

# Charter Hall Social Infrastructure REIT

ARSN 102 955 939

Interim Financial Report  
For the half year ended 31 December 2022



## 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 has been exercised in the preparation of forecast information; however, forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of CHSIL. Actual results may vary from forecasts and any variation may be materially positive or negative.

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

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

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## Directors' report

The Directors of Charter Hall Social Infrastructure Limited (Responsible Entity or CHSIL), the Responsible Entity of Charter Hall Social Infrastructure REIT, present their report together with the consolidated financial statements of Charter Hall Social Infrastructure REIT and its controlled entities (the REIT) for the half year ended 31 December 2022.

### 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 period 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

### Distributions

Distributions paid or declared during the half year ended 31 December 2022 are as follows:

	31 Dec 2022			31 Dec 2021		
	Number of units on issue	Cents Per Unit	\$'m	Number of units on issue	Cents Per Unit	\$'m
30 September	366,283,114	4.30	15.7	363,712,112	4.18	15.2
31 December*	367,112,102	4.30	15.8	364,150,027	4.22	15.4
<b>Total distributions</b>		<b>8.60</b>	<b>31.5</b>		<b>8.40</b>	<b>30.6</b>

\* 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 no later than the second business day following the distribution record date. During the period, 1,636,097 units were issued at an average issue price of \$3.29 per unit. An additional \$2.3 million was raised from the DRP for the 31 December 2022 distribution allotted on 20 January 2023.

## Directors' report (continued)

### Review and results of operations

The REIT recorded a statutory profit for the period of \$40.6 million (31 December 2021: \$207.7 million). Operating earnings amounted to \$29.6 million (8.1 cents per unit) for the period ended 31 December 2022 (31 December 2021: \$30.8 million, 8.5 cents per unit) and distributions of \$31.5 million (8.6 cents per unit) were declared for the same period (31 December 2021: \$30.6 million, 8.4 cents per unit).

The 31 December 2022 financial results are summarised as follows:

	6 months to 31 Dec 2022	6 months to 31 Dec 2021
Total revenue (\$ millions)	58.0	48.7
Statutory profit (\$ millions)	40.6	207.7
Basic earnings per unit (cents)	11.1	57.1
Operating earnings (\$ millions)	29.6	30.8
Operating earnings per unit (cents)	8.1	8.5
Distributions (\$ millions)	31.5	30.6
Distributions per unit (cents)	8.6	8.4

  

	31 Dec 2022	30 Jun 2022
Total assets (\$ millions)	2,258.6	2,081.2
Total liabilities (\$ millions)	756.6	588.4
Net assets (\$ millions)	1,502.0	1,492.8
Units on issue (millions)	367.1	365.5
Net assets per unit (\$)	4.09	4.08
Balance sheet gearing - total debt (net of cash) to total assets (net of cash)	31.6%	26.2%
Look through gearing - total debt (net of cash) to total assets (net of cash)	32.3%	27.1%

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

	6 months to 31 Dec 2022 \$'m	6 months to 31 Dec 2021 \$'m
Net property income	47.7	40.1
Distribution income	1.0	1.0
Interest income	0.3	—
Fund management fees	(5.6)	(4.5)
Finance costs	(12.5)	(4.7)
Administration and other expenses	(1.3)	(1.1)
<b>Operating earnings</b>	<b>29.6</b>	<b>30.8</b>

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.

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

The uncertainty of the current geopolitical events and subsequent increase in consumer price inflation and interest rates in Australia may have an impact on the future performance of the portfolio. The REIT benefits from its inflation linked revenue streams and the interest rate hedging in place.



## Directors' report (continued)

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

	6 months to 31 Dec 2022 \$'m	6 months to 31 Dec 2021 \$'m
<b>Operating earnings</b>	<b>29.6</b>	30.8
Net fair value movements on investment properties*	9.5	170.4
Net fair value movements on derivative financial instruments*	(0.9)	4.4
Straightlining of rental income, amortisation of lease fees and incentives*	2.1	2.7
Ground rent on leasehold properties	0.7	0.7
Interest on lease liabilities	(0.2)	(0.1)
Other	(0.2)	(1.2)
<b>Statutory profit for the period</b>	<b>40.6</b>	207.7
Basic weighted average number of units (millions)	366.5	363.8
Basic earnings per unit (cents)	11.1	57.1
Operating earnings per unit (cents)	8.1	8.5
Distribution per unit (cents)	8.6	8.4

\* Includes the REIT's proportionate share of non-operating items of equity accounted investments on a look through basis.

### Property valuation gains

Net valuation gains on a proportionate consolidation basis totalling \$20.8 million were recorded during the period (31 December 2021: \$181.4 million). These gains were partially offset by revaluation decrements attributable to acquisition and disposal costs of \$9.2 million (31 December 2021: \$8.9 million) and straightlining of rental income, amortisation of lease fees and incentives of \$2.1 million (31 December 2021: \$2.1 million).

Over the six months from 1 July 2022 to 31 December 2022 the REIT's portfolio valuation increased by 0.8% (31 December 2021: 11.9%). External valuations were conducted at 31 December 2022 for 100% of the operational properties, including joint ventures (but excluding acquisitions, properties held for sale, childcare developments completed since 30 June 2022 and childcare developments underway).

### Significant changes in the state of affairs

#### Acquisitions

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

	Acquisition date	Acquisition price \$'m
27 Livingstone Street, Ivanhoe VIC	August 2022	13.7
35 Brookfield Road, Kenmore QLD	September 2022	9.5
Buildings 2 & 3, 209 Robina Town Centre Drive, Robina QLD (50% interest)	September 2022	40.0
Geoscience Australia, Canberra ACT (25% interest) ^	October 2022	90.9
		154.1

^ Acquired by the underlying property trust which owns the asset.

In addition, the REIT has exchanged contracts for the acquisition of 2 childcare assets located in Western Australia and 1 childcare asset located in Queensland with a total purchase price of \$18.3 million with settlement expected February 2023.

#### Disposals

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

	Disposal date	Disposal price \$'m
9 Richardson Place, Merrylands NSW	December 2022	2.4
		2.4

In addition, the REIT has exchanged contracts for the disposal of 4 childcare assets, 3 of which are located in Victoria and with the remaining asset located in Queensland. Total sale price is \$13.0 million. 3 of the assets are expected to settle in February 2023, with the remaining asset expected to settle in April 2023.

## Directors' report (continued)

### Debt arrangements and hedging

In September 2022, the REIT increased its debt facilities from \$800 million to \$850 million. As at 31 December 2022, the weighted average debt expiry is 3.5 years.

In December 2022, the REIT entered into a \$150 million interest rate swap with a forward start date of June 2023. The interest rate swap is for a period of two years at a rate of 3.0%.

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

### Likely developments and expected results of operations

The consolidated financial statements have been prepared on the basis of current known market conditions. 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 belief, 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.

### Matters subsequent to the end of the financial period

On 11 January 2023, the REIT settled on the acquisition of a childcare asset located in Victoria for a purchase price of \$10.0 million.

On 27 January 2023, the REIT sold its entire holding in Arena REIT (ASX:ARF) for \$43.7 million net of transaction costs.

On 2 February 2023, the REIT acquired and settled on a 49.9% interest in the Innovation Quarter, Westmead, NSW for a purchase price of \$66.9 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 their 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 consolidated financial statements were authorised for issue by the Directors on 14 February 2023. The Directors have the power to amend and re-issue the consolidated financial statements.



Grant Hodgetts  
Chair  
Melbourne  
14 February 2023



## Auditor's Independence Declaration

As lead auditor for the review of Charter Hall Social Infrastructure REIT for the half-year ended 31 December 2022, 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 'A S Wood'.

A S Wood  
Partner  
PricewaterhouseCoopers

Sydney  
14 February 2023



## Consolidated statement of comprehensive income

	Notes	6 months to 31 Dec 2022 \$'m	6 months to 31 Dec 2021 \$'m
<b>Revenue</b>			
Property income	A1	56.7	47.7
Distribution income		1.0	1.0
Interest income	A1	0.3	–
<b>Total revenue</b>		<b>58.0</b>	<b>48.7</b>
<b>Other income</b>			
Net fair value gain on investment properties	B1	15.1	165.4
Net fair value gain from derivative financial instruments		–	4.1
Share of equity accounted profit	B2	–	6.6
<b>Total revenue and other income</b>		<b>73.1</b>	<b>224.8</b>
<b>Expenses</b>			
Property expenses		(9.3)	(7.0)
Fund management fees		(5.6)	(4.5)
Finance costs	C1	(12.3)	(4.5)
Administration and other expenses		(1.5)	(1.1)
Net fair value loss from derivative financial instruments		(0.8)	–
Share of equity accounted loss	B2	(3.0)	–
<b>Total expenses</b>		<b>(32.5)</b>	<b>(17.1)</b>
<b>Profit for the period</b>		<b>40.6</b>	<b>207.7</b>
<b>Other comprehensive income</b>			
Gain/ (loss) on revaluation of financial asset	B3	(5.3)	16.0
<b>Other comprehensive income/ (expense)</b>		<b>(5.3)</b>	<b>16.0</b>
<b>Total comprehensive income for the period</b>		<b>35.3</b>	<b>223.7</b>
<b>Basic and diluted earnings per ordinary unitholder of the REIT</b>			
Earnings per unit (cents)	A2	11.1	57.1

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

## Consolidated balance sheet

	Notes	31 Dec 2022 \$'m	30 Jun 2022 \$'m
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		12.1	10.5
Receivables		3.0	2.0
Other assets		4.4	4.0
Investment properties held for sale	B1	20.7	7.7
Investment in financial asset	B3	46.2	–
<b>Total current assets</b>		<b>86.4</b>	<b>24.2</b>
<b>Non-current assets</b>			
Investment properties	B1	2,015.5	1,938.2
Investment accounted for using equity method	B2	135.4	45.3
Investment in financial asset	B3	–	51.5
Derivative financial instruments	C2	21.3	22.0
<b>Total non-current assets</b>		<b>2,172.2</b>	<b>2,057.0</b>
<b>Total assets</b>		<b>2,258.6</b>	<b>2,081.2</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		15.5	17.8
Distribution payable	A2	15.8	16.1
Lease liabilities		1.2	1.2
Other liabilities		2.5	1.5
<b>Total current liabilities</b>		<b>35.0</b>	<b>36.6</b>
<b>Non-current liabilities</b>			
Borrowings	C1	718.4	548.1
Lease liabilities		3.2	3.7
<b>Total non-current liabilities</b>		<b>721.6</b>	<b>551.8</b>
<b>Total liabilities</b>		<b>756.6</b>	<b>588.4</b>
<b>Net assets</b>		<b>1,502.0</b>	<b>1,492.8</b>
<b>Equity</b>			
Contributed equity	C3	646.0	640.6
Reserves	C3	24.7	30.0
Undistributed profits		831.3	822.2
<b>Total equity</b>		<b>1,502.0</b>	<b>1,492.8</b>

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 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
<b>Total equity at 1 July 2022</b>		<b>640.6</b>	<b>30.0</b>	<b>822.2</b>	<b>1,492.8</b>
Profit for the period		—	—	40.6	40.6
Other comprehensive income		—	(5.3)	—	(5.3)
<b>Total comprehensive income for the period</b>		<b>—</b>	<b>(5.3)</b>	<b>40.6</b>	<b>35.3</b>
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	—	—	(31.5)	(31.5)
<b>Total equity at 31 December 2022</b>		<b>646.0</b>	<b>24.7</b>	<b>831.3</b>	<b>1,502.0</b>

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

## Consolidated cash flow statement

	31 Dec 2022 \$'m	31 Dec 2021 \$'m
<b>Cash flows from operating activities</b>		
Property income received	59.5	48.9
Property expenses paid	(11.4)	(7.2)
Fund management fees paid	(5.9)	(4.4)
Administration and other expenses paid	(0.8)	(0.8)
GST paid with respect to operating activities	(4.2)	(3.0)
Distributions received from interest in financial asset and joint ventures	2.6	2.1
Interest received	0.3	–
Finance costs paid	(11.4)	(5.0)
<b>Net cash flows from operating activities</b>	<b>28.7</b>	<b>30.6</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment properties	2.7	3.2
Payments for investment properties	(77.8)	(208.5)
Payments for investments accounted for using the equity method	(95.6)	–
<b>Net cash flows from investing activities</b>	<b>(170.7)</b>	<b>(205.3)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	190.0	265.0
Repayment of borrowings	(20.0)	–
Payments for derivative financial instruments	–	(1.4)
Distributions paid (net of DRP)	(26.4)	(39.1)
<b>Net cash flows from financing activities</b>	<b>143.6</b>	<b>224.5</b>
<b>Net increase in cash held</b>	<b>1.6</b>	<b>49.8</b>
Cash and cash equivalents at the beginning of the half year	10.5	5.3
<b>Cash and cash equivalents at the end of the half year</b>	<b>12.1</b>	<b>55.1</b>

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 asset.
- C. Capital structure** – details of the REIT's structure.
- D. Further information** – provides additional disclosures relevant in understanding the REIT's financial statements.

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In preparing its consolidated financial statements the REIT has considered the ongoing impact that the future economic outlook has had on its business operations and upon the business operations of its tenant customers. In assessing such impacts management have relied upon certain key estimates to evaluate current and future business conditions. Inherent in any estimate is a level of uncertainty. Estimation uncertainty is associated with the extent and duration of a high inflation and interest rate environment, including:

- the disruption to capital markets;
- deteriorating credit and liquidity concerns;
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers; and
- judgements in property valuations.

## 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 or one-off items that are not in the ordinary course of business or are capital in nature.

The inclusion of operating earnings as a measure of the 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 operating segment being the 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 2022 are as follows:

	6 months to 31 Dec 2022	6 months to 31 Dec 2021
	\$'m	\$'m
Property lease revenue	52.7	45.4
Services income	4.0	2.3
<b>Property income</b>	<b>56.7</b>	<b>47.7</b>
Non-cash adjustments	(1.9)	(2.4)
Ground rent on leasehold properties	(0.7)	(0.7)
Share of net property income from joint ventures	2.9	1.4
Property expenses	(9.3)	(7.0)
Other	–	1.1
<b>Net property income</b>	<b>47.7</b>	<b>40.1</b>
Distribution income	1.0	1.0
Interest income	0.3	–
Fund management fees	(5.6)	(4.5)
Finance costs	(12.5)	(4.7)
Administration and other expenses	(1.3)	(1.1)
<b>Operating earnings</b>	<b>29.6</b>	<b>30.8</b>

#### 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.

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



## A. REIT performance (continued)

A reconciliation between operating earnings on a proportionate consolidation basis to the statutory profit is set out below:

	6 months to 31 Dec 2022	6 months to 31 Dec 2021
	\$'m	\$'m
<b>Operating earnings</b>	<b>29.6</b>	30.8
Net fair value movements on investment properties*	9.5	170.4
Net fair value movements on derivative financial instruments*	(0.9)	4.4
Straightlining of rental income, amortisation of lease fees and incentives*	2.1	2.7
Ground rent on leasehold properties	0.7	0.7
Interest on lease liabilities	(0.2)	(0.1)
Other	(0.2)	(1.2)
<b>Statutory profit for the period</b>	<b>40.6</b>	207.7
Basic weighted average number of units (millions)	366.5	363.8
Basic earnings per unit (cents)	11.1	57.1
Operating earnings per unit (cents)	8.1	8.5
Distribution per unit (cents)	8.6	8.4

\* Includes the REIT's proportionate share of non-operating items of equity accounted investments on a look through basis.

### A2. Distributions and earnings per unit

#### (a) Distributions paid and payable

	31 Dec 2022			31 Dec 2021		
	Number of units on issue	Cents Per Unit	\$'m	Number of units on issue	Cents Per Unit	\$'m
30 September	366,283,114	4.30	15.7	363,712,112	4.18	15.2
31 December*	367,112,102	4.30	15.8	364,150,027	4.22	15.4
<b>Total distributions</b>		<b>8.60</b>	<b>31.5</b>		<b>8.40</b>	<b>30.6</b>

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

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 REIT has attributed all the taxable income of the REIT to unitholders.

#### (b) Earnings per unit

	6 months to 31 Dec 2022	6 months to 31 Dec 2021
<b>Basic and diluted earnings</b>		
Earnings per unit (cents)	11.1	57.1
Operating earnings per unit (cents)	8.1	8.5
<b>Earnings used in the calculation of basic and diluted earnings per unit</b>		
Net profit for the period (\$'m)	40.6	207.7
Operating earnings for the period (\$'m)	29.6	30.8
Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)*	366.5	363.8

\* 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 an investment through a financial asset. 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 are comprised of indirect interest in investment properties held by separate legal entities to the REIT. Investment in financial asset at fair value comprise investment in listed security.

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

	Notes	31 Dec 2022 \$'m	30 Jun 2022 \$'m
<b>Current assets</b>			
Assets held for sale	B1	20.7	7.7
Investment in financial asset	B3	46.2	-
<b>Total current assets</b>		<b>66.9</b>	<b>7.7</b>
<b>Non-current assets</b>			
Investment properties	B1	2,015.5	1,938.2
Investment in joint ventures	B2	135.4	45.3
Investment in financial asset	B3	-	51.5
<b>Total non-current assets</b>		<b>2,150.9</b>	<b>2,035.0</b>
<b>Property portfolio assets, including interests in joint ventures and financial asset</b>		<b>2,217.8</b>	<b>2,042.7</b>

### B1. Investment properties

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

	6 months to 31 Dec 2022 \$'m	Year to 30 Jun 2022 \$'m
<b>Movements during the financial period</b>		
Balance at the beginning of the period	1,938.2	1,448.0
Additions*	71.2	228.2
Acquisition and disposal costs incurred	4.5	12.0
Disposal of properties	(2.4)	(8.8)
Reclassification to asset held for sale	(13.0)	(7.7)
Revaluation of right-of-use assets	(0.5)	(1.0)
Revaluation increment	22.0	279.5
Revaluation decrement attributable to acquisition and disposal costs, straightlining of rental income, and amortisation of incentives and leasing fees	(6.4)	(17.0)
Straightlining of rental income, amortisation of incentives and leasing fees	1.9	5.0
<b>Carrying amount at the end of the period</b>	<b>2,015.5</b>	<b>1,938.2</b>

\* Includes \$0.6 million (30 June 2022: \$1.2 million) of interest capitalised on investment properties. Capitalised interest was calculated using 3.8% (30 June 2022: 2.6%), being the weighted average interest rate applicable to the REIT's borrowings during the period.

#### (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 one or more 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. If a property is not externally valued at balance date, an internal valuation is performed.

## B. Property portfolio assets (continued)

As at 31 December 2022, 100% (30 June 2022: 100%) of the operational properties were externally valued, including joint ventures (but excluding acquisitions, properties held for sale, childcare developments completed since 30 June 2022 and childcare developments underway).

### (c) 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 on the 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, excluding development properties:

	Fair value \$'m	Net Market Rent (\$ sq.m./p.a.)*	Adopted capitalisation rate (% p.a.)*	Adopted terminal yield (% p.a.)**	Adopted discount rate (% p.a.)**
<b>December 2022</b>	<b>1,986.5</b>	<b>133 - 1,738</b>	<b>3.50 - 7.89</b>	<b>4.50 - 5.50</b>	<b>4.75 - 6.00</b>
June 2022	1,890.7	162 - 1,688	3.50 - 6.50	4.50 - 4.97	5.75 - 5.75

\* Applicable to all non-childcare and freehold childcare social infrastructure assets. Leasehold childcare assets are excluded from this metric. Fair value of leasehold childcare assets is \$24.2 million (30 June 2022: \$24.9 million) which have an average passing yield of 18.4% (30 June 2022: 17.8%) and an average passing rent (\$ per licence place/p.a.) of \$238 (30 June 2022: \$229).

\*\* Applicable to all non-childcare social infrastructure assets. All childcare assets are excluded from this metric.

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 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.

### Sensitivity analysis

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 joint ventures) have been provided around reasonable possible movements in the capitalisation rate.

If the capitalisation rate expanded by 25 basis points, fair value of all wholly owned investment properties (excluding leasehold childcare assets and childcare development assets) would reduce by \$102.3 million from the fair value as at 31 December 2022 (including the REIT's share of joint venture properties \$108.5 million). And if the capitalisation rate compressed by 25 basis points, the fair value would increase by \$113.7 million from the fair value as of 31 December 2022 (including the REIT's share of joint venture properties \$120.6 million).

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

## B. Property portfolio assets (continued)

### B2. Investments accounted for using equity method

The REIT accounts for its investment in the 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 the joint venture entities 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. 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:

Name of entity	Properties	31 Dec 2022 Ownership %	30 Jun 2022 Ownership %	31 Dec 2022 \$'m	30 Jun 2022 \$'m
CH BBD Holding Trust	Brisbane Bus Depot, Brisbane QLD	50.0%	50.0%	44.5	45.3
Charter Hall GSA Trust	Geoscience Australia, Canberra ACT	25.0%	—	90.9	—
				<b>135.4</b>	<b>45.3</b>

### Gross equity accounted value of investment in joint venture entities

	6 months to 31 Dec 2022 \$'m	Year to 30 Jun 2022 \$'m
Balance at the beginning of the period	45.3	35.3
Additions (including acquisition costs)	95.6	—
Share of equity accounted profit/ (loss)	(3.0)	12.1
Distributions received and receivable	(2.5)	(2.1)
<b>Balance at the end of the period</b>	<b>135.4</b>	<b>45.3</b>

### B3. Investments in financial asset

	6 months to 31 Dec 2022 \$'m	Year to 30 Jun 2022 \$'m
Units in listed securities (Arena REIT - ASX:ARF) - at fair value	46.2	51.5
<b>Balance at the end of the period</b>	<b>46.2</b>	<b>51.5</b>
Movements:		
Balance at the beginning of the period	51.5	43.4
Net fair value movement on investments	(5.3)	8.1
<b>Balance at the end of the period</b>	<b>46.2</b>	<b>51.5</b>

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 in 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 asset is recognised in the consolidated statement of comprehensive income as part of revenue when the REIT's right to receive payments is established.

On 27 January 2023, the REIT sold its entire holding in Arena REIT (ASX:ARF) for \$43.7 million net of transaction costs.

### 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 31 December 2022, the REIT had entered into contracts to purchase three childcare properties for a total value of \$17.4 million (excluding deposits paid) expected to settle in February 2023. The commitments of the REIT in relation to development contracts are \$12.2 million (30 June 2022: \$13.2 million). In addition, capital incentive commitments under lease agreements are \$17.9 million (30 June 2022: \$20.0 million).

As at 31 December 2022, the REIT has no contingent liabilities (30 June 2022: nil). The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (30 June 2022: 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 2022		30 Jun 2022	
	Total carrying amount \$'m	Fair value \$'m	Total carrying amount \$'m	Fair value \$'m
Bilateral term facilities	723.0	718.5	553.0	550.0
Unamortised borrowing cost	(4.6)		(4.9)	
Total	718.4		548.1	
<b>Balance available for drawing</b>	<b>127.0</b>		<b>247.0</b>	

In September 2022, the REIT increased its debt facilities to \$850 million (30 June 2022: \$800 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 2022, the REIT complied with all of its debt covenant ratios and obligations.

#### Bilateral term facilities

	Maturity date	Facility limit \$'m	Utilised amount \$'m
<b>December 2022</b>			
Bank Facilities	January 2025	100.0	100.0
	February 2025	100.0	100.0
	December 2026	200.0	200.0
	January 2027	150.0	23.0
	February 2027	200.0	200.0
Institutional term loan	August 2025	100.0	100.0
		<b>850.0</b>	<b>723.0</b>

#### Borrowing in Joint Ventures

As at balance date, CH BBD Holding Trust has a \$52.3 million debt facility (REIT's share: \$26.2 million) with a maturity date in August 2027.

#### (b) Finance costs

	6 months to 31 Dec 2022 \$'m	6 months to 31 Dec 2021 \$'m
Finance costs paid or payable	12.7	5.3
Interest on lease liabilities	0.2	0.1
Less: Capitalised finance costs	(0.6)	(0.9)
	<b>12.3</b>	<b>4.5</b>

Borrowing costs associated with development properties are capitalised based on the weighted average interest rate of 3.8% as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use. The weighted average interest rate takes into consideration the REIT's interest rate hedging profile, term debt and liquidity costs.

## C. Capital structure (continued)

### 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 2022		30 June 2022	
	Asset \$'m	Liability \$'m	Asset \$'m	Liability \$'m
<b>Non-current</b>				
Interest rate swaps	16.8	–	17.7	–
Interest rate cap <sup>1</sup>	4.5	–	4.3	–
Total non-current derivative financial instruments	21.3	–	22.0	–
<b>Total derivative financial assets</b>	<b>21.3</b>	<b>–</b>	<b>22.0</b>	<b>–</b>

<sup>1</sup> In December 2021, the REIT entered into a five-year \$100 million interest rate cap of 3.00%.

In December 2022, the REIT entered into a \$150 million interest rate swap with a forward start date of June 2023. The interest rate swap is for a period of two years at a rate of 3.0%.

#### (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.

### C3. Contributed equity and reserves

#### (a) Contributed equity

Details	No. of Units '000	\$'m
Units on issue - 1 July 2021	362,627	629.9
Units issued via DRP	2,849	10.7
<b>Units on issue - 30 June 2022</b>	<b>365,476</b>	<b>640.6</b>
Units issued via DRP	1,636	5.4
<b>Units on issue - 31 December 2022</b>	<b>367,112</b>	<b>646.0</b>

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 first business day following the distribution record date. During the period, 1,636,097 units were issued at an average issue price of \$3.29 per unit. An additional \$2.3 million was raised from the DRP for the 31 December 2022 distribution allotted on 20 January 2023.



## C. Capital structure (continued)

### (b) Reserves

	Reserve - Financial asset at FVOCI \$'m
Opening balance - 1 July 2021	21.9
Changes in the fair value of reserves	8.1
<b>Balance 30 June 2022</b>	<b>30.0</b>
Opening balance - 1 July 2022	<b>30.0</b>
Changes in the fair value of reserves	<b>(5.3)</b>
<b>Balance 31 December 2022</b>	<b>24.7</b>

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 investment in financial asset (Note B3) 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

On 11 January 2023, the REIT settled on the acquisition of a childcare asset located in Victoria for a purchase price of \$10.0 million.

On 27 January 2023, the REIT sold its entire holding in Arena REIT (ASX:ARF) for \$43.7 million net of transaction costs.

On 2 February 2023, the REIT acquired and settled on a 49.9% interest in the Innovation Quarter, Westmead, NSW for a purchase price of \$66.9 million.

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

### 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 2022 have been prepared in accordance with the requirements of the REIT's constitution, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The REIT is a for-profit entity for the purpose of preparing the consolidated financial statements. The consolidated financial statements are presented in Australian dollars, which is the REIT's functional and presentation currency.

These interim financial statements do 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 2022 and any public announcements made by the Charter Hall Social Infrastructure REIT during the half year ended 31 December 2022 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 statements 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 2022 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 REIT's financial position as at 31 December 2022 and of its performance for the period ended on that date; and
- b there are reasonable grounds to believe that the REIT will be able to pay its debts as and when they become due and payable.

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

14 February 2023



## ***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 2022, 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 of Charter Hall Social Infrastructure Limited (the Responsible Entity).

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 2022 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 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.

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### ***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 and fair view of the Group's financial position as at 31 December 2022 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

A S Wood

A S Wood  
Partner

Sydney  
14 February 2023