).

	2021				2020	
	Interest expense $'m	Net gain/(loss) from derivative financial instruments $'m	Profit and loss $'m	Other comprehensive income $'m	Profit and loss $'m	Other comprehensive income $'m
Australian interest rates						
+ 0.10%	**(0.1)**	**0.8**	**0.7**	**–**	0.6	–
- 0.10%	**0.1**	**(0.8)**	**(0.7)**	**–**	(0.6)	–

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 2021. 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
2021					
Financial liabilities					
Payables	**(31.3)**	**(31.3)**	**–**	**–**	**(31.3)**
Distribution payable	**(29.4)**	**(29.4)**	**–**	**–**	**(29.4)**
Borrowings	**(297.1)**	**(7.4)**	**(326.3)**	**–**	**(333.7)**
Lease liabilities	**(5.9)**	**(1.4)**	**(4.4)**	**(0.7)**	**(6.5)**
Total financial liabilities	**(363.7)**	**(69.5)**	**(330.7)**	**(0.7)**	**(400.9)**
2020					
Financial liabilities					
Payables	(5.2)	(5.2)	–	–	(5.2)
Distribution payable	(12.8)	(12.8)	–	–	(12.8)
Borrowings	(282.6)	(0.4)	(189.1)	(100.0)	(289.5)
Derivative financial instruments	(1.0)	(0.1)	(0.8)	–	(0.9)
Lease liabilities	(6.1)	(1.3)	(5.1)	(1.4)	(7.8)
Total financial liabilities	(307.7)	(19.8)	(195.0)	(101.4)	(316.2)

The amount of credit facilities unused by the REIT at 30 June 2021 is $300.0 million (2020: $214.0 million).

(iii) Credit risk

Credit risk arises from the financial assets of the REIT, which comprise cash and cash equivalents, 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 receivables.

The REIT's credit exposure is concentrated with one debtor, Goodstart Early Learning Limited, who contributed 42 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).

C. Capital structure and financial risk management (continued)

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
2021					
Rent receivables – deferred rent	-	–	–	**0.8**	**0.8**
2020					
Rent receivables	1.5	0.5	0.6	0.1	2.7
Provision for expected credit losses					(1.0)

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.

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.

Agreements 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

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 Hodgetts – Chairman and Non-Executive Director
- Michael Johnstone – Non-Executive Director
- Kate Melrose – Non-Executive Director
- Sean McMahon – Executive Director and Chief Investment Officer (Charter Hall Group)
- Miriam Patterson – Executive Director (appointed on 9 September 2020)

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 31,957,136 units as at 30 June 2021 (2020: 31,957,136).

Following is a summary of related party transactions for the year ended 30 June 2021:

	Fee amount	
Type of fee	**2021 $'000**	2020 $'000
Base management	**7,157**	6,538
Acquisition	**24**	96
Disposal	**527**	375
Property management	**1,308**	1,220
Accounting services	**615**	609
Leasing fees	**1,517**	1,299
Development management fees	**643**	1,196
Debt arranger fee	**500**	515
Other cost recoveries	**415**	446
	12,706	12,294

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

In November 2020, the REIT sold its investment in the Charter Hall CIB Fund managed by the Responsible Entity for $18.3 million. The proceeds from the sale of the 15.0% interest represented a $0.6 million discount to the carrying value at 30 June 2020.

Unlisted Investment

Charter Hall CIB Fund	2021	2020
Number of units held	–	4,245,126
Interest percentage held	–	15.0%
Distributions received / receivable by the REIT	–	$1,018,830
Distributions receivable as at 30 June	–	$286,546
Net fair value of investment	–	$18,890,811

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

	2021 $'000	2020 $'000
Charter Hall Social Infrastructure Limited	**1,945**	1,802
	1,945	1,802

(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' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

	2021 $	2020 $
Grant Hodgetts	**55,000**	55,000
Michael Johnstone	**50,000**	50,000
Kate Melrose	**51,250**	15,724
	156,250	120,724

The level of fees is not related to the performance of the REIT. The board of the Responsible Entity considers remuneration payable to its independent directors from time to time. Remuneration of independent Directors is approved by the board and any increases are benchmarked to market rates.

The executive directors of the Responsible Entity and Fund Manager of the REIT are employees of Charter Hall Holdings Pty Ltd and are remunerated by Charter Hall Holdings Pty Ltd.

(g) 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 2021 is as follows:

	Units held 2021	Units held 2020
Grant Hodgetts	**40,982**	38,858
Michael Johnstone	**84,728**	84,728
Kate Melrose	**20,735**	16,636
Sean McMahon	–	–
Miriam Patterson	–	–
	146,445	140,222

D. Further information (continued)

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 acquired 2021	Units acquired 2020
Grant Hodgetts	**2,124**	10,680
Michael Johnstone	–	13,636
Kate Melrose	**4,099**	16,636
Sean McMahon	–	–
Miriam Patterson	–	–
	6,223	40,952

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

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

(a) Receivables and other assets

	2021 $'m	2020 $'m
Trade receivables	**0.8**	2.7
Provision for expected credit losses	–	(1.0)
Net rent receivable	**0.8**	1.7
Distributions receivable	**1.5**	2.0
GST receivable	**3.9**	–
Receivables	**6.2**	3.7
Accrued income	**1.1**	0.2
Accrued property settlement proceeds	–	4.1
Prepayments	**1.4**	1.2
Other assets	**2.5**	5.5

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 Financial Instruments* 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) Trade and other payables

	2021 $'m	2020 $'m
Current		
Accrued capital expenditure*	**24.8**	0.2
Accrued expenses	**3.3**	1.4
Accrued RE management fees	**1.9**	1.8
Provision for income tax (FET NZ Sub-Trust)	**0.8**	0.9
Interest payable on borrowings	**0.1**	0.6
Other	**0.4**	0.3
	31.3	5.2

* Includes $15.0 million accrual for deferred consideration relating to Mater, Newstead QLD and $5.2 million accrual for development progress payment for SA Emergency Command Centre, Keswick SA.

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.

D. Further information (continued)

(c) Net current asset deficiency

At 30 June 2021, the REIT has a net deficiency of current assets over current liabilities of $48.0 million (2020: no net deficiency). The REIT will be able to meet their day-to-day working capital requirements from readily accessible credit facilities of $300.0 million and operating cashflows. 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.

D3. Leasehold liabilities

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, a lease liability reflecting the leasehold arrangements of investment properties is separately disclosed in the consolidated balance sheet and the carrying value of the investment properties is adjusted (i.e. grossed up) so that the net of these two amounts equals the fair value of the investment properties. Each lease payment is allocated between liability and finance costs. The finance costs are charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease liabilities 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 REIT's lease liabilities are measured at the present value of the remaining lease payments calculated using incremental borrowing rate as of 1 July 2019, the date of initial recognition of the lease liabilities following the REIT's adoption of AASB 16 *Leases*. The weighted average incremental borrowing rate applied to lease liabilities on 1 July 2019 was 3.7%. The REIT has elected to utilise the retrospective transitional concessions.

Lease liabilities	2021 $'m	2020 $'m
Current lease liabilities	**1.3**	1.1
Non-current lease liabilities	**4.6**	5.0
Total	**5.9**	6.1

D4. 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 2021 $'m	Parent 2020 $'m
Assets		
Current assets	**7.2**	77.3
Non-current assets	**1,348.8**	1,111.7
Total assets	**1,356.0**	1,189.0
Current liabilities	**39.1**	22.0
Non-current liabilities	**303.1**	283.6
Total liabilities	**342.2**	305.6
Equity		
Contributed equity	**555.3**	546.1
Reserves	**21.9**	4.7
Retained Profits	**436.6**	332.6
Total equity	**1,013.8**	883.4
Statement of comprehensive income		
Profit for the year	**175.3**	82.6
Other comprehensive income	**17.2**	(3.9)
Total comprehensive income	**192.5**	78.7

(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 2021 (2020: 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 $33.0 million (2020: $23.5 million). Additionally, capital incentive commitments under lease agreements are $14.5 million (2020: nil). 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.

(d) Net current asset deficiency

At 30 June 2021, the parent entity has a net deficiency of current assets over current liabilities of $31.9 million (2020: no net deficiency). The parent entity will be able to meet their day-to-day working capital requirements from their available loan facility and operating cash flows. Unitholders will only receive their distributions to the extent that the parent entity has a sufficient working capital.

D5. 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).

D. Further information (continued)

D6. Remuneration of the auditor

	2021 $	2020 $
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	**132,250**	83,700
Other assurance services	**7,750**	7,000
Audit services FY20 scope change	**46,325**	–
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Taxation compliance services	**35,000**	34,800
Total amount paid or payable to PricewaterhouseCoopers Australian firm	**221,325**	125,500

D7. Interest in other entities

Subsidiaries

The REIT's subsidiaries at 30 June 2021 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	2021	2020	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
CQE Newstead Trust	Australia	Australia	**100%**	–	Property investment
CQE Keswick Trust	Australia	Australia	**100%**	–	Property investment

D8. Events occurring after balance date

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

D9. 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 2021 that affect the REIT's operations or reporting requirements.

D. Further information (continued)

(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.

(c) Comparative information

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

In the prior year, the REIT adopted AASB 16 *Leases* for the first time. The REIT initially recognised the Right-of-use assets as a separate financial statement line item and, in the current period, the REIT has reclassified the $5.6 million (2020: $6.4 million) balance of the Right-of-use assets to Investment properties in accordance with the requirements of AASB 16 *Leases*. Accordingly, the $1.2 million (2020: $1.2 million) amortisation of right-of-use assets (leasehold properties) has been reclassified to net fair value gain on investment properties. The comparative balance has been reclassified accordingly.

(d) 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.

(e) Changes in accounting standards

The REIT has applied the following standards and amendments for the first time in this financial report. The REIT did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards:

- AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions [AASB 16]*
- AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2 [AASB 4, AASB 7, AASB 9, AASB 16 and AASB 139]*

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 34 to 63 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 2021 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 their 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 Hodgetts
Chair
Charter Hall Social Infrastructure Limited
Melbourne

12 August 2021

pwc

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 and its controlled entities (together the REIT) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the REIT's financial position as at 30 June 2021 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 REIT's financial report comprises:

- the consolidated balance sheet as at 30 June 2021
- 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 significant accounting policies and other explanatory information
- the directors of the Responsible Entity's 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.

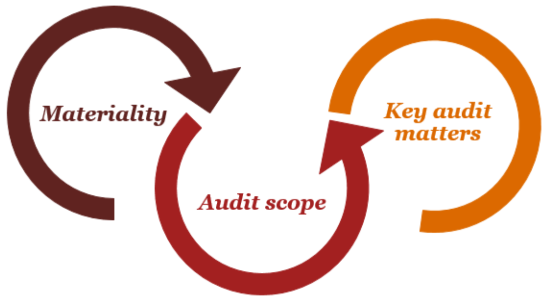
Independence

We are independent of the REIT 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 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 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 REIT, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall REIT materiality of $2.9 million, which represents approximately 5% of the REIT'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 A1) as the benchmark because, in our view, it is the benchmark against which the performance of the REIT is most commonly measured.
- We selected a 5% threshold based on our professional judgement, noting it is within the range of commonly accepted profit related materiality thresholds.

Audit Scope

- Our audit focused on where the REIT made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The REIT operates in Australia and the audit is conducted by one engagement team based primarily in Melbourne.

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. We communicated the key audit matter to the Audit, Risk and Compliance Committee.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investment properties, including investment properties held in joint ventures accounted for under the equity method *Refer to notes B1 and B2.* The REIT's investment property portfolio is predominantly comprised of childcare properties across Australia with a limited number of additional Social Infrastructure Assets. At 30 June 2021, the carrying value of the REIT's investment properties balance was $1,448.0m (2020:$1,201.3m), refer to note B1. In addition, the carrying value of the REIT's interest in the Brisbane Bus Depot investment property, which is held by the REIT's joint venture vehicle, was $35.3m (2020:$26.4m), refer to note B2. In measuring the carrying value of investment properties, the REIT 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 REIT, requires all properties to be externally valued by valuation experts at least once every 12 months. If a property is not externally valued at balance sheet date, the Directors perform an internal valuation. We considered this a key audit matter because of the: • Financial significance of the investment property balance in the consolidated balance sheet • The financial significance of revaluations that directly impact the consolidated statement of comprehensive income through the net gain on movement in fair value of investment properties • Inherently subjective nature of investment property valuations such as prevailing market conditions, the individual nature and location, comparable sales evidence and the expected future income for each property • Significant estimation uncertainty exists with respect to the key inputs and assumptions used by the REIT in developing fair value estimates including capitalisation rates, terminal yield, gross market rent and discount rates • The importance of the valuation uncertainty to users' understanding of the financial report • The extent of judgement involved in light of the continued impact and uncertainty surrounding the COVID-19 pandemic.	We assessed the REIT'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 and capital expenditure. We also enquired about the impact of COVID-19 on investment property valuations and how this has been considered by the REIT in determining fair value at 30 June 2021. We engaged with PwC Real Estate experts to assess the reasonableness of the valuation assumptions and methodologies for a sample of properties. We assessed the design and tested the operating effectiveness of certain controls supporting the REIT's investment property valuation process, including controls relating to the review and approval of valuations adopted. **Fair value at period end – External Valuations** For a sample of properties where the REIT was assisted by external valuers, we: • 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 and methodology, 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. **Fair value at period end – Directors' Valuations** In respect of those properties internally valued by the Directors at 30 June 2021, we met with members of executive management including both the Fund Manager and Head of Finance to discuss the key inputs and assumptions used in the valuations. For a sample of valuations, we: • agreed key inputs back to source data • assessed the competence and capabilities of the internal valuation experts • compared assumptions in the internal valuation to the external valuations for similar properties to look for unusual trends or anomalies • compared assumptions in the internal valuation to its most recent external valuation and assessed the appropriateness of any changes • agreed the valuations to the underlying accounting records.

Key audit matter	***How our audit addressed the key audit matter***
	We assessed the reasonableness of the REIT's disclosures in the financial report against the requirements of Australian Accounting Standards. In particular, we considered the adequacy of the disclosures made in note B of the financial report which explain that there is significant estimation uncertainty in relation to the valuation of investment properties.

Other information

The directors of Charter Hall Social Infrastructure Limited (the Responsible Entity) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's report. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Responsible Entity and use our professional judgement to determine the appropriate action to take.

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

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

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the REIT to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends to liquidate the REIT 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.

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
12 August 2021

Fund Manager Remuneration

Travis Butcher, Fund Manager

Fund Manager's Total Target Remuneration is structured as a mixture of fixed and variable 'at-risk' Short Term Incentive (STI) and Long Term Incentive (LTI) components. While Fixed Annual Remuneration (FAR) is designed to provide a base level of remuneration, the 'at-risk' STI and LTI components align the employee's performance with Fund objectives and long-term securityholder interests.

STI

Individual STI outcomes are determined on the basis of Group and individual performance through a Balanced Scorecard. The Scorecard is split into three elements: Financial; Customer; and Culture /Leadership/ Collaboration with a 50% financial and 50% non-financial split.

The table below outlines the split of Travis Butcher's current KPIs and the percentage attributed to CQE performance.

Role	Financial	Customer	Culture, leadership and collaboration
Overall Weighting	50%	30%	20%
KPIs	– Drive fund and portfolio performance in a sustainable way, achieving budgeted financial metrics for CQE in FY21 – Enhance portfolio WALE to ensure resilience of CQE portfolio	– Drive consistent and meaningful engagement with key investors and participation in successful investor roadshows – Explored options relating to ESG initiatives that provide value for tenant customers – Drive a focus on strategic and operational risk management throughout the portfolio	– Drive employee engagement and well-being strategies to create an inclusive team culture and retain key talent

For FY21, 75% of the STI award will be delivered in cash and 25% deferred into CQE units as service rights. These service rights are deferred over two years, with 50% vesting at the end of year one (on 31 August 2022) and 50% at the end of year two (31 August 2023).

The number of rights granted to the Fund Manager is determined based on an independent fair value calculation prepared by Deloitte using the Black-Scholes-Merton valuation method, which discounts for dividends/distributions forgone during the deferral period.

LTI

The LTI is governed by the Performance Rights and Options Plan (PROP), under which rights to stapled securities are granted to participants. Each performance right entitles the participant to one stapled security in the Charter Hall Group for nil consideration at the time of vesting, subject to meeting the performance hurdles outlined below:

- Charter Hall Group's OEPS Growth (excluding CHOT) – 50% of LTI allocation
- Charter Hall Group's Relative TSR – 50% of LTI allocation

More details are provided under section 3.5 of the Charter Hall Group's Remuneration Report within the 2021 Annual Report.

Additional Security Exchange Information as at 26 July 2021

There were 363,712,112 fully paid ordinary units on issue, held by 9,969 Unitholders.

The voting rights attaching to the ordinary units, set out in section 253C of the Corporations Act 2001, are:

a) on a show of hands every person present who is a Unitholder has one vote; and

b) on a poll each Unitholder present in person or by proxy or attorney has one vote for each dollar of value of the total interests they have in the Trust.

Distribution of Unitholders

Holding Ranges	Number of Unitholders
1 to 1,000	2,038
1,001 to 5,000	3,489
5,001 to 10,000	1,838
10,001 to 100,000	2,458
100,001 to 9,999,999,999	146
Totals	**9,969**

Substantial Unitholders

Name of Substantial Unitholders	Number
Charter Hall Limited	32,957,136
The Vanguard Group Inc.	30,353,322

Top 20 Unitholders

Unitholder Name	Number of Units	Fully Paid Percentage
HSBC Custody Nominees (Australia) Limited	83,925,616	23.075%
J P Morgan Nominees Australia Pty Limited	61,335,030	16.864%
The Trust Company (Australia) Limited	31,554,980	8.676%
Citicorp Nominees Pty Limited	23,393,329	6.432%
National Nominees Limited	21,076,530	5.795%
BNP Paribas Nominees Pty Ltd	4,038,633	1.110%
Netwealth Investments Limited	3,076,214	0.846%
BNP Paribas Noms Pty Ltd	2,182,118	0.600%
Acres Holdings Pty Ltd	2,136,061	0.587%
Redbrook Nominees Pty Ltd	1,800,077	0.495%
BNP Paribas Nominees Pty Ltd	1,498,022	0.412%
Brispot Nominees Pty Ltd	1,483,717	0.408%
BNP Paribas Noms (NZ) Ltd	1,443,668	0.397%
Mr David Stewart Field	1,400,000	0.385%
Loto Jade Pty Ltd	1,322,311	0.364%
One Managed Investment Funds Ltd	1,275,000	0.351%
Redbroook Nominees Pty Ltd	1,266,333	0.348%
BNP Paribas Nominees Pty Ltd	1,017,119	0.280%
SCJ Pty Limited	1,000,000	0.275%
Mr Alfred Zuegn & Mrs Elsabeth Zuegn	1,000,000	0.275%
	247,224,758	**67.973%**

On-market buy back

There is no current on-market buy back.

Investor Information

How do I invest in Charter Hall Social Infrastructure REIT?

Charter Hall Social Infrastructure REIT Units are listed on the Australian Securities Exchange (ASX: CQE).

Unitholders will need to use the services of a stockbroker or an online broking facility to invest in Charter Hall Social Infrastructure REIT.

Where can I find more information about Charter Hall Social Infrastructure REIT?

Charter Hall's website, **www.charterhall.com.au/investments/funds/cqe** contains extensive information on our Board and management team, corporate governance, sustainability, our property portfolio and all investor communications including distribution and tax information, reports and presentations. The website also provides information on the broader Charter Hall Group including other managed funds available for investment.

You can also register your details on our website to receive ASX announcements by an email alert as they are being released. To register your details, please us at **enquiries@charterhall.com.au**.

Can I receive my Annual Report electronically?

Charter Hall Social Infrastructure REIT provides its annual report as a PDF, accessible on its website. You can elect to receive notification that this report is available online via the REIT's registry, Boardroom Pty Limited.

How do I receive payment of my distribution?

Charter Hall Social Infrastructure REIT pays its distribution via direct credit. This enables you to receive automatic payment of your distributions quickly and securely. You can nominate any Australian or New Zealand bank, building society, credit union or cash management account for direct payment by downloading a direct credit form using the Investor Login facility and sending it to Boardroom Pty Limited. On the day of payment, you will be sent a statement via post or email confirming that the payment has been made and setting out details of the payment. Charter Hall Social Infrastructure REIT no longer pays distributions by cheque.

Can I reinvest my distribution?

The Distribution Reinvestment Plan (DRP) allows you to have your distributions reinvested in additional units in Charter Hall Social Infrastructure REIT, rather than having your distributions paid to you. If you would like to participate in the DRP, you can do so by completing a DRP Application Form available from our registry.

Do I need to supply my Tax File Number?

You are not required by law to supply your Tax File Number (TFN), Australian Business Number (ABN) or exemption. However, if you do not provide these details, withholding tax may be deducted at the highest marginal rate from your distributions. If you wish to provide your TFN, ABN or exemption, please contact Boardroom Pty Limited or your sponsoring broker. You can also update your details directly using the **www.investorserve.com.au** facility on the Registry's website.

How do I complete my annual tax return for the distributions I receive from Charter Hall?

At the end of each financial year, we issue Unitholders with an AMMA Statement. This statement includes information required to complete your tax return.

How do I make a complaint?

Unitholders wishing to lodge a complaint should do so in writing and forward it to the Compliance Manager, Charter Hall Group at the address shown in the Directory. In the event that a complaint cannot be resolved within a reasonable timeframe (usually 45 days) or you are not satisfied with our response, you can seek assistance the Australian Financial Complaints Authority (AFCA), an external complaints resolution service that has been approved by ASIC. AFCA's contact details are below:

Australian Financial Complaints Authority

GPO Box 3
Melbourne Vic. 3001

Tel	1800 931 678
Fax	+61 3 9613 6399
E-mail	info@afca.org.au
Web	www.afca.org.au

Contact Details

Registry

To access information on your holding or update/change your details including name, address, tax file number, payment instructions and document requests, contact:

Boardroom Pty Limited
Level 12, Grosvenor Place
225 George Street Sydney NSW 2000

Tel	1300 737 760 (within Australia)
E-mail	**charterhall@boardroomlimited.com.au**
Web	boardroomlimited.com.au

Investor relations

All other enquiries related to Charter Hall Social Infrastructure REIT can be directed to Investor Relations:

Charter Hall Social Infrastructure Limited
GPO Box 2704 Sydney NSW 2001

Tel	+61 3 9903 6157
E-mail	lula.liossi@charterhall.com.au
Web	charterhall.com.au

Corporate Directory

Responsible Entity and Manager

Charter Hall Social Infrastructure Limited
ABN 46 111 338 937
AFSL 281544

Registered office
Level 20, No.1 Martin Place
Sydney NSW 2000

Directors of the Responsible Entity
Grant Hodgetts (Chairman), Michael Johnstone, Kate Melrose, Sean McMahon and Miriam Patterson

Fund Manager
Travis Butcher

Company Secretary
Mark Bryant

Responsible Entity's office
Level 20, No.1 Martin Place
Sydney NSW 2000

GPO Box 2704
Sydney NSW 2001

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E-mail	enquiries@charterhall.com.au
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ASX Code	CQE

Auditor

PricewaterhouseCoopers
2 Riverside Quay Southbank Vic. 3006

Charter Hall

charterhall.com.au/cqe