



Charter Hall Social Infrastructure REIT

ARSN 102 955 939

Interim Financial Report

For the half year ended 31 December 2021

Important Notice

Charter Hall Social Infrastructure Limited ACN 111 338 937; AFSL 281544 (CHSIL) is the responsible entity of Charter Hall Social Infrastructure REIT ARSN 102 955 939 (REIT). CHSIL is a controlled entity of Charter Hall Limited ABN 57 113 531 150 (Charter Hall). The REIT is incorporated and domiciled in Australia. The registered office of the REIT is Level 20, No.1 Martin Place, Sydney NSW 2000.

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

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

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

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Directors' report

The Directors of Charter Hall Social Infrastructure Limited (Responsible Entity or CHSIL), the responsible entity of Charter Hall Social Infrastructure REIT, present their report together with the financial statements of Charter Hall Social Infrastructure REIT and its controlled entities (the REIT) for the half year period ended 31 December 2021.

Principal activities

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

Directors

The following persons have held office as directors of the Responsible Entity during the half year period and up to the date of this report, unless otherwise stated:

- Grant Hodgetts
- Michael Johnstone
- Kate Melrose
- Sean McMahon
- Miriam Patterson
- Chair and Non-Executive Director
- Non-Executive Director
- Non-Executive Director
- Executive Director and Chief Investment Officer (Charter Hall Group)
- Executive Director

Distributions

Distributions paid or declared by the REIT to unitholders:

	31 Dec 2021			31 Dec 2020		
	Number of units on issue	Cents Per Unit	\$'m	Number of units on issue	Cents Per Unit	\$'m
30 September	363,712,112	4.175	15.2	360,371,362	3.750	13.6
31 December*	364,150,027	4.225	15.4	361,255,506	3.750	13.6
Total distributions		8.40	30.6		7.50	27.2

*A liability has been recognised in the consolidated financial statements as the interim distribution had been declared as at the balance date.

Distribution Reinvestment Plan

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

The DRP issue price is determined at a discount of 1.5% to the daily volume weighted average price of all units traded on the ASX during the 10 business days commencing on the second business day following the distribution record date. During the period, 1,522,867 units were issued at an average issue price of \$3.59 per unit. An additional \$2.5 million was raised from the DRP for the 31 December 2021 distribution allotted on 21 January 2022.

Directors' report (continued)

Review and results of operations

The REIT recorded a statutory profit for the period of \$207.7 million (31 December 2020: \$57.3 million). Operating earnings amounted to \$30.8 million (8.5 cents per unit) for the period ended 31 December 2021 (31 December 2020: \$29.1 million, 8.0 cents per unit) and a distribution of \$30.6 million (8.4 cents per unit) was declared for the same period (31 December 2020: \$27.2 million, 7.5 cents per unit).

The 31 December 2021 financial results are summarised as follows:

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
Revenue (\$ millions)	48.7	45.1
Net profit (\$ millions)	207.7	57.3
Basic earnings per unit (cents)	57.1	15.9
Operating earnings (\$ millions)	30.8	29.1
Operating earnings per unit (cents)	8.5	8.0
Distributions (\$ millions)	30.6	27.2
Distributions per unit (cents)	8.4	7.5

	31 Dec 2021	30 Jun 2021
Total assets (\$ millions)	1,977.2	1,542.0
Total liabilities (\$ millions)	600.4	363.7
Net assets (\$ millions)	1,376.8	1,178.3
Units on issue (millions)	364.2	362.6
Net assets per unit (\$)	3.78	3.25
Balance sheet gearing - total debt (net of cash) to total assets (net of cash)	26.5%	19.2%
Look through gearing - total debt (net of cash) to total assets (net of cash)	27.4%	20.4%

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

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
	\$'m	\$'m
Net property income	40.1	35.6
Distribution income	1.0	1.3
Other income	-	0.1
Fund management fees	(4.5)	(3.4)
Finance costs	(4.7)	(3.7)
Administration and other expenses	(1.1)	(0.8)
Operating earnings	30.8	29.1

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

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

Directors' report (continued)

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

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
	\$'m	\$'m
Operating earnings	30.8	29.1
Net fair value movements on investment properties	165.4	24.3
Net fair value movements on derivative financial instruments	4.1	(0.2)
Straightlining of rental income, amortisation of lease fees and incentives	2.4	1.0
Share of equity accounted non-operating profit	5.6	2.7
Ground rent on leasehold properties	0.7	0.7
Interest on lease liabilities	(0.1)	(0.1)
Unrealised/realised foreign exchange losses	–	(0.2)
Other	(1.2)	–
Statutory profit for the period	207.7	57.3
Basic weighted average number of units (millions)	363.8	360.6
Basic earnings per unit (cents)	57.1	15.9
Operating earnings per unit (cents)	8.5	8.0
Distribution per unit (cents)	8.4	7.5

Property valuation gains

Valuation gains totalling \$176.7 million were recorded during the period (31 December 2020: \$25.9 million). These gains were partially offset by revaluation decrements attributable to acquisition costs of \$8.9 million (31 December 2020: \$0.6 million) and straightlining of rental income, amortisation of lease fees and incentives of \$2.4 million (31 December 2020: \$1.0 million).

COVID-19 did not have a significant impact on property valuations.

Debt Arrangements

In December 2021, the REIT increased its debt facilities from \$600 million to \$700 million with the additional \$100 million being provided through the increase of an existing facility, with a term extension to December 2026.

In December 2021, the REIT entered into a five-year \$100 million interest rate cap.

Significant changes in the state of affairs

Acquisitions

During the half year, the REIT acquired the following assets:

	Acquisition date	Acquisition price \$'m
456 Lower Heidelberg Rd, Heidelberg VIC	October 2021	35.4
Western Australian Portfolio of childcare assets (18 properties)	December 2021	100.0
		135.4

As at 31 December 2021, five childcare centres have been contracted for purchase for total consideration of \$57.3 million with settlement expected to occur in second half of the financial year.

Disposals

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

	Settlement date	Disposal price \$'m
61 Miller Street, Urangan QLD	December 2021	3.3
		3.3

As at 31 December 2021, a further childcare centre located in New South Wales has been contracted for sale for total consideration of \$5.5 million with settlement expected to occur in the second half of the financial year.

Directors' report (continued)

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 impacted by COVID-19. There has been no rent relief provided in the current reporting period.

Likely Developments and Expected Results of Operations

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

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

Events occurring after balance date

In January 2022, the REIT settled on the purchase of two childcare assets for a total consideration of \$21.9 million located in Queensland and Victoria.

In February 2022, the REIT settled on the purchase of a childcare asset for a total consideration of \$11.5 million located in Queensland.

On 16 February 2022, the REIT upsized its existing debt facilities, increasing borrowing capacity by \$100 million to a total of \$800 million.

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

Rounding of Amounts

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 17 February 2022. The Directors have the power to amend and re-issue the financial statements.



Grant Hodgetts
Chair
Melbourne
17 February 2022



Auditor's Independence Declaration

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

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

A handwritten signature in blue ink that reads 'Ashley Wood' with a horizontal line underneath.

A S Wood
Partner
PricewaterhouseCoopers

Sydney
17 February 2022

Consolidated statement of comprehensive income

	Notes	6 months to 31 Dec 2021 \$'m	6 months to 31 Dec 2020 \$'m
Revenue			
Property income		47.7	43.7
Distribution income		1.0	1.3
Interest income		–	0.1
Total revenue		48.7	45.1
Other income			
Net fair value gain on investment properties	B1	165.4	24.3
Net fair value gain from derivative financial instruments		4.1	–
Share of equity accounted profit		6.6	3.7
Total revenue and other income		224.8	73.1
Expenses			
Property expenses		(7.0)	(7.7)
Fund management fees		(4.5)	(3.4)
Finance costs		(4.5)	(3.5)
Administration and other expenses		(1.1)	(0.8)
Net fair value loss from derivative financial instruments		–	(0.2)
Realised and unrealised foreign exchange losses		–	(0.2)
Total expenses		(17.1)	(15.8)
Profit for the period		207.7	57.3
Other comprehensive income			
Gain on revaluation of financial assets	B3	16.0	8.3
Other comprehensive income		16.0	8.3
Total comprehensive income for the period		223.7	65.6
Basic and diluted earnings per ordinary unitholder of the REIT			
Earnings per unit (cents)	A2	57.1	15.9

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

Consolidated balance sheet

	Notes	31 Dec 2021 \$'m	30 Jun 2021 \$'m
Assets			
Current assets			
Cash and cash equivalents		55.1	5.3
Receivables		5.9	7.3
Other assets		4.7	1.4
Investment properties held for sale	B1	5.5	–
Total current assets		71.2	14.0
Non-current assets			
Investment properties	B1	1,799.0	1,448.0
Investment accounted for using equity method	B2	40.8	35.3
Investment in financial assets	B3	59.4	43.4
Derivative financial instruments	C2	6.8	1.3
Total non-current assets		1,906.0	1,528.0
Total assets		1,977.2	1,542.0
Liabilities			
Current liabilities			
Trade and other payables		15.9	30.3
Distribution payable		15.5	29.4
Lease liabilities		1.2	1.3
Other liabilities		2.0	1.0
Total current liabilities		34.6	62.0
Non-current liabilities			
Borrowings	C1	561.8	297.1
Lease liabilities		4.0	4.6
Total non-current liabilities		565.8	301.7
Total liabilities		600.4	363.7
Net assets		1,376.8	1,178.3
Equity			
Contributed equity	C3	635.3	629.9
Reserves	C3	37.9	21.9
Undistributed profit		703.6	526.5
Total equity		1,376.8	1,178.3

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 2020		620.8	15.2	414.0	1,050.0
Profit for the period		–	–	57.3	57.3
Other comprehensive income		–	8.3	–	8.3
Total comprehensive income for the period		–	8.3	57.3	65.6
Transfer of reserves	C3	–	(10.1)	10.1	–
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs		4.8	–	–	4.8
- Distributions paid and payable	A2	–	–	(27.2)	(27.2)
Total equity at 31 December 2020		625.6	13.4	454.2	1,093.2
Total equity at 1 July 2021		629.9	21.9	526.5	1,178.3
Profit for the period		–	–	207.7	207.7
Other comprehensive income		–	16.0	–	16.0
Total comprehensive income for the period		–	16.0	207.7	223.7
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C3	5.4	–	–	5.4
- Distributions paid and payable	A2	–	–	(30.6)	(30.6)
Total equity at 31 December 2021		635.3	37.9	703.6	1,376.8

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

Consolidated cash flow statement

	31 Dec 2021 \$'m	31 Dec 2020 \$'m
Cash flows from operating activities		
Property income received	48.9	47.4
Property expenses paid	(7.2)	(7.9)
Fund management fees paid	(4.4)	(3.9)
Administration and other expenses paid	(0.8)	(1.0)
Net GST paid with respect to operating activities	(3.0)	(1.8)
Distributions received from interest in financial assets and joint ventures	2.1	3.0
Interest received	–	0.1
Finance costs paid	(5.0)	(3.9)
Net cash flows from operating activities	30.6	32.0
Cash flows from investing activities		
Proceeds from sale of investment properties	3.2	2.2
Payments for investment properties	(208.5)	(45.6)
Proceeds from sale of financial assets	–	18.4
Net cash flows from investing activities	(205.3)	(25.0)
Cash flows from financing activities		
Proceeds from borrowings	265.0	–
Repayment of borrowings	–	(36.0)
Payments for derivative financial instruments	(1.4)	–
Distributions paid (net of DRP)	(39.1)	(21.3)
Net cash flows from financing activities	224.5	(57.3)
Net increase/(decrease) in cash held	49.8	(50.3)
Cash and cash equivalents at the beginning of the half year	5.3	75.6
Cash and cash equivalents at the end of the half year	55.1	25.3

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

About this report

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

- 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** – details of how the REIT's capital structure.
- D. Further information** – provides additional disclosures not included in previous sections but relevant in understanding the financial statements.

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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 investment in social infrastructure properties in Australia.

(b) Segment information provided to the Board

The operating earnings reported to the Board for the operating segment for the period ended 31 December 2021 and 31 December 2020 are as follows:

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
	\$'m	\$'m
Property lease revenue	45.4	41.3
Services income	2.3	2.4
Property income	47.7	43.7
Non-cash adjustments	(2.4)	(1.0)
Ground rent on leasehold properties	(0.7)	(0.7)
Share of net property income from joint venture	1.4	1.3
Property expenses	(7.0)	(7.7)
Other	1.1	–
Net property income	40.1	35.6
Distribution income	1.0	1.3
Interest income	–	0.1
Fund management fees	(4.5)	(3.4)
Finance costs	(4.7)	(3.7)
Administration and other expenses	(1.1)	(0.8)
Operating earnings	30.8	29.1

A. REIT performance (continued)

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

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
	\$'m	\$'m
Operating earnings	30.8	29.1
Net fair value movements on investment properties	165.4	24.3
Net fair value movements on derivative financial instruments	4.1	(0.2)
Straightlining of rental income, amortisation of lease fees and incentives	2.4	1.0
Share of equity accounted non-operating profit	5.6	2.7
Ground rent on leasehold properties	0.7	0.7
Interest on lease liabilities	(0.1)	(0.1)
Unrealised/realised foreign exchange losses	–	(0.2)
Other	(1.2)	–
Statutory profit for the period	207.7	57.3
Basic weighted average number of units (millions)	363.8	360.6
Basic earnings per unit (cents)	57.1	15.9
Operating earnings per unit (cents)	8.5	8.0
Distribution per unit (cents)	8.4	7.5

Property lease revenue

Property lease revenue represents income earned from the long-term rental of REIT properties and is recognised on a straight line basis over the lease term. The portion of rental income relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties.

Lease modification

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

Services income

Services 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

	31 Dec 2021			31 Dec 2020		
	Number of units on issue	Cents Per Unit	\$'m	Number of units on issue	Cents Per Unit	\$'m
30 September	363,712,112	4.175	15.2	360,371,362	3.750	13.6
31 December	364,150,027	4.225	15.4	361,255,506	3.750	13.6
Total distributions		8.40	30.6		7.50	27.2

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

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

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

A. REIT performance (continued)

(b) Earnings per unit

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
Basic and diluted earnings		
Earnings per unit (cents)	57.1	15.9
Operating earnings per unit (cents)	8.5	8.0
Earnings used in the calculation of basic and diluted earnings per unit		
Net profit for the period (\$'m)	207.7	57.3
Operating earnings for the period (\$'m)	30.8	29.1
Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)*	363.8	360.6

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

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

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

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 period. The REIT has no dilutive or convertible units on issue.

B. Property portfolio assets

The REIT's property portfolio assets comprise directly held investment properties and indirectly held interests in investment properties 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 venture comprise indirect interests in investment properties held by a separate legal entity to the REIT. Investments in financial assets at fair value comprise investment in listed securities.

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	31 Dec 2021 \$'m	30 Jun 2021 \$'m
Current assets			
Assets held for sale	B1	5.5	–
Total current assets		5.5	–
Non-current assets			
Investment properties	B1	1,799.0	1,448.0
Investments in joint ventures	B2	40.8	35.3
Investment in financial assets at fair value	B3	59.4	43.4
Total non-current assets		1,899.2	1,526.7
Property portfolio assets, including interests in joint venture and financial assets		1,904.7	1,526.7

B1. Investment properties

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

	31 Dec 2021 \$'m	30 Jun 2021 \$'m
Movements during the financial period		
Balance at the beginning of the period	1,448.0	1,201.3
Additions*	182.8	217.5
Acquisition costs incurred	8.9	7.3
Disposal of properties	(2.4)	(82.0)
Reclassification to asset held for sale**	(5.5)	–
Re-measurement of right-of-use assets	(0.6)	0.4
Revaluation increment	176.7	110.8
Revaluation decrement attributable to acquisition costs, straightlining of rental income, and amortisation of incentives and leasing fees	(11.3)	(10.2)
Straightlining of rental income, amortisation of incentives and leasing fees	2.4	2.9
Carrying amount at the end of the period	1,799.0	1,448.0

* Includes \$1.0 million (30 June 2021: \$2.1 million) of interest capitalised on investment properties. Capitalised interest was calculated using 3.3% (30 June 2021: 3.2%), being the weighted average interest rate applicable to the REIT's borrowings during the period.

** Childcare asset located in Heatherbrae sold at auction for \$5.5 million on 25 November 2021 with a settlement period of 90 days.

(b) 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 a combination of the following methods; discounted cash flow (DCF), income capitalisation and comparable sales.

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. External valuations were conducted at 31 December 2021 for 100% of the REIT's portfolio, including the joint venture but excluding assets under development.

B. Property portfolio assets (continued)

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 investment properties:

Consolidated Group (excluding development properties)	Fair value \$'m	Passing Rent \$	Passing Yield (% p.a.)
December 2021			
Australia - Freehold	1,727.4	125 - 1,688	4.8
Australia - Leasehold	27.5	67 - 1,447	16.6
June 2021			
Australia - Freehold	1,325.4	42 - 1,639	5.7
Australia - Leasehold	31.4	69 - 1,405	13.9

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. In a net rent, the owner recovers outgoings from the tenant on a prop-rate 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).
Passing yield	The net passing rent divided by the current fair value of the asset or group of assets on an aggregate basis.

Excluding the development sites, if the passing yield expanded by 25 basis points, fair value would reduce by \$86.4 million from the fair value as at 31 December 2021 and if the passing yield compressed by 25 basis points, fair value would increase by \$96.0 million from the fair value as at 31 December 2021.

The REIT considers passing yield 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 joint ventures) have been provided around reasonable possible movements in the passing yield.

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 net market rent will likely lead to an increase in fair value. A decrease in adopted passing yield, adopted capitalisation rate, adopted terminal yield or adopted discount rate will likely lead to an increase in fair value.

B. Property portfolio assets (continued)

B2. Investment accounted for using equity method

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

The REIT regularly reviews its equity accounted investment for impairment by reference to changes in circumstances or contractual arrangements, external independent property valuations and market conditions, using generally accepted market practices. The CH BBD Trust's sole investment property was independently valued at 31 December 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 entity is detailed below:

Name of entity	Properties	31 Dec 2021	30 Jun 2021	31 Dec 2021	30 Jun 2021
		Ownership %	Ownership %	\$'m	\$'m
CH BBD Trust	Brisbane Bus Depot, Brisbane	50.0%	50.0%	40.8	35.3
				40.8	35.3

B3. Investments in financial assets

	31 Dec 2021	30 Jun 2021
	\$'m	\$'m
Units in listed securities (Arena REIT - ASX:ARF) - at fair value	59.4	43.4
Balance at the end of the period	59.4	43.4
Movements:		
Balance at the beginning of the period	43.4	44.9
Disposals	-	(18.3)
Net fair value movement on investments	16.0	16.8
Balance at the end of the period	59.4	43.4

B4. Commitments and contingent liabilities

The REIT and joint venture entities may enter into contracts for the acquisition, construction and development of social infrastructure properties in Australia. As at 31 December 2021, the commitments of the REIT in relation to such contracts are \$19.9 million (30 June 2021: \$33.0 million). In addition, capital incentive commitments under lease agreements are \$21.0 million (30 June 2021: \$14.5 million).

As at 31 December 2021, the REIT had entered into contracts to purchase five childcare properties for a total value of \$54.4 million (excluding deposits paid) expected to settle in the second half of the financial year.

As at 31 December 2021, the REIT has no contingent liabilities (30 June 2021: nil).

The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (30 June 2021: nil).

C. Capital structure

C1. Borrowings and liquidity

(a) Borrowings

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

	31 Dec 2021		30 Jun 2021	
	Total carrying amount \$'m	Fair value \$'m	Total carrying amount \$'m	Fair value \$'m
Bilateral term facilities	565.0	568.4	300.0	302.0
Unamortised borrowing cost	(3.2)		(2.9)	
Total	561.8		297.1	
Balance available for drawing	135.0		300.0	

The REIT has debt facilities totalling \$700 million. Key covenants are Loan to Value Ratio of 50 per cent and Interest Cover Ratio being greater than 2.0 times. As at 31 December 2021, the REIT complied with all of its debt covenant ratios and obligations.

Bilateral term facilities

	Maturity date	Facility limit \$'m	Utilised amount \$'m
December 2021			
Bank Facilities	May 2024	200.0	200.0
	May 2026	200.0	65.0
	December 2026	200.0	200.0
Institutional term loan	August 2025	100.0	100.0
		700.0	565.0
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

Borrowing in Joint Ventures

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

C2. Derivative financial instruments

(a) Derivative financial instruments

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

Amounts reflected in the financial statements are as follows:

Consolidated balance sheet

	31 Dec 2021		30 June 2021	
	Asset \$'m	Liability \$'m	Asset \$'m	Liability \$'m
Current				
Non-current				
Interest rate swaps	5.7	–	1.3	–
Interest rate cap	1.1	–	–	–
Total non-current derivative financial instruments	6.8	–	1.3	–
Total derivative financial assets	6.8	–	1.3	–

C. Capital structure (continued)

(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.

C3. Contributed equity and reserves

(a) Contributed equity

Details	No. of Units '000	\$'m
Units on issue - 1 July 2020	359,351	620.8
Units issued via DRP	3,276	9.1
Units on issue - 30 June 2021	362,627	629.9
Units issued via DRP	1,523	5.4
Units on issue - 31 December 2021	364,150	635.3

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 volume weighted average price of all units traded on the ASX during the 10 business days commencing on the second business day following the distribution record date. During the period, 1,522,867 units were issued at an average issue price of \$3.59 per unit. An additional \$2.5 million was raised from the DRP for the 31 December 2021 distribution allotted on 21 January 2022.

(b) Reserves

	Reserve - Financial assets at FVOCI
	\$'m
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
Opening balance - 1 July 2021	21.9
Changes in the fair value of reserves	16.0
Balance 31 December 2021	37.9

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 financial assets in other comprehensive income. 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.

D. Further Information

D1. Events occurring after balance date

In January 2022, The REIT settled on the purchase of two childcare assets for a total consideration of \$21.9 million located in Queensland and Victoria.

In February 2022, The REIT settled on the purchase of a childcare asset for a total consideration of \$11.5 million located in Queensland.

On 16 February 2022, the REIT upsized its existing debt facilities, increasing borrowing capacity by \$100 million to a total of \$800 million.

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

D2. Other significant accounting policies

(a) Basis of preparation

The interim 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 for the half year ended 31 December 2021 have been prepared in accordance with the requirements of the REIT's constitution, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The REIT is a for-profit entity for the purpose of preparing the consolidated financial statements. The consolidated financial statements are presented in Australian dollars, which is the REIT's functional and presentation currency.

This interim financial report does not include all notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the Charter Hall Social Infrastructure REIT during the half year ended 31 December 2021 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

(b) Comparative information

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

(c) Rounding of amounts

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

(d) Changes in accounting standards

No new accounting standards or amendments have come into effect for the half year ended 31 December 2021 that affect the REIT's operations or reporting requirements.

Directors' declaration to unitholders

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

- a the consolidated financial statements and notes set out on pages 9 to 22 are in accordance with the *Corporations Act 2001*, including:
 - i complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the period ended on that date; and
- b there are reasonable grounds to believe that the REIT will be able to pay 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

17 February 2022



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

Report on the interim financial report

Conclusion

We have reviewed the interim financial report of Charter Hall Social Infrastructure REIT (the Trust) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration to unitholders.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

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

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

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

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

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

Our responsibility is to express a conclusion on the interim financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including giving a true

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and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Ashley Wood

A S Wood
Partner

Sydney
17 February 2022