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Arena REIT

Annual Report 2013

For the year ended 30 June 2013



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FY13 financial highlights

Solid improvement in earnings - distributable income of \$11.2 million (31.8% increase on FY12)

Strengthened financial position - balance sheet gearing at 10.4% (decreased from 41.7% (FY12))

FY13 results slightly ahead of forecasts in PDS released May 2013 - distributions of 8.0 cents per unit (23.1% increase on FY12)

Increased property values underpinned higher net tangible asset value - increased by 2% to \$1.02 on FY12

FY13 key achievements

Property portfolio
Continued to provide steady income return (>9%) and capital growth (2.7%) over the period.

Successfully repositioned
Broadened investment mandate to better diversify the portfolio and investment opportunities whilst seeking to maintain the predictability of the income streams; reduced responsible entity (RE) fees; and renamed to Arena REIT (ARF).

Liquidity provided
The Trust's units have traded above net tangible asset value since ASX listing.

Debt facility
Completed refinancings of debt facility on improved terms (extended term and reduced margin).

Completed equity raising to enhance value
Raised \$75 million at a price of \$1.01 per unit to fund potential buy-back facility, reduce debt and create acquisition growth capacity.

Letter from the Chairman

27 September 2013

Dear Investor

On behalf of the Arena Board, I am very pleased to provide Arena REIT (ARF or the Trust) investors with the Annual Report for the year ended 30 June 2013.

The past 12 months have been very successful for the Trust. Arena has been focussed on not only delivering value to investors, but also a much needed liquidity solution via the Trust's listing on the Australian Securities Exchange (ASX) on 13 June 2013.

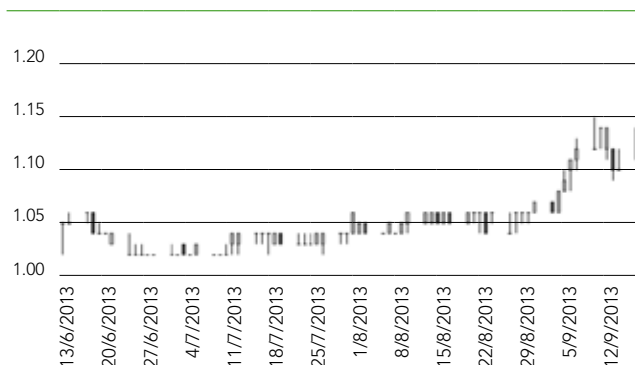
Importantly, since the Trust's ASX listing, it has traded above its underlying net tangible asset value per unit and has received strong interest from a broad range of institutional and smaller private investors. As a consequence, the buy-back facility that we put in place for the Trust in June has not been required.

Investor liquidity strategy implemented

The successful ASX listing was a result of a very carefully planned strategy to reposition the Trust to ensure it would appeal to a wide range of investors and to deliver improved earnings growth potential going forward. In summary, the activities undertaken to reposition the Trust were as follows:

- Broadened the Trust's investment strategy to allow the addition of education, healthcare, and government or high credit quality tenants on relatively long leases. We believe this broadening of the investment strategy will benefit the Trust in the longer term for several reasons including allowing better diversification of the underlying tenancy base and a larger investment opportunity set.
- Renamed the Trust (previously the Arena Childcare Property Fund) to be consistent with the broadened investment mandate.
- Reduced the management fees charged to the Trust, with a commitment to further reduce fees as a percentage of gross assets as the Trust grows over time.
- Renegotiated improved debt facility terms incorporating a lower margin.
- Reduced the Trust's target gearing range to 35% to 45%, down from the previous 55%.
- Significantly reduced the Trust's gearing (10.4% as at 30 June 2013) by raising new equity of \$75 million at close to the current net tangible asset value per unit.
- Instigated a buy-back facility that may be utilised if the ASX trading price is less than \$1.00 per unit to provide liquidity in the event that existing investors wanted to exit.

Arena REIT (ARF) daily ASX price



Consistently trading at or above net tangible asset value (\$1.02 per unit as at 30 June 2013).

Strong financial results

The actual underlying financial results for the Trust in financial year 2013 (FY13) were slightly ahead of the pro-forma forecasts contained in the Trust's Product Disclosure Statement (PDS) issued in May 2013.

The statutory net profit for the financial year ended 30 June 2013 was \$17.2 million, up 9.8% compared to the previous year. Importantly the Trust's distributable income (underlying profit) was \$11.2 million, which is an increase of 31.8% on the prior period. On a return on equity basis, the Trust reported a very healthy 12.6% over the 12 month period.

From a distribution per unit perspective, the Trust distributed cash to investors during the year of 8 cents per unit, reflecting a 98% pay-out ratio. The 8 cents per unit represented a 23% increase in distributions per unit from the prior year.

Following the recent equity raising, the net assets of the Trust are now \$210.1 million and the net tangible asset value per unit increased 2 cents to \$1.02 per unit as at 30 June 2013.

Stable property portfolio

As at 30 June 2013, the Trust owned 177 properties, comprising 173 Childcare Centres and 4 vacant land sites, in aggregate valued at \$234.9 million. Over the past year, the properties have continued to perform well, delivering on a like for like basis, steady rental growth of 2.5% and capital growth of 2.7%. The average passing income yield on the leased centres is 9.3% with a relatively long average remaining lease term of 8.3 years.

Letter from the Chairman

Under the standard lease which currently applies across 95% of the portfolio, the tenants are required to report to us their operating performance including centre occupancy levels, daily fees charged, gross revenue and profitability. On a portfolio basis, reported operator gross revenue grew 4.3% over the past 12 months to 30 June 2013 and the individual centres were operating at an average of 72.9% of full capacity. This information indicates the financial performance of each centre and is useful in identifying how to remix and improve the quality of the childcare portfolio over time.

During the period, the completion of a new 120 place purpose-built childcare centre at Mernda, Victoria has demonstrated the benefits of developing new high quality centres. These benefits include using the Trust's preferred standard lease agreement. Further work is now progressing on at least 3 new developments which are expected to be completed during the course of the next financial year.

The importance of the childcare early learning industry

The childcare industry has become a very important sector in Australia's economy and is central to promoting workforce participation. Most importantly, it promotes the educational development of young children to give them the best start in life. The importance of the sector is recognised by government through significant subsidised cost schemes. The government is also playing a critical role in ensuring the delivery of high standards of childcare services through the National Quality Framework and other policies such as requiring higher qualifications for childcare workers over time.

For young children, long day care centres, such as those owned by Arena REIT, are the main channel for the delivery of these important services. According to government sources, as at 30 September 2012, there were approximately 6,192 approved long day care centres in Australia.

With changes in government regulation, there has been a trend towards larger, more operationally efficient centres and a move away from the older smaller residential converted centres of the 1990s. The majority of Arena REIT's centres are modern (average age 9 years), and purpose-built centres (91.3%), well located throughout the community.

Positive outlook for FY14

Over the next 12 months, Arena will remain very focused on adding value to and improving the quality of the existing portfolio through remixing and taking advantage of development opportunities identified in conjunction with The Trust's existing tenant relationships where the demand for childcare services exceeds supply.

In addition, the Trust with its low gearing has significant undrawn debt capacity (up to \$80 million), and has the opportunity to take advantage of the current low interest rate environment and further strengthen its relationships by partnering with tenants to identify quality investment opportunities. A disciplined and strategic approach will be taken as the Trust seeks to invest into other sectors such as healthcare which should enhance the value of the Trust over time.

Arena re-affirms its FY14 distribution forecast of 8.2 cents per unit (an increase of 2.5% on FY13) on the same basis and assumptions detailed in the May 2013 PDS.

On behalf of the directors and management I would like to thank investors for their support. We look forward to providing you with further updates during the course of FY14 as we deliver on our ongoing management of the portfolio. Our aim is to provide attractive and predictable distributions to investors with earnings growth prospects over the medium to long term.

Yours sincerely



David Ross
Chairman

Arena Investment Management Limited



At top and above: 17 David John Drive, Tarneit, VIC.

About Arena REIT

Listed on the ASX on 13 June 2013, Arena REIT, formerly the Arena Childcare Property Fund, is managed by Arena and owns 173 childcare centres and 4 childcare centre development land sites located in Australia and with total assets of \$241.3 million (as at 30 June 2013).

Arena REIT intends, over time, to establish a diversified real estate portfolio with relatively long term leases to tenants in sectors such as childcare, education, healthcare and government or high credit quality tenanted facilities.

The Trust aims to provide an attractive and predictable distribution to investors, with earnings growth prospects over the medium to long term.

Arena REIT's portfolio snapshot

Trust overview
(as at 30 June 2013)

Number of property assets

177

Tenancy occupancy rate
(by number of centres)

97%

Weighted Average Lease Expiry

8.3 years

Total assets

\$241.3m

Property sector exposure

childcare

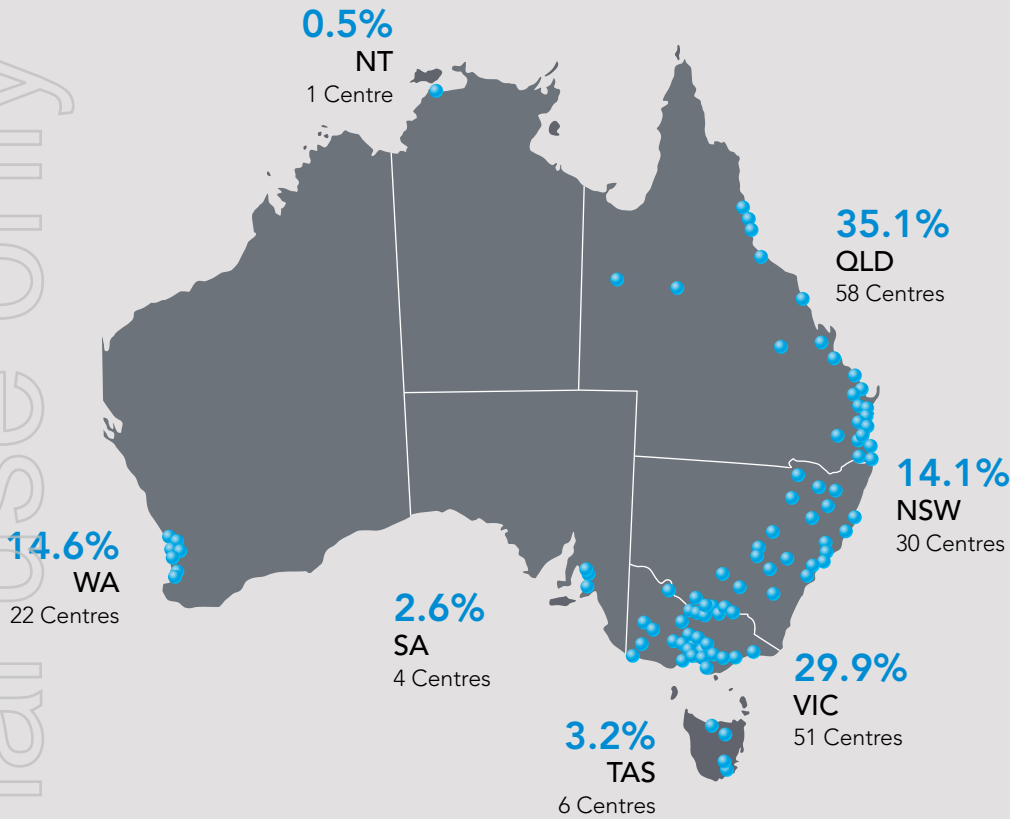
Balance sheet gearing

10.4%

To download the webinar recording discussing these results please visit the Arena website multimedia page at www.arenainvest.com.au/education/multimedia

Geographically diverse portfolio of property assets across Australia

(by value)



Purpose built centres

91.3%

% of centres in a metropolitan area

58%

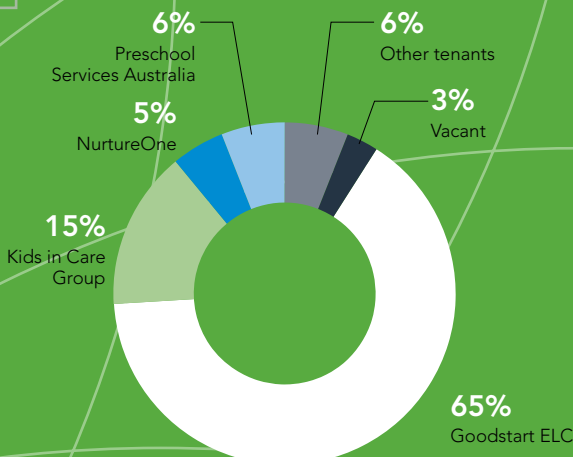
Median age of centres

9 years

High quality tenants

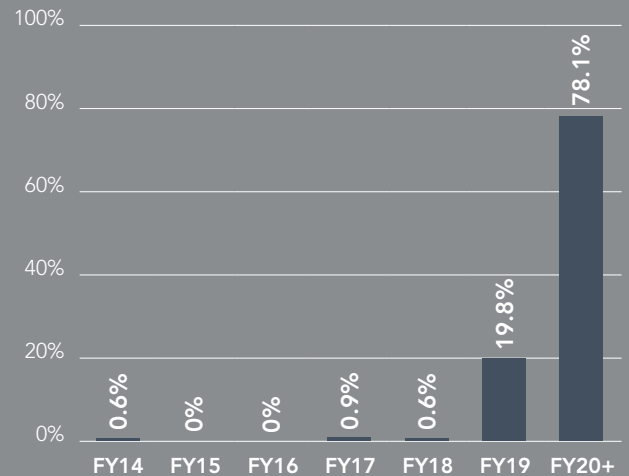
The Trust has 4 major tenants who are all long day care operators across 3 sectors including not-for profit, profit and government.

Tenants (by number of centres)



Relatively long leases across the portfolio

Lease expiry (by income)



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Directors' report

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These financial statements cover Arena REIT and its controlled entities (the "Trust" or the "Consolidated Entity"). The financial statements are presented in Australian currency.

The Responsible Entity of Arena REIT is Arena Investment Management Limited (ACN 077235879). The Responsible Entity's registered office is: Level 20, 600 Bourke Street, Melbourne VIC 3000.

Directors' report

The directors of Arena Investment Management Limited, the Responsible Entity of Arena REIT, present their report together with the financial statements of Arena REIT and its controlled entities (the "Trust" or the "Consolidated Entity") for the year ended 30 June 2013.

On 14 May 2013, Arena Childcare Property Fund changed its name to Arena REIT.

Directors

The following persons held office as directors of Arena Investment Management Limited during the year or since the end of the year and up to the date of this report:

- David Ross (Chairman) (appointed 4 October 2012)
- Simon Parsons
- Dennis Wildenburg
- James Goodwin
- Bryce Mitchelson

Principal activities

The Trust is a real estate investment trust with investments in a portfolio of childcare centre properties. The Trust is a registered managed investment scheme.

The Trust issued a Product Disclosure Statement ("PDS") in May 2013 seeking new investment of \$75 million with the intention of listing on the Australian Securities Exchange ("ASX"). The Trust successfully raised \$75 million and listed on ASX on 13 June 2013.

Distributions to unitholders

The following table details the distributions declared to unitholders during the financial year:

	2013	2012	2013	2012
	\$'000	\$'000	cpu	cpu
September quarter	2,311	1,652	1.75	1.25
December quarter	2,642	1,981	2.00	1.50
March quarter	2,642	2,311	2.00	1.75
June quarter*	3,269	2,642	2.25	2.00
Total distributions to unitholders	10,864	8,586	8.00	6.50

* The Trust raised \$75 million of new capital and listed on ASX on 13 June 2013. As a result, the distribution for the June 2013 quarter was payable in two components. Unitholders in the period prior to the capital raising and the ASX listing are entitled to a distribution of 1.85 cents per unit for the period 1 April 2013 to 12 June 2013. All unitholders on the register on the record date of 28 June 2013 are entitled to a distribution of 0.4 cents per unit for the period 13 June 2013 to 30 June 2013.

Operating and financial review

Arena REIT was established in 2003 as an unlisted property fund to invest in a portfolio of childcare centres. The Trust operates with the aims of generating attractive and predictable distributions for unitholders with earnings growth prospects over the medium to long term.

The Trust raised \$75 million in new equity and listed on the ASX on 13 June 2013. The Trust will use the capacity generated from the equity raising to acquire new investments in accordance with its investment mandate, which includes a strategy to diversify the investment property portfolio to alternative sectors to childcare.

The Trust's strategy is to invest in property underpinned by relatively long leases and in sectors with supportive macro-economic trends including population growth and emerging demographics such as an ageing population. The following sectors have been identified as likely to provide investment opportunities consistent with this strategy:

- Childcare / Early learning services
- Education - including schools, colleges and universities and associated facilities
- Healthcare - including medical centres, diagnostic facilities, hospitals, aged care and associated facilities

FY13 highlights

- FY13 Distributable Income was \$11.2 million, up 32% on the prior year.
- FY13 Full Year Distribution per Unit was 8.0 cents, up 23% on the prior year. The FY13 Distribution is in accordance with the Trust's PDS Forecast.
- Debt at 30 June 2013 was \$25 million following the repayment of debt from equity raising proceeds in June 2013. The Trust reduced borrowings by \$75.2 million in FY13.
- Gearing was 10.4% at 30 June 2013. The Trust's target gearing range is 35-45%.
- NTA per unit at 30 June 2013 was \$1.02, an increase of 2% on the prior year.
- The Trust refinanced its debt facility in June 2013 with improved margins and extended maturity to 30 June 2016.

Key financial metrics

	30 June 2013	30 June 2012	Change
Net profit (statutory)	\$17.2 million	\$15.7 million	+ 10%
Distributable income	\$11.2 million	\$8.5 million	+ 32%
Distributable income per unit	8.2 cents	6.4 cents	+ 28%
Distributions per unit	8.0 cents	6.5 cents	+ 23%
Total assets	\$241.3 million	\$240.2 million	+ 0.5%
Investment properties *	\$234.9 million	\$226.3 million	+ 3.8%
Borrowings	\$25.0 million	\$100.2 million	- 75%
Net assets	\$210.1 million	\$132.8 million	+ 58%
NTA per unit	\$1.02	\$1.00	+ 2%
Gearing **	10.4%	41.7%	- 75%

* Includes Investment property classified as held for sale

** Gearing calculated as Borrowings / Total assets

Financial results and distributable income

	30 June 2013	30 June 2012
	\$'000	\$'000
Lease rental income	21,296	21,749
Other income	722	821
Total operating income	22,018	22,570
Direct property expenses	(879)	(1,115)
Trust administration and operating expenses	(985)	(932)
Management fees	(2,372)	(2,399)
Finance costs	(6,622)	(9,658)
Distributable income *	11,160	8,466
Non-distributable items:		
Straight-Line rental income	497	748
Revaluation gain on investment properties	5,162	8,687
Change in fair value of derivatives	(141)	(4,245)
Revaluation gain on securities investment	1,413	1,382
Gain on sale of investment properties	10	808
Write-off capitalised debt establishment costs	(847)	-
Other	(30)	(165)
Statutory net profit	17,224	15,681

* Distributable income is not a statutory measure of profit

Financial results summary

- Distributable Income is the measure used to determine unitholder distributions and represents the underlying operating profit of the Trust for the relevant period. Distributable Income excludes fair value changes from asset and derivative revaluations and items of income or expense not representative of the Trust's underlying operating earnings.
- The increase in Distributable Income in FY13 is primarily due to the annual rent increases on the Trust's property portfolio and substantial finance cost savings achieved from refinancing the Trust's debt facility in July 2012 and June 2013 and the reduction in debt and termination of interest rate swaps following the sale of the New Zealand portfolio in April 2012.
- The reduction in Lease Rental Income is due to the sale of the Trust's NZ Portfolio in April 2012. Total rental income on the Australian portfolio increased in FY13 by 2.8%.

Investment property portfolio

Key property metrics

	30 June 2013	30 June 2012
Total value of investment properties *	\$234.9 million	\$226.3 million
Number of properties under lease	167	170
Development sites	4	4
Properties available for lease or sale	5	3
Properties classified as held for sale	1	-
Total properties in portfolio	177	177
Portfolio occupancy	97%	98%
Weighted average lease expiry (WALE)	8.3 years	9.1 years

* Includes Investment property classified as held for sale

- During FY13, 1 childcare centre development was completed and opened, 1 childcare centre was sold and 1 additional development site was acquired.
- The Trust expects to complete 2 new childcare centre developments and an extension to an existing facility in FY14.
- 47 properties were subject to independent valuation during FY13 which averaged a 3.3% increase in value. 119 properties were subject to director valuation. The total revaluation of the portfolio in FY13 was \$5.75 million representing an increase of 2.5%. The valuation increases primarily arose from growth in underlying rental income. Refer to Note 9 of the financial statements for further information.

Capital management

Equity raising

- The Trust raised \$75 million of new equity in June 2013 at an offer price of \$1.01.
- The net proceeds of the raising were used to repay debt and can be re-drawn to fund the acquisition of new investments.

Bank facilities & gearing

- The Trust refinanced its debt facility with NAB and ANZ in July 2012, which resulted in reduced margins and facility fees. The Trust undertook a further refinancing with ANZ and NAB with effect from June 2013 which further reduced facility fees and margins and extended the facility's maturity date to 30 June 2016.
- The Trust's facility has a limit of \$110 million and was drawn to \$25 million at 30 June 2013, resulting in gearing of 10.4%. It is intended for the Trust to acquire additional assets, in accordance with its investment strategy, such that over time the Trust will operate within its targeted intended gearing range of 35% to 45%.
- The Trust was in compliance with all bank facility covenants throughout FY13 and as at 30 June 2013.

Interest rate management

- Borrowings at 30 June 2013 are 100% hedged with interest rate swaps to June 2016. The average swap fixed rate is 2.95%.
- The Trust paid \$2.1 million to terminate \$86 million in swaps in June 2014 to reduce the over-hedged position after repaying debt with the proceeds of the equity raising completed in June 2013. The Trust will enter into additional interest rate swaps as assets are acquired in accordance with its interest rate risk management policy.

Capital management (continued)

On market buy-back

In June 2013, the Responsible Entity announced on-market buy-back of Arena REIT units to commence from 20 June 2013, with a potential buy-back of up to 13.2 million units.

The buy-back may continue until 12 June 2014, unless the maximum number of units are bought back prior to this date. Units will only be bought back if the ASX price is \$1.00 per unit or less. The price of units bought back will also not be greater than the lesser of the withdrawal price calculated under the Trust's constitution and the maximum price permitted under the ASX Listing Rules.

At the date of issue of this report, no buy-back of units has occurred.

FY14 outlook

The Trust presently expects to pay a distribution of 8.2 cents per unit for FY14. This distribution is in-line with the distribution forecast contained in the Trust's recent PDS.

Notwithstanding the Trust's strategy to acquire new investments, the distribution outlook assumes that the Trust does not acquire any new investments in FY14. The distribution outlook also assumes that the Trust's existing leases are enforceable and tenants meet all their obligations in respect of those leases.

Significant changes in state of affairs

In the opinion of the directors, other than the matters identified in this report, there were no significant changes in the state of affairs of the Trust that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- (i) the operations of the Trust in future years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Trust in future financial years.

Likely developments and expected results of operations

The Trust will continue to be managed in accordance with the investment objectives and guidelines set out in the Trust's Constitution and as described in the Trust's recent PDS.

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Trust and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Trust.

Material business risks

The material business risks that could adversely affect the achievement of the Trust's financial prospects are as follows. The Responsible Entity has in place a Risk Management Policy and Framework under which it identifies, assesses, monitors and manages these risks.

Concentration risk

The Trust's property portfolio is presently 100% invested in childcare centres and childcare centre development sites. Adverse events to the childcare property sector may result in a general deterioration of tenants' ability to meet their lease obligations across the portfolio or to future growth prospects of the current portfolio. 66.1% of the initial portfolio (as at 30 June 2013) is leased to Goodstart Early Learning Limited ("Goodstart"), by value. Any material deterioration in its operating performance may result in Goodstart not meeting its lease obligations which could reduce the Trust's income.

Capital management (continued)

Material business risks (continued)

Tenant risk

The Trust relies on tenants to generate the majority of its revenue. These tenants are primarily not for profit companies limited by guarantee or private companies. If a tenant is affected by financial difficulties it may default on its rental or other contractual obligations which may result in loss of rental income and loss in value of the Trust's properties. Under the Trust's standard childcare property lease, tenants are required to provide an unconditional and irrevocable bank guarantee, which must not expire until at least six months after the ultimate expiry date of the lease, for an amount equivalent to six months' rent (plus GST) as security for their performance under the lease.

Information on directors of the Responsible Entity

The directors of the Responsible Entity at the time of this report are:

Name and position	Experience and qualifications
David Ross, Independent Non-Executive Chairman	<p>David has 30 years' experience in the real estate and investment management sectors. He held senior positions with Lend Lease Corporation over a period of 10 years, including Global and US Chief Executive Officer Real Estate Investments (based in the US), Chief Executive Officer Asia Pacific and Chief Executive Officer of General Property Trust. He was also Chief Operating Officer of Babcock and Brown, responsible for the Group's corporate and administrative support functions globally.</p> <p>David holds a Bachelor of Commerce, a Property Valuation qualification and is a Graduate of the Australian Institute of Company Directors (GAICD).</p> <p>Other current directorships: None.</p> <p>Former directorships in last 3 years: Sydney Football Foundation Ltd.</p> <p>Interest in the Trust: 200,000 units.</p>
Simon Parsons, Independent Non-Executive Director	<p>Simon has over 34 years' experience in the commercial property industry. He is presently Managing Director of Parsons Hill Stenhouse Pty Ltd, a commercial property practice.</p> <p>Simon is a Fellow of the Royal Institution of Chartered Surveyors (RICS) and is a member of the RICS Oceania Property Board.</p> <p>Simon holds a Master of Science (Real Estate). Other current directorships: None.</p> <p>Former directorships in last 3 years: None.</p> <p>Interest in the Trust: 200,000 units.</p>
Dennis Wildenburg, Independent Non-Executive Director, Chairman of Board Audit Committee	<p>Dennis has over 30 years' experience in the financial services and funds management industry including senior management, Board and compliance committee roles.</p> <p>Dennis is a member of the Institute of Chartered Accountants in Australia.</p> <p>Other current directorships: Investa Wholesale Funds Management Ltd.</p> <p>Former directorships in last 3 years: Investa Funds Management Ltd.</p> <p>Interest in the Trust: 150,000 units.</p>

Directors' report

Name and position

Experience and qualifications

James Goodwin, Executive Director

James is Joint Managing Director of Arena and was appointed to the role on 30 December 2011, following the acquisition of Arena by MSREF VII Global.

James has extensive experience in property funds management having previously spent five years at Becton Investment Management Ltd and prior to that, four years at Centro Properties Group and 3 years at Freehills.

James holds a Bachelor of Laws (Hons), a Bachelor of Arts and a Master of Applied Finance.

Other current directorships: None.

Former directorships in last 3 years: Becton Investment Management Ltd (subsequently acquired by 360 Capital Group Investment Pty Ltd).

Interest in the Trust: 500,000 units.

Bryce Mitchelson, Executive Director

Bryce is Joint Managing Director of Arena and joined Arena in May 2009. Bryce was appointed as a director of Arena in April 2010.

Bryce has more than 20 years' experience in listed and unlisted property funds management as well as property investment, development, valuation and real estate agency.

Bryce holds a Bachelor of Economics (Accounting), Bachelor of Business (Property) and Graduate Diploma of Applied Finance and Investment.

Other current directorships: None.

Former directorships in last 3 years: OFLCO Ltd.

Interest in the Trust: 749,000 units.

The Trust's constitution does not require directors to retire and seek re-election.

Company secretary

The company secretary is Mr Peter Hulbert, Head of Legal and Compliance.

Peter has over 10 years' experience in corporate and commercial law and 8 years' experience in the financial services industry.

Peter holds a Bachelor of Business (Management) and a Bachelor of Laws.

Meetings of directors

The numbers of meetings of the Responsible Entity's board of directors and of each board committee held during the year ended 30 June 2013, and the numbers of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings*	
	A	B	A	B
David Ross	17	17	1	1
Simon Parsons	20	20	1	1
Dennis Wildenburg	20	20	1	1
James Goodwin	20	20	**	**
Bryce Mitchelson	20	20	**	**

* The Audit Committee was established in May 2013.

A - Number of meetings held during the time the director held office during the year.

B - Number of meetings attended.

** = Not a member of the relevant committee.

Remuneration report

(a) Remuneration of directors of the responsible entity

The Trust does not have any employees. The directors and key management personal of the Responsible Entity do not receive any payments from the Trust. All remuneration is paid directly from an entity related to the Responsible Entity. The directors and key management personal are not entitled to any equity interests or rights to equity interests in the Trust as a result of their remuneration from the Responsible Entity.

(b) Loans to directors of the responsible entity

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the directors or their personally-related entities at any time during the reporting period.

Indemnification and insurance of officers and auditors

During the year, the Responsible Entity has paid insurance premiums to insure each of the directors, and officers of the Responsible Entity of the Trust against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Responsible Entity other than conduct involving a wilful breach of duty in relation to the Responsible Entity.

The Responsible Entity has also indemnified each external member of the Compliance Committee against any liability incurred in carrying out the member's duties (other than a liability to the members of the schemes or the Responsible Entity) unless the liability arises out of conduct involving lack of good faith on the part of the committee member.

The contract of insurance prohibits disclosure of the nature of the liability covered and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the Responsible Entity or of any related body corporate against a liability incurred as such an officer or auditor.

Non-audit services

Details of the non-audit services provided to the Trust by the Independent Auditor during the year ended 30 June 2013 are contained in Note 5 to the financial statements.

Audit partner rotation

Listed entities are required to rotate their audit partner every 5 years. The Trust listed on the ASX in June 2013. The financial year ended 30 June 2013 is the fifth year in which the existing audit partner has been the lead auditor for the Trust. The *Corporations Act 2001* (the 'Act') allows for an extension of the appointment of the lead audit partner for up to two years in certain circumstances.

The Trust's auditor, PricewaterhouseCoopers, has provided confirmation that the extension of the term of audit partner would not give rise to a conflict of interest situation as defined in section 324 CD of the Act and appropriate safeguards are in place to ensure that appropriate objectivity and independence of the lead auditor is able to be maintained. Given that the requirements of the Act have been met, the existing audit partner has been reappointed for a further period of up to 2 years.

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

Fees paid to the Responsible Entity and its associates out of Trust property during the year are disclosed in Note 18 to the financial statements.

No fees were paid out of Trust property to the directors of the Responsible Entity during the year.

The number of interests in the Trust held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 18 to the financial statements.

Directors' report

Interests in the Trust

The movement in units on issue in the Trust during the year is disclosed in Note 14 to the financial statements.

Environmental regulation

The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand dollars

The Trust is an entity of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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 21.

This report is made in accordance with a resolution of directors.



David Ross
Chairman

Melbourne, 30 August 2013

Auditor's independence declaration



Auditor's Independence Declaration

As lead auditor for the audit of Arena REIT for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Arena REIT and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Charles Christie'.

Charles Christie
Partner
PricewaterhouseCoopers

30 August 2013

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Corporate governance statement

The board of directors of Arena Investment Management Limited (Arena), the Responsible Entity of Arena REIT (the 'Trust'), is responsible for the corporate governance of the Trust.

In accordance with the ASX Listing Rule 4.10.3, set out below is a statement disclosing the extent to which the Trust has followed the recommendations for good corporate governance set by the ASX Corporate Governance Council ('Recommendations') during the reporting period. The statement applies to the period from the Trust's admission to the official list of the ASX (13 June 2013) to 30 June 2013 ('Statement Period').

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 - companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions

- The Arena Board ('Board') has adopted a formal Board Charter which provides the framework for the operation of the Board and sets out the functions and responsibilities of the Board. The Charter also reserves specific matters for the Board.
- The Board has delegated certain audit responsibilities to the Audit Committee and the scope of those responsibilities is specified in the Audit Committee Charter. The Board receives copies of the minutes of Audit Committee meetings.
- The Board acknowledges that Arena (but not the Trust) is a wholly owned subsidiary of Citrus Investment Services Pty Ltd (Citrus). The senior executives and other staff that operate Arena's business are employed by Citrus and made available to Arena under a resourcing deed that requires Citrus to provide all of the resources and services required or reasonably requested by Arena.
- The Arena Board has delegated day-to-day management of the Trust to management through the Joint Managing Directors, subject to the agreed authority limits applicable to these roles. These responsibilities and authority limits will be reviewed from time to time to ensure they remain appropriate to the needs of the Trust.
- New directors are issued a formal letter of appointment setting out the key terms and conditions of their appointment. New directors are also taken through a formal induction process. Directors are given a comprehensive board pack which includes details on the Trust, governance requirements and policies. No new directors have been appointed since the Trust's admission to the official list of the ASX.
- Directors are expected to be adequately informed in respect of relevant industry and regulatory issues and changes. To assist the directors in this regard, each director will be invited to participate in internal and external training sessions and conferences organised from time to time with respect to such matters. Directors may raise other training requirements with the company secretary as they consider necessary or desirable.
- Appointment letters for senior management also include formal job descriptions and contracts of employment which set out the detail of their duties, rights, responsibilities and entitlements on termination.
- The Arena Board Charter is available at www.arenainvest.com.au/about/governance-policies.

Recommendation 1.2 - companies should disclose the process for evaluating the performance of senior executives

- The performance of Citrus generally and senior management is reviewed annually, against appropriate key performance indicators for each financial year.
- Because of the short period of 17 days in the Statement Period, no performance evaluation of Citrus was performed in the Statement Period. That evaluation has been completed following the end of the Statement Period. The performance of senior management has also been formally evaluated against key performance indicators in the period between the end of the Statement Period and the date of this report. The evaluation was in accordance with the process disclosed in the Trust's statement of compliance with the ASX Corporate Governance Council Principles and Recommendations given to the ASX on 13 June 2013.
- Senior managers participate in continuous improvement activities and ongoing subject specific training to update their skills and knowledge on a regular basis. These include development sessions on key topics of relevance such as changes in corporate governance standards and compliance and visits to properties in the Trust's portfolio.

Principle 1: Lay solid foundations for management and oversight (continued)

Recommendation 1.2 - companies should disclose the process for evaluating the performance of senior executives (continued)

- The Arena Board will be consulted by Citrus in relation to the setting of Joint Managing Directors' performance objectives and key performance indicators.
- The Board also provided feedback to Citrus and the Joint Managing Directors in relation to performance overall and key performance indicators.

Recommendation 1.3 - companies should provide the information indicated in the Guide to reporting on Principle 1

- There have been no departures from Recommendations 1.1 or 1.2, and the other information indicated in the Guide to reporting on Principle 1 is included above.

Principle 2: Structure the board to add value

Recommendation 2.1 - a majority of the board should be independent directors

- During the Statement Period, a majority of the Board were independent directors, comprising five directors, three of whom are independent non-executive directors. As such, the Trust complies with this Recommendation.
- The Board is constituted as follows: Mr James Goodwin and Mr Bryce Mitchelson, both of whom are Joint Managing Directors. Mr David Ross, Mr Simon Parsons and Mr Dennis Wildenburg are independent non-executive directors.
- Arena will not hold an annual election of directors as the Board is appointed and can be removed by Citrus. Despite this, the directors believe that a director will be independent if the director is a non-executive director who is not a member of Citrus or Arena management and who is free of any business or other relationship that could materially interfere with (or could reasonably be perceived to materially interfere with) the independent exercise of their judgment. The independence of Directors is assessed in a manner consistent with the principles enunciated in the Recommendations.
- All directors are required to act in the best interests of the unitholders of the Trust. This applies notwithstanding that the directors are appointed by Citrus.
- All directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where an actual or potential conflict of interest arises.
- The Board Charter makes specific provision for a director to access independent professional advice where that director considers it necessary to carry out their duties and responsibilities. The cost of such independent advice will be borne by Arena. To avail themselves of such independent advice, the directors must follow the procedure in the Board Charter which includes contacting the company secretary and consulting with the chair.
- The Board Charter also explicitly states that independent directors may meet without executive directors as they consider necessary.

Recommendation 2.2 - the chair should be an independent director

- The Trust complies with this Recommendation.
- Mr David Ross is the chair of the Board. The Board is satisfied that Mr David Ross is an independent director. None of the relationships affecting the independent status of a director of the Board described in Section 2.1 of the Recommendations apply to Mr Ross.
- The Board Charter provides further detail regarding the role of chair of the Arena Board.

Principle 2: Structure the board to add value (continued)

Recommendation 2.3 - the roles of chair and chief executive officer should not be exercised by the same individual

- The Trust complies with this Recommendation.
- The roles of chair and chief executive officer are held by separate directors. During the Statement Period and as at the date of this report, Mr James Goodwin and Mr Bryce Mitchelson are the Joint Managing Directors and Mr David Ross is the chair of the Board.

Recommendation 2.4 - the board should establish a nomination committee

- Arena and the Trust do not have a nomination committee because directors of Arena are appointed by Citrus. As such, the Trust does not comply with this Recommendation. However, as stated in the Board Charter, Citrus is committed to ensuring the Board:
 - is comprised of directors with an appropriate range of qualifications and expertise; and
 - is of a size and composition conducive to efficient decision making.
- Citrus is also committed to the following matters in director selection and nomination:
 - integrity;
 - particular expertise and the degree to which they complement the skill set and knowledge of existing Board members;
 - reputation and standing in the market; and
 - in respect of prospective independent directors, independence from Citrus and Arena.
- The Arena Board is looking to achieve a mix of skills in membership of the Board including a mix of leadership experience, relevant experience in the real estate and investment management sectors, financial and accounting experience, and knowledge of and experience in relevant legal and compliance related functions. The Board considers that it has achieved this mix as at the date of this report.
- The skills, experience and expertise relevant to the position of director held by each director in office at the date of this report have been detailed in the Director's Report.

Recommendation 2.5 - companies should disclose the process for evaluating the performance of the board, its committees and individual directors

- The performance of the Board will be assessed annually against appropriate measures. No performance assessment was conducted in the Statement Period.
- The Audit Committee will evaluate its own performance on the basis of a self-assessment together with feedback sought from other stakeholders. This is reflected in the Arena Audit Committee Charter. No evaluation was conducted in the Statement Period.
- The performance of individual directors will be assessed on an annual basis. In the case of the Joint Managing Directors this assessment was carried out in accordance with the processes described under recommendation 1.2 above, in the period between the end of the Statement Period and the date of this report. The performance of independent directors will be assessed by the Board annually following the end of each financial year, as part of the process of evaluating the performance of the Board as a whole.

Recommendation 2.6 - companies should provide the information indicated in the Guide to reporting on Principle 2

- The information disclosed above includes all information indicated in the Guide to reporting on Principle 2.

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1 - companies should establish a code of conduct

- ▶ The Trust complies with this Recommendation.
 - Arena has a code of conduct which all people employed, contracted by, associated with, or acting on behalf of Citrus or entities in the Arena group are expected to adhere to. The Arena Code of Conduct is made available to all those expected to adhere to it at the time they join the Arena group. In broad terms, the code deals with the following matters:
 - compliance with laws and regulations;
 - required standards of personal conduct and ethical behaviour;
 - compliance with Arena’s policies and procedures including those dealing with discrimination and harassment;
 - actual or potential conflicts of interest;
 - financial interests in other businesses; and
 - acceptance of gifts or other benefits.
 - The Arena Code of Conduct is reviewed from time to time to ensure that it remains relevant.
 - The Arena Code of Conduct is available at www.arenainvest.com.au/about/governance-policies.

Recommendation 3.2 - companies should establish a diversity policy

- The Arena Board acknowledges the importance of diversity in contribution to growth, innovative thinking and overall success and is committed to fostering and maintaining an inclusive workplace that respects individuals. Arena has adopted a diversity policy which describes Arena’s approach to diversity.
- The Arena Diversity Policy is available at www.arenainvest.com.au/about/governance-policies.

Recommendation 3.3 - companies should disclose in each annual report the measurable objectives for achieving gender diversity

- Because of Arena’s small scale and infrequent changes to its workforce, Arena considers that it is not possible to establish meaningful measurable objectives for achieving gender diversity, and for this reason has not adopted them in its Diversity Policy.

Recommendation 3.4 - companies should disclose in each annual report the proportion of women employees, women in senior executive positions and women on the Board

- There are no women on the Board of Arena or in senior executive positions of Arena. 34% of Arena’s permanent staff are women, comprising 10 out of a total of 29 including the Board.

Recommendation 3.5 - companies should provide the information indicated in the Guide to reporting on Principle 3

- The only departure from Recommendations 3.1 to 3.4 is that the Arena Diversity Policy does not include measurable objectives for achieving gender diversity for the reasons described in Recommendation 3.3 above.

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Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1 - the board should establish an audit committee

- The Board has established an Audit Committee. The purpose of the Audit Committee is to assist the Board in overseeing the integrity of financial reporting, financial controls and procedures in respect of the Trust as well as the independence of the Trust's external auditors.

Recommendation 4.2 - structure of the audit committee

- The Audit Committee comprises three non-executive, independent directors and is chaired by Mr Dennis Wildenburg who is not the chair of the Board.
- The other members of the Audit Committee are Mr David Ross and Mr Simon Parsons. Their qualifications are described in the Director's Report. During the Statement Period one meeting of the Audit Committee was held and each member attended that meeting.

Recommendation 4.3 - the audit committee should have a formal charter

- The Audit Committee has a formal charter that details the roles and responsibilities of the Audit Committee and its obligations to report to the Board. The Arena Audit Committee Charter will be reviewed and updated on an annual basis.
- The Charter provides the meeting procedure framework, ensures that meetings can be held as necessary and makes it clear that the Audit Committee may invite persons it deems necessary to those meetings to assist it in performing its functions. The Audit Committee Charter includes information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.
- The external audit function is currently performed by PricewaterhouseCoopers.
- The Arena Audit Committee Charter is available at www.arenainvest.com.au/about/governance-policies.

Recommendation 4.4 - companies should provide the information indicated in the Guide to reporting on Recommendation 4

- There are no departures from Recommendations 4.1, 4.2 or 4.3, and the other information included in the Guide to reporting on Recommendation 4 is included above.

Principle 5: Make timely and balanced disclosures

Recommendation 5.1 - companies should establish continuous disclosure policies and ensure compliance with these policies

- The Board has adopted a formal Continuous Disclosure Policy. That policy underlines the Trust's commitment to ensuring that its stakeholders and the market generally are provided high quality, relevant, clear and accurate information about the Trust's activities in a timely fashion so that all investors have the opportunity to consider and assess information released by, and relevant to, the Trust.
- The Trust is also committed to ensuring compliance with the continuous disclosure obligations in the ASX Listing Rules and Corporations Act.
- The Arena REIT Continuous Disclosure Policy is available at www.arenainvest.com.au/about/governance-policies.

Recommendation 5.2 - companies should provide the information indicated in the Guide to reporting on Recommendation 5

- There are no departures from Recommendation 5.1, and the other information included in the Guide to reporting on Recommendation 5 is included above.

Principle 6: respect the rights of shareholders

Recommendation 6.1 - companies should establish a communications policy

- The Board has adopted a formal communications policy. The Trust is committed to providing all stakeholders with accessible, accurate, clear and timely information on all matters that are relevant or material to the financial performance and activities of the Trust.
- The Arena Communications Policy clearly sets out the range of methods the Trust will employ to communicate information to stakeholders and the market generally. The Arena website (www.arenainvest.com.au) is an integral part in fulfilling the Trust's commitment to communication with stakeholders and the market generally as financial and operational information is available there and regularly updated to ensure that it remains current and accurate.
- The Arena Communications Policy is available at www.arenainvest.com.au/about/governance-policies.

Recommendation 6.2 - companies should provide the information indicated in the Guide to reporting on Recommendation 6

- There are no departures from Recommendation 6.1, and the other information included in the Guide to reporting on Recommendation 6 is included above.
- The Trust is not required to comply with section 250RA of the Corporations Act, which provides that an auditor must attend a listed company's AGM or arrange to be properly represented at the AGM. As the Trust is a listed managed investment scheme it is not required to hold an AGM, so section 250RA does not apply to the Trust.
- There was no opportunity during the Statement Period for the Trust to make arrangements to hold an AGM or to otherwise achieve the same ends to enable members to ask questions of the Trust's auditor in relation to the audit as contemplated in section 250T of the Corporations Act.

Principle 7: Recognise and manage risk

Recommendation 7.1 - companies should establish practices for the oversight and management of material business risks

- The Trust complies with this Recommendation.
- Arena recognises the importance of a comprehensive yet commercially workable risk management framework. The Arena Board has adopted a Risk Management Policy and Framework which documents Arena's policy for the oversight and management of material business risks for the Trust. A summary of the policy and framework is included in Recommendation 7.2 below.

Recommendation 7.2 - implementation of a risk management and internal control system

- The Trust complies with this Recommendation.
- The Risk Management Policy and Framework assists Arena achieve the Trust's objectives through thorough and competent strategic decision making and the conduct of efficient, effective and robust business processes that allow the Trust to take opportunities when they arise while meeting required standards on accountability, compliance and transparency.
- Through the Risk Management Policy and Framework, Arena's risk management internal control system incorporates the guidelines described in the Australian/New Zealand Standard on Risk Management (AS/NZS ISO 31000:2009).
- Arena has established a dedicated internal compliance audit function which conducts a risk-based program of planned and ad-hoc compliance audits on aspects of Arena's business and the operations of the Trust. The internal compliance audit function will report to the Board through the Head of Legal and Compliance on a quarterly basis and make recommendations to the Board for changes to Arena's processes and systems to ensure compliance with legal and regulatory requirements.

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Principle 7: Recognise and manage risk (continued)

Recommendation 7.2 - implementation of a risk management and internal control system (continued)

- Arena does not have a dedicated risk management committee. The Board has ultimate responsibility for overseeing the risk management framework and for approving and monitoring compliance with the framework. The Board receives a quarterly risk report on all critical and high assessed risks and the Joint Managing Directors have overall responsibility for the risks facing the Trust and are supported by management. Management reports to the Board on the effectiveness of Arena's management of material business risks to the Trust in each quarterly risk report given to the Board.
- A summary of the Risk Management Policy and Framework is also available on Arena's website.

Recommendation 7.3 - managing director and chief financial officer assurance on financial reporting risks

- The Board has received assurance from the Joint Managing Directors and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4 - companies should provide the information indicated in the Guide to reporting on Recommendation 7

- There are no departures from Recommendations 7.1, 7.2 or 7.3, and the other information included in the Guide to reporting on Recommendation 7 is included above.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 - the board should establish a remuneration committee

- The Trust does not have a remuneration committee because the remuneration of Arena as responsible entity of the Trust is dealt with comprehensively in the Trust's constitution. As such, the Trust does not comply with this Recommendation.
- Although Arena is not required by the ASX Listing Rules to have a remuneration committee and does not directly remunerate its executives and staff (because they are employed by Citrus), the Arena Board is consulted by Citrus in relation to the setting of Joint Managing Directors' performance objectives, key performance indicators and remuneration, and performance against those subsequent to year end.
- The Board also provides feedback to Citrus and the Joint Managing Directors in relation to performance overall and key performance indicators.

Recommendation 8.2 - structure of the remuneration committee

- The Trust does not have a remuneration committee so it does not comply with this Recommendation. See response to recommendation 8.1 above.

Recommendation 8.3 - companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

- The Trust complies with this Recommendation.
- The remuneration of non-executive directors is paid by Arena, whereas the remuneration of all executive directors and senior executives is paid by Citrus. The Arena Board therefore considers that this recommendation is not relevant to the Trust.
- However, in compliance with recommendation 8.3, the remuneration of Arena's non-executive directors' is structured as fixed pay only, whereas the remuneration of executive directors and senior management is structured as a combination of fixed and incentive pay reflecting short and long term performance objectives.

Principle 8: Remunerate fairly and responsibly (continued)

Recommendation 8.4 - companies should provide the information indicated in the Guide to reporting on Recommendation 8

- The departures from Recommendations 8.1 and 8.2 are summarised above. There is no departure from Recommendation 8.3.
- There are no schemes in place for retirement benefits, other than superannuation, for non-executive Directors which is paid by Arena and not the Trust.
- The Trust has no equity-based remuneration schemes in place, and as such Arena does not have a policy prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements. The Trust does have in place a Securities Trading Policy prohibiting such transactions in relation to securities of the Trust held by directors, senior management and staff of Arena.
- Information in relation to management fees is included in Note 18.
- The other information included in the Guide to reporting on Recommendation 8 is included above.

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Consolidated statement of comprehensive income

for the year ended 30 June 2013

	Notes	Consolidated	
		30 June 2013	30 June 2012
		\$'000	\$'000
Income			
Property rental	3	21,793	22,497
Interest		108	179
Fair value gains on financial assets held at fair value through profit or loss		1,413	1,382
Distribution income		314	628
Revaluation of investment properties	9	5,162	8,687
Profit on sale of direct properties		10	808
Other operating income		300	14
Total income		29,100	34,195
Expenses			
Direct property expenses		(879)	(1,115)
Responsible entity's fees	18	(2,372)	(2,399)
Deferred management fees and exit fees		-	48
Custodian fees		(118)	(119)
Consulting and legal fees		(489)	(451)
Other administration expenses		(420)	(362)
Net loss on change in fair value of derivative financial instruments		(141)	(4,245)
Net foreign exchange gain/(loss)		12	(213)
Finance costs	4	(7,469)	(9,658)
Total expenses		(11,876)	(18,514)
Net profit/(loss) for the year		17,224	15,681
Other comprehensive income			
<i>Items that may be reclassified to profit and loss</i>			
Foreign currency translation	15(a)	-	551
Total comprehensive income for the year		17,224	16,232
Total comprehensive income for the year is attributable to:			
Unitholders of Arena REIT		17,224	16,232
Earnings per unit:		Cents	Cents
Basic earnings per unit	6	12.71	11.87
Diluted earnings per unit	6	12.71	11.87

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

Consolidated balance sheet

As at 30 June 2013

		Consolidated	
		30 June 2013	30 June 2012
	Notes	\$'000	\$'000
Current assets			
Cash and cash equivalents	7	4,995	5,561
Trade and other receivables	8	1,346	1,938
Assets held for sale		1,150	-
Total current assets		7,491	7,499
Non-current assets			
Investment properties	9	233,784	226,292
Financial assets held at fair value through profit or loss	10	-	6,406
Total non-current assets		233,784	232,698
Total assets		241,275	240,197
Current liabilities			
Trade and other payables	11	6,640	6,281
Total current liabilities		6,640	6,281
Non-current liabilities			
Derivative financial instruments	13	70	2,016
Interest bearing liabilities	12	24,500	99,122
Total non-current liabilities		24,570	101,138
Total liabilities		31,210	107,419
Net assets		210,065	132,778
Equity			
Contributed Equity	14	205,252	134,325
Accumulated profit/(losses)	15(b)	4,813	(1,547)
Total equity		210,065	132,778

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

Consolidated statement of changes in equity

for the year ended 30 June 2013

	Contributed equity	Consolidated		Total equity
		Reserves	Accumulated profit/(losses)	
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2011	134,325	(551)	(8,642)	125,132
Profit for the year	-	-	15,681	15,681
Other comprehensive income	-	551	-	551
Total comprehensive income for the year	-	551	15,681	16,232
Transactions with owners in their capacity as owners:				
Distributions to unitholders	-	-	(8,586)	(8,586)
Balance at 30 June 2012	134,325	-	(1,547)	132,778
Balance at 1 July 2012	134,325	-	(1,547)	132,778
Profit for the year	-	-	17,224	17,224
Total comprehensive income for the year	-	-	17,224	17,224
Transactions with owners in their capacity as owners:				
Distributions to unitholders	-	-	(10,864)	(10,864)
Contributions of equity, net of transaction costs	70,927	-	-	70,927
Balance at 30 June 2013	205,252	-	4,813	210,065

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

Consolidated statement of cash flows

for the year ended 30 June 2013

		Consolidated	
		30 June 2013	30 June 2012
	Notes	\$'000	\$'000
Cash flows from operating activities			
Property rental receipts		21,018	21,257
Payments to suppliers		(4,825)	(5,048)
Finance costs paid		(6,369)	(8,616)
Interest received		107	178
Other income received		1,067	607
Net cash inflow from operating activities		10,998	8,378
Cash flows from investing activities			
Acquisition of development properties		(1,834)	-
Acquisition of investment property		(1,117)	-
Proceeds from sale of financial assets held at fair value through profit or loss		7,819	-
Proceeds from sale of investment properties		300	13,641
Payments for capital expenditure		(134)	(23)
Net cash inflow from investing activities		5,034	13,618
Cash flows from financing activities			
Net proceeds from issue of units		71,476	-
Distributions paid to unitholders		(10,237)	(8,255)
Loan establishment costs		(569)	(977)
Proceeds from borrowings		1,500	880
Repayment of borrowings		(76,681)	(10,016)
Termination of derivatives		(2,087)	(3,300)
Net cash (outflow) from financing activities		(16,598)	(21,668)
Net increase/(decrease) in cash and cash equivalents		(566)	328
Cash and cash equivalents at the beginning of the financial year		5,561	4,895
Effects of exchange rate changes on cash and cash equivalents		-	338
Cash and cash equivalents at the end of the year	7	4,995	5,561

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

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Notes to the consolidated financial statements

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Notes to the consolidated financial statements

1. General information

These financial statements cover Arena REIT and its controlled entity (the "Trust" or the "Consolidated Entity"). Arena REIT is an ASX listed managed investment scheme registered and domiciled in Australia.

The Responsible Entity of the Trust is Arena Investment Management Limited (the "Responsible Entity").

The financial statements were authorised for issue by the directors of the Responsible Entity on 30 August 2013. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Arena REIT is a for-profit unit trust for the purpose of preparing the financial statements.

The financial report has been prepared on an accruals and historical cost basis except for investment properties, financial assets at fair value through profit or loss and derivative financial instruments which are measured at fair value. Cost is based on the fair value of consideration given in exchange for assets.

Compliance with International Financial Reporting Standards

The financial statements of the Trust comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Principles of consolidation

(i) Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of Arena REIT ("Parent Entity") as at 30 June 2013 and the results of all controlled entities for the year then ended. Arena REIT and its controlled entities together are referred to in this financial report as the Consolidated Entity or the Trust.

Controlled entities are entities over which the Trust has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Trust controls another entity.

Controlled entities are fully consolidated from the date on which control is transferred to the Trust. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Trust.

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

Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Changes in ownership interests

The consolidated entity treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Trust. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the controlled entity. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in net assets attributable to unitholders of Arena REIT.

2. Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(ii) Changes in ownership interests (continued)

When the Trust ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Trust had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the managing directors and the board of directors (the 'chief operating decision makers'). The chief operating decision makers are responsible for allocating resources and assessing performance of the operating segments.

(d) Parent entity financial information

The financial information for the parent entity, Arena REIT, disclosed in Note 21 has been prepared on the same basis as the consolidated financial statements.

(e) Investment properties

Investment property is real estate investments held to earn long-term rental income and for capital appreciation. Investment properties are carried at fair value determined either by the Directors or independent valuers with changes in fair value recorded in the statement of comprehensive income. Investment properties are not depreciated. Land and buildings (including integral plant and equipment) that comprise investment property are not depreciated. The carrying amount of investment properties may include the cost of acquisition, additions, refurbishments, redevelopments, improvements, lease incentives, assets relating to fixed increases in operating lease rental in future periods and borrowing costs incurred during the construction period of qualifying assets.

(i) Valuation basis

The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The Responsible Entity may determine the requirement for a valuation at any time but has adopted a valuation program that provides for each property to be independently valued by suitably qualified valuers at least once every three years. Changes in market conditions may necessitate more frequent independent revaluations of properties.

Valuations are derived from a number of factors that may include a direct comparison between the subject property and a range of comparable sales evidence, the present value of net future cash flow projections based on reliable estimates of future cash flows, existing lease contracts, external evidence such as current market rents for similar properties in the same location and condition, and using discount rates and capitalisation rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

2. Summary of significant accounting policies (continued)

(f) Assets held for sale

Assets are classified as held-for-sale when a sale is considered highly probable and their carrying amount will be recovered principally through a sale transaction rather than through continued use. Assets classified as held-for-sale are presented separately from the other assets in the consolidated balance sheet.

Assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Changes to fair value are recorded in the consolidated statement of comprehensive income.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the asset (or disposal group) is recognised at the date of derecognition.

Assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Revenue

Rental income from operating leases is recognised as income on a straight-line basis over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. This results in more income being recognised early in the lease term and less late in the lease term compared to the lease conditions. The difference between the lease income recognised and the actual lease payments received is shown within the fair value of the investment property on the consolidated balance sheet.

When the Trust provides lease incentives to tenants, the cost of the incentives are recognised over the lease term, on a straight-line basis, as a reduction in rental income.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, are only recognised when contractually due.

Interest income is recognised in the consolidated statement of comprehensive income using the effective interest rate method.

Distribution income is recognised when the right to receive a distribution has been established.

Other income is recognised when the right to receive the revenue has been established.

All income is stated net of goods and services tax (GST).

2. Summary of significant accounting policies (continued)

(i) Financial instruments

(i) Classification

The consolidated entity's and the Trust's investments are classified as at fair value through profit or loss. They comprise:

- **Financial instruments held for trading**

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification. The Trust does not designate any derivatives as hedges in a hedging relationship.

- **Financial instruments designated at fair value through profit or loss upon initial recognition**

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts and commercial paper.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Trust's documented investment strategy. The Trust's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

Financial assets and financial liabilities are recognised on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Trust has transferred substantially all risks and rewards of ownership.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

At initial recognition, financial assets are initially recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the consolidated entity and the Trust is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Trust recognises the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Further detail on how the fair values of financial instruments are determined is disclosed in Note 20(d).

Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

2. Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(j) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in the consolidated balance sheet.

(k) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in profit or loss on an accruals basis.

(l) Income tax

(i) Australian income tax

Under current legislation, the Trust is not subject to Australian income tax provided its taxable income is fully distributed to unitholders.

(ii) Foreign income tax

The Trust may be subject to corporate tax income and withholding tax in the countries in which they operate. Under current Australian income tax legislation, unitholders may be entitled to receive a foreign tax credit for this withholding tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(m) Distributions

In accordance with the Trust constitution, the Trust distributes income adjusted for amounts determined by the Responsible Entity. The distributions are recognised within the balance sheet and statement of changes in equity as a reduction in accumulated profit/(losses).

(n) Earnings per unit (EPU)

(i) Basic earnings per unit

Basic earnings per unit is calculated by dividing:

- the profit attributable to the Unitholders, excluding any costs of servicing equity other than ordinary units.
- by the weighted average number of ordinary units outstanding during the financial year.

2. Summary of significant accounting policies (continued)

(n) Earnings per unit (EPU) (continued)

(ii) Diluted earnings per unit

Diluted earnings per unit adjust the figures used in the determination of basic earnings per unit to take into account:

- the after income tax effect of interest and other financial costs associated with dilutive potential ordinary units; and
- the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary units.

(o) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the consolidated statement of comprehensive income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

The results of controlled entities which are denominated in a different functional currency are translated into presentation currency as follows:

- assets and liabilities for the end of each reporting period are translated at the closing rate of the consolidated balance sheet;
- income and expenses for the consolidated statement of comprehensive income items are translated at average rates; and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(p) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

2. Summary of significant accounting policies (continued)

(q) Provisions

A provision is recognised when the Trust has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the Responsible Entity's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions may include deferred management fees and disposal fees payable to the Responsible Entity upon the sale of investment property, which are only recognised on the disposal of an investment property.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) Borrowing costs

Borrowing costs include interest and amortisation of costs incurred in connection with arrangement of borrowings. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than twelve months to get ready for their intended use or sale. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised are those incurred in relation to that borrowing. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(t) Applications and redemptions

Applications received for units in the Trust are recorded net of any entry fees payable prior to the issue of units in the Trust. Redemptions from the Trust are recorded gross of any exit fees payable after the cancellation of units redeemed.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the relevant taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the consolidated balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables and payables in the consolidated balance sheet.

Cashflows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

2. Summary of significant accounting policies (continued)

(v) Use of estimates

The consolidated entity and the Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For certain Trust's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

Investment properties are subject to the use of estimates. Refer to Note 2e for further details.

(w) Rounding of amounts

The Trust is an entity of the kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Trust has not early adopted these standards/interpretations. The Trust's assessment of the impact of relevant new standards and interpretations is set out below:

Standard / Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	The standard addresses the classification, measurement and derecognition of financial instruments. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. As the Trust carries its non-controlled equity investments as financial assets at fair through profit and loss the revised standard is not expected to have any impact on the results of the Trust.	1 January 2015	30 June 2016

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

Standard / Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 10 Consolidated Financial Statements	The standard replaces all of the existing guidance on control and consolidation. The standard introduces a single definition of control focusing on the need to have both power and rights or exposure to variable returns. The revised standard is not expected to have any significant impact on the Consolidated Entity's composition.	1 January 2013	30 June 2014
AASB 12 Disclosure of Interests in Other Entities	The standard sets out the required disclosure for entities reporting under the above revised AASB 10 and AASB 11 and replaces the disclosure requirements of AASB 127 and AASB 128. The amendments will not affect the amounts recognised in the financial statements but may impact the type of information disclosed.	1 January 2013	30 June 2014
AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. The Consolidated Entity does not expect any significant changes to the way it fair values its assets, however it may impact the type of information disclosed in the notes to the financial statements.	1 January 2013	30 June 2014
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards - transitional guidance and other amendments	These standards provide transitional guidance and clarification of the amendments to AASB 10, AASB 11, AASB 12, AASB 127 and AASB 128 outlined above. These amendments are not expected to impact the Consolidated Entity.	1 January 2013	30 June 2014

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Property rental income

The following table details the property rental earned by the Consolidated Entity during the year:

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Lease rental income	21,296	21,749
Other rental income (recognised on a straight line basis)	497	748
Total rental income	21,793	22,497

4. Finance costs

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Finance costs:		
Interest paid or payable	6,356	9,371
Other finance costs	266	287
Write-off of loan establishment costs due to refinancing	847	-
Total finance costs expensed	7,469	9,658
Finance costs capitalised (a)	200	-
Total finance costs	7,669	9,658

(a) During the year, \$199,509 of finance costs were capitalised in relation to current property developments. The capitalisation rate used to determine the amount of finance costs to be capitalised was the weighted average interest rate applicable to the Trust's outstanding borrowings at the end of each month. The average rate used for the year ended 30 June 2013 was 6.56% (2012: 6.76%).

Notes to the consolidated financial statements

5. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Consolidated Entity:

	Consolidated	
	30 June 2013	30 June 2012
	\$	\$
PricewaterhouseCoopers Australian firm		
Audit and other assurance services		
Audit and review of financial statements	39,000	48,000
Audit of compliance plan	4,000	4,000
Total remuneration for audit and other assurance services	43,000	52,000
Taxation services		
Tax compliance services, including review of income tax returns	10,597	21,983
Tax consulting	38,461	-
Total remuneration for taxation services	49,058	21,983
Other services		
IPO reports and due diligence	241,485	-
Total remuneration of PricewaterhouseCoopers	333,543	73,983

6. Earnings per unit ('EPU')

	2013	2012
	Cents	Cents
Basic EPU	12.71	11.87
Diluted EPU	12.71	11.87

The following information reflects the income and security numbers used in the calculations of basic and diluted EPU.

	Number of units	Number of units
	'000	'000
Weighted average number of ordinary units used in calculating basic EPU	135,544	132,086
Bonus element of unit options which are dilutive	-	-
Adjusted weighted average number of ordinary units used in calculating diluted EPU	135,544	132,086
	\$'000	\$'000
Earnings used in calculating basic EPU	17,224	15,681
Earnings used in calculating diluted EPU	17,224	15,681

There have been no conversions to, calls of, or subscriptions for ordinary units or issues of potential ordinary units since the reporting date and before the completion of this report.

7. Cash and cash equivalents

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Cash at bank	4,995	3,837
Term deposits	-	1,724
Total cash and cash equivalents	4,995	5,561

Term deposits mature in less than 90 days and as such have been classified as Cash and Cash Equivalents.

Notes to the consolidated financial statements

8. Trade and other receivables

The following table details the trade and other receivables by the Consolidated Entity during the year:

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Trade receivables	860	755
Impairment of receivables	-	(71)
Other receivables	381	709
Prepayments	105	545
	1,346	1,938

Trade and other receivables are non-interest bearing.

Impairment and ageing

The ageing of trade receivables at the end of the reporting period was:

	Gross	Impairment	Gross	Impairment
	2013	2013	2012	2012
	\$'000	\$'000	\$'000	\$'000
Not past due	177	-	112	-
Past due 0 - 30 days	383	-	224	-
Past due 31 - 60 days	151	-	-	-
Past due 61 - 90 days	2	-	11	-
Past due over 90 days	147	-	408	(71)
	860	-	755	(71)

No other class of financial asset is past due.

Any receivables which are doubtful have been provided for.

From time to time, tenant payments are delayed for administrative reasons such as lease assignment. Management have reviewed all receivables for impairment and are comfortable that the balances are due and payable, and that recovery can be obtained. Past history also supports the recoverability of these receivables. As such no impairment charge has been raised.

8. Trade and other receivables (continued)

The movement in the allowance for impairment of trade receivables during the year is as follows:

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Opening balance at 1 July	71	459
Increase/(decrease) in the provision	-	46
Amounts written-off against provision	(71)	(434)
Closing balance at 30 June	-	71

9. Investment properties**(a) Valuations and carrying amounts**

Property Portfolio	No. of Properties	Carrying amount		Latest external valuation	
		2013	2012	2013	2012
		\$'000	\$'000	\$'000	\$'000
Childcare properties	172	231,235	224,220	227,155	223,255
Childcare development properties	4	2,549	2,072	2,020	2,040
Total investment properties	176	233,784	226,292	229,175	225,295

Investment properties are carried at fair value. Members of the Australian Property Institute were engaged to independently value 47 investment properties during the year. The Board of Directors reviewed these valuations (with a total value of \$60.7 million) and has determined that they are appropriate to adopt at 30 June 2013.

Directors' valuations were performed over 119 investment properties with a total value of \$155.6 million.

Directors' valuations are based on the passing yield for the property from its most recent independent valuation, adjusted for current passing rent.

(i) Valuation basis

The principal assumptions underlying the estimation of fair value include those related to the amount of contractual rentals and capitalisation rates as well as direct comparisons with similar properties in the same location and condition and subject to similar leases. The key assumptions include the following:

	30 June 2013	30 June 2012
Market rent per licenced place	\$1,074 to \$3,230	\$1,048 to \$3,141
Capitalisation rates	7.75% to 11.0%	7.75% to 11.0%
Sales evidence - Amount per licenced place	\$8,000 to \$28,500	\$9,000 to \$30,000

9. Investment properties (continued)

(b) Movements during the financial year

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
At fair value		
Opening balance	226,292	229,046
Disposals	(290)	(12,642)
Transfers (to) classified as held for sale	(1,150)	-
Revaluations*	5,162	8,687
Changes in fair value for straight-lining of rent adjustment	497	748
Foreign currency translation	-	421
Capital expenditure	134	-
Land acquisition and development capital expenditure	3,048	32
Leasing costs	116	-
Amortisation of leasing costs	(25)	-
Closing balance	233,784	226,292

* The revaluation adjustment comprises the following:

	30 June 2013	30 June 2012
	\$'000	\$'000
Gross revaluation of investment property	5,750	9,435
Change in fair value for straight-lining of rent adjustment	(497)	(748)
Leasing costs	(116)	-
Amortisation of leasing costs	25	-
Net revaluation adjustment	5,162	8,687

(c) Tenancy risk

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

Goodstart Early Learning Limited ("Goodstart") - represents 66.1% of operating childcare centres by value. Effective May 2010, Goodstart took an assignment of leases to 118 childcare centres previously leased to ABC Learning Centres Limited. Goodstart is now the largest operator of childcare centres in Australia.

Like most not-for-profit entities, Goodstart is a company limited by guarantee as opposed to a company limited by share capital. It therefore does not have "shareholders," rather, each of the member charities (Mission Australia, Benevolent Society, Brotherhood of St Laurence and Social Ventures Australia) is a member of the company having a maximum liability of \$100 due upon the winding up of the company. Goodstart's "capital" is loan capital of varying degrees of risk and subordination.

9. Investment properties (continued)

Other Australian Centre Operators

Operator	% of Operating Childcare Centres by Value
Kids in Care Group	15.6%
Preschool Services Australia P/L	5.6%
NurtureOne	3.8%

Each of these operators is privately owned with experience operating childcare centres. Their lease obligations are typically secured by bank guarantees and in some cases personal guarantees from the major shareholders.

(d) Assets pledged as security

Refer to Note 12 for information on investment properties and other assets pledged as security by the Trust.

(e) Contractual obligations

The Trust has no commitments to purchase or redevelop investment property contracted at year end which have not already been recognised as a liability.

10. Financial assets held at fair value through profit or loss

	Consolidated	
	30 June 2013	30 June 2012
	Fair value \$'000	Fair value \$'000
Designated at fair value through profit or loss		
Equity securities	-	6,406
Total financial assets held at fair value through profit or loss	-	6,406
Comprising:		
Equity securities		
Australian equity securities	-	6,406
Total financial assets held at fair value through profit or loss	-	6,406

In the prior year, the Trust held 6.28 million ordinary units in the ASX listed Australian Education Trust valued at bid price. These units were sold in December 2012 for \$7.8 million.

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 20.

Notes to the consolidated financial statements

11. Trade and other payables

The following table details the other liabilities by the Consolidated Entity during the year:

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Prepaid rental income	1,342	1,390
Sundry creditors and accruals	2,029	2,249
Distributions payable	3,269	2,642
	6,640	6,281

Trade and other payables are non-interest bearing.

12. Interest bearing liabilities

The following table details the other liabilities by the Consolidated Entity during the year:

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Non-current:		
Cash advance facility	25,000	100,181
Unamortised transaction costs	(500)	(1,059)
Total secured non-current borrowings	24,500	99,122

(a) Financing arrangements

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Committed Facilities Available		
Interest bearing liabilities	110,000	110,000
Facilities used at the end of the reporting period		
Interest bearing liabilities	25,000	100,181

The bank facility may be drawn at any time.

The interest rate applying to the drawn amount of the facility is set on a monthly basis at the prevailing market floating rate.

The Trust's new financing facility with National Australia Bank Limited ("NAB") and Australia and New Zealand Banking Corporation Limited ("ANZ") became effective on 14 June 2013. The new facility has a limit of \$110 million and a maturity date of 30 June 2016.

12. Interest bearing liabilities (continued)**(b) Assets pledged as security**

The bank facilities are secured by a registered first mortgage over investment property and a fixed and floating charge over the assets of the Trust.

The carrying amounts of assets pledged as security are:

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Financial assets pledged		
Cash and cash equivalents	4,995	5,561
Trade and other receivables	1,346	1,938
	6,341	7,499
Other assets pledged		
Investment properties	233,784	226,292
Assets held for sale	1,150	-
Financial assets held at fair value through profit or loss	-	6,406
	234,934	232,698

(c) Covenants

The covenants over the Trust's bank facility requires an interest cover ratio of greater than 2.0 times and a loan to market value of investment properties ratio of less than 50%. The Trust was in compliance with its covenants throughout the year and as at 30 June 2013.

13. Derivative financial instruments

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Non-current liabilities		
Interest rate swaps	70	2,016
	70	2,016

It is policy to protect interest bearing liabilities from exposure to changes in interest rates. Accordingly, the Trust has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates.

Swaps currently in place cover 100% (2012: 86%) of the facility principal outstanding. The weighted average fixed interest swap rate at 30 June 2013 was 2.95% (2012: 4.01%).

The settlement dates coincide with the dates on which interest is payable on the underlying debt, and are settled on a net basis.

Notes to the consolidated financial statements

13. Derivative financial instruments (continued)

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Less than 1 year	-	-
1 - 2 years	-	15,000
2 - 3 years	25,000	31,000
3 - 4 years	-	40,000
	25,000	86,000

14. Contributed equity

(a) Units

	Consolidated			
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	Units '000	Units '000	\$'000	\$'000
Ordinary Units				
Fully paid	206,343	132,086	205,252	134,325

(b) Movements in ordinary units

Date	Details	Number of units '000	Issue price	\$'000
1 July 2011	Opening balance	132,086		134,325
30 June 2012	Closing balance	132,086		134,325
1 July 2012	Opening balance	132,086		134,325
	Capital raising	74,257	\$1.01	75,000
	Less: Transaction costs arising from capital raising			(4,073)
30 June 2013	Closing balance	206,343		205,252

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

14. Contributed equity (continued)

(c) Capital management

The aims of the Trust are to generate attractive and predictable income distributions with earnings growth prospects over the medium to long term.

The Trust aims to invest to meet the Trust's investment objectives while maintaining sufficient liquidity to meet its commitments. The Responsible Entity regularly reviews the performance of the Trust, including asset allocation strategies, investment and operational management strategies, investment opportunities, performance review, and risk management.

In order to maintain its capital structure, the Trust may adjust the amount of distributions paid to unitholders, return capital to unitholders, issue new units or sell assets to reduce debt.

Consistent with others in the industry, the Trust monitors capital through the analysis of a number of financial ratios, including the Gearing ratio. The Trust targets a Gearing ratio of between 35% to 45%. The Gearing ratio was below this range following the capital raising in June 2013.

Gearing Ratio	2013	2012
	\$'000	\$'000
Interest bearing liabilities	25,000	100,181
Total assets	241,275	240,197
Gearing ratio	10.4%	41.7%

15. Reserves and accumulated profit/(losses)

(a) Reserves

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Foreign currency translation reserve	-	-
	-	-
Movements:		
Foreign currency translation reserve		
Opening balance	-	(551)
Increase/(Decrease)	-	551
Closing balance	-	-

Notes to the consolidated financial statements

15. Reserves and accumulated profit/(losses) (continued)

(b) Accumulated profit/(losses)

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Movements in accumulated profit/(losses) were as follows:		
Opening accumulated profit/(losses)	(1,547)	(8,642)
Net profit for the year	17,224	15,681
Distribution paid or payable	(10,864)	(8,586)
Closing accumulated profit/(losses)	4,813	(1,547)

Distributions to unitholders

The following table details the distributions to unitholders during the financial year:

	2013	2012	2013	2012
	\$'000	\$'000	cpu	cpu
	Distributions declared		Distribution declared	
September quarter	2,311	1,652	1.75	1.25
December quarter	2,642	1,981	2.00	1.50
March quarter	2,642	2,311	2.00	1.75
June quarter*	3,269	2,642	2.25	2.00
Total distributions to unitholders	10,864	8,586	8.00	6.50

* The Trust raised \$75 million of new capital and listed on ASX on 13 June 2013. As a result, the distribution for the June 2013 quarter was broken into two components. Unitholders in the period prior to the capital raising and ASX listing are entitled to a distribution of 1.85 cents per unit for the period 1 April 2013 to 12 June 2013. All unitholders on the register on the record date of 28 June 2013 are entitled to a distribution of 0.4 cents per unit for the period 13 June 2013 to 30 June 2013.

(c) Nature and purpose of reserves

Exchange differences arising on the translation of foreign operations are recognised in other comprehensive income and accumulated in a separate reserve within equity.

The balance of the Foreign Currency Translation Reserve was reduced to nil as at 30 June 2012 due to the sale of the New Zealand property portfolio on 13 April 2012.

16. Segment information

The Trust operates as one business segment being investment in real estate, and in one geographic segment being Australia. The Trust's segments are based on reports used by the Responsible Entity in making key strategic decisions.

17. Key management personnel

Key management personnel

(a) Directors

Key Management Personnel (KMP) includes persons who were directors of the Responsible Entity, Arena Investment Management Limited, at any time during the financial year as follows:

- David Ross (Chairman) (appointed 4 October 2012)
- Simon Parsons
- Dennis Wildenburg
- James Goodwin
- Bryce Mitchelson

(b) Other key management personnel

Other key management personnel of Arena Investment Management Limited at any time during the financial year were as follows:

- Gareth Winter (Chief Financial Officer)

Key management personnel compensation

No KMP are remunerated directly by the Trust. The KMP of the Responsible Entity receive remuneration in their capacity as directors and senior management of the Responsible Entity and these amounts are paid by the Responsible Entity or an entity related to the Responsible Entity.

Key management personnel unitholdings

The KMP of Arena Investment Management Limited or their personal related parties held units in the Trust as follows:

30 June 2013

Unitholder	No. of units held opening (Units)	No. of units acquired (Units)	No. of units disposed (Units)	No. of units held closing (Units)	Distributions paid/payable by the Trust (\$)
David Ross	-	200,000	-	200,000	800
Simon Parsons	-	200,000	-	200,000	800
Dennis Wildenburg	-	150,000	-	150,000	600
James Goodwin	-	500,000	-	500,000	2,000
Bryce Mitchelson	-	749,000	-	749,000	2,996
Gareth Winter	-	75,000	-	75,000	300

(c) Key management personnel loan disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(d) Other transactions within the trust

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Trust during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

Notes to the consolidated financial statements

18. Related party disclosures

Subsidiaries

Interests in subsidiaries are set out in Note 19.

Key management personnel

Disclosures relating to key management personnel are set out in Note 17.

Responsible entity

The Responsible Entity of Arena REIT is Arena Investment Management Limited.

The Responsible Entity or its related parties are entitled to receive fees in accordance with the Trust's constitution, from the Trust and its controlled entities.

	Consolidated	
	30 June 2013	30 June 2012
	\$	\$
Fees for the year paid/payable by the Trust:		
Management fees	2,372,452	2,398,861
Disposal fees	-	47,693
Property acquisition fee	22,250	-
Amounts payable:		
Aggregate amounts payable to the Responsible Entity at the end of the reporting period in relation to management fees and cost recoveries	346,882	-

Related party unitholdings

The following related parties held units in the Trust during the financial year:

	Distributions paid/payable by the Trust		Unit holding	
	2013	2012	30 June 2013	30 June 2012
	\$	\$	Units	Units
Arena Property Fund	-	741,204	-	-
Arena Hybrid Property Fund	57,833	46,989	722,909	722,909
Citrus Subsidiary Trust	2,156,230	1,010,733	26,952,874	26,952,874

19. Investments in subsidiaries

The Trust held investments in the following which are also managed by Arena Investment Management Limited or its related parties:

	Consolidated	
	2013	2012
	%	%
Arena CCPF Sub-Trust No. 1		
Beneficial Interest	100	100

(a) Transactions with subsidiaries

The following transactions with subsidiaries were recognised by the Trust during the financial year:

	2013	2012
	\$'000	\$'000
Distributions received/receivable	-	13,925

Following the sale of the Trust's New Zealand property portfolio in April 2012, the net sales proceeds (after payment of asset disposal fees and other costs relating to the sale) were distributed from Arena CCPF Sub-Trust No. 1 to Arena REIT.

20. Financial risk management

The Trust's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Trust is exposed to are market risk, credit risk and liquidity risk. The exposure to each of these risks, as well as the Trust's policies and processes for managing these risks are described below.

(a) Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and other price risk. The Trust's strategy on the management of investment risk is driven by the Trust's investment objective. The Trust's market risk is managed as required by the Responsible Entity in accordance with the investment guidelines as outlined in the Trust's Product Disclosure Statement.

(i) Price risk

The Trust is exposed to price risk on equity investments and asset disposal fees.

Price risk arises primarily from investments in property held by the Trust and classified on the consolidated balance sheet as fair value through profit and loss. As these investments are carried at fair value with changes in fair value recognised in the consolidated statement of comprehensive income, all changes in market conditions will directly affect net income. These market conditions include those specific to the individual assets, as well as factors affecting all instruments in the market.

The Trust is exposed to price risk on its asset disposal fees. Disposal fees are calculated based on the underlying changes in the price of the investment properties. Changes in the value of the investment property will directly affect the amounts payable. Investment property and the associated price risk is actively managed and monitored by the Responsible Entity, using strategic asset planning and trust budgeting processes.

20. Financial risk management (continued)

(i) Price risk (continued)

Refer below for the exposure to price risk and sensitivities in the prior year.

	Consolidated	
	2013	2012
	\$'000	\$'000
Investments in:		
Listed property funds	-	6,406
Financial liabilities:		
Deferred management and disposal fees	-	-
Total exposure to price risk	-	6,406
Reasonably possible changes in prices or fair values:		
Listed property funds	+/- 20%	+/- 20%
Changes in property values (deferred management and disposal fees)	+/- 5%	+/- 5%
Sensitivity to profit or loss to changes in fair values:		
Listed property funds	-	+/- 1,281
Disposal fees (+5%)	-	-
Disposal fees (-5%)	-	-

The sensitivities above have been estimated based on an analysis of changes in property prices over the twelve months to 30 June 2012, and using the average to predict future movements. The directors have determined that a 12 month analysis period will provide a sensitivity range indicative of current trends.

(ii) Cash flow and fair value interest rate risk

The Consolidated Entity's cash and cash equivalents, floating rate borrowings and interest rate swaps expose it to a risk of change in the fair value or future cash flows due to changes in interest rates. The specific interest rate exposures are disclosed in the relevant notes to the financial statements.

The Consolidated Entity hedges a portion of its exposure to changes in interest rates on variable rate borrowings by using floating-to-fixed interest rate swaps. By hedging against changes in interest rates, the Consolidated Entity has limited its exposure to changes in interest rates on its cash flows. The portion that is hedged is set by the Responsible Entity and is influenced by the hedging requirements set out in the Consolidated Entity's debt facility documents, and the market outlook. The Responsible Entity ensures the maturity of individual swaps does not exceed the expected life of assets.

20. Financial risk management (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The Consolidated Entity's exposure to interest rate risk at reporting date, including its sensitivity to changes in market interest rates that were reasonably possible, is as follows:

	30 June 2013	30 June 2012
	\$'000	\$'000
Financial assets		
Cash and cash equivalents (floating interest rate)	4,995	5,561
Financial liabilities		
Interest bearing liabilities - floating interest rate	(25,000)	(100,181)
Derivative financial instruments (notional principal amount) - fixed rate interest rate swaps	25,000	86,000
Net Exposure	4,995	(8,620)

Sensitivity of profit or loss to movements in market interest rates for derivative instruments with cash flow risk:

	Consolidated	
	2013	2012
	\$'000	\$'000
Market interest rate increased by 100 basis points (2012: 100 bp)	50	(86)
Market interest rate decreased by 100 basis points (2012: 100 bp)	(50)	86
Instruments with fair value risk:		
Derivative financial instruments	25,000	86,000

Sensitivity of profit or loss to movements in market interest rates for financial instruments with fair value risk:

Market interest rate increased by 100 basis points (2012: 100 bp)	694	2,292
Market interest rate decreased by 100 basis points (2012: 100 bp)	(694)	(2,292)

20. Financial risk management (continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The Trust's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at reporting date.

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Cash at bank	4,995	5,561
Other receivables	1,241	1,464
Less: Allowance for impairment of trade receivables	-	(71)
Maximum exposure to credit risk	6,236	6,954

The Consolidated Entity manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults.

Financial assets such as cash at bank and interest rate swaps are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Before accepting a new tenant, the Trust endeavours to obtain financial information from the prospective tenant, and rental guarantees are sought before tenancy is approved. Loans and receivables from third parties are secured against land and corporate and personal guarantees. The Responsible Entity also performs a detailed review of both related and other parties before approving advancement of funds. This is performed to ensure that they will be able to meet interest and principal repayments. There have been no changes from previous periods.

All receivables are monitored by the Responsible Entity. If any amounts owing are overdue these are followed up and if necessary, allowances are made for debts that are doubtful.

At the end of the reporting period there are no issues with the credit quality of financial assets that are either past due or impaired, and all amounts are expected to be received in full.

(c) Liquidity risk

Liquidity risk is the risk that the Trust may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Consolidated Entity monitors its exposure to liquidity risk by ensuring that as required there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due. The Trust Manager sets budgets to monitor cash flows.

20. Financial risk management (continued)

(c) Liquidity risk (continued)

The table below analyses the Trust's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

	Less than 12 month	1-2 years	Greater than 2 years
	\$'000	\$'000	\$'000
Consolidated – 30 June 2013			
Trade and other payables	6,640	-	-
Interest rate swaps	33	33	31
Interest bearing liabilities	1,168	1,168	26,168
Contractual cash flows (excluding gross settled derivatives)	7,841	1,201	26,199
Consolidated – 30 June 2012			
Trade and other payables	6,281	-	-
Interest rate swaps	305	294	265
Interest bearing liabilities	6,722	6,722	110,273
Contractual cash flows (excluding gross settled derivatives)	13,308	7,016	110,538

(d) Fair value estimation

The carrying amounts of the consolidated entity's and the Trust's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

(e) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Consolidated Entity classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

Notes to the consolidated financial statements

20. Financial risk management (continued)

(e) Fair value hierarchy (continued)

(i) Classification of financial assets and financial liabilities (continued)

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the consolidated entity's and the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2013 and 30 June 2012.

Consolidated – 30 June 2013	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Total	-	-	-	-
Financial liabilities				
Interest rate swaps	-	70	-	70
Total	-	70	-	70
<hr/>				
Consolidated – 30 June 2012	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Equity securities	6,406	-	-	6,406
Total	6,406	-	-	6,406
Financial liabilities				
Interest rate swaps	-	2,016	-	2,016
Total	-	2,016	-	2,016

21. Parent entity financial information

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

Parent	30 June 2013	30 June 2012
	\$'000	\$'000
Income statement information		
Net profit attributable to Arena REIT	16,919	16,537
Comprehensive income information		
Total comprehensive income attributable to Arena REIT	16,919	16,537
Balance Sheet		
Current assets	7,368	7,234
Non-current assets	233,811	232,924
Total assets	241,179	240,158
Current liabilities	6,544	5,937
Non-current liabilities	24,570	101,138
Total liabilities	31,114	107,075
Equity attributable to unitholders of Arena REIT		
Contributed equity	205,491	134,564
Accumulated profit/(losses)	4,574	(1,481)
	210,065	133,083

22. Reconciliation of profit to net cash inflow from operating activities

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Profit for the year	17,224	15,681
Amortisation of borrowing costs	1,113	275
Net increase in fair value of investment properties	(5,162)	(8,687)
Net change in fair value of investment properties due to straight lining of rent	(497)	(748)
Amortisation of leasing costs	25	-
Interest capitalised to development properties	(200)	-
Net (gain)/loss on sale of direct property	(10)	(808)
Net (gain)/loss on derivative financial instruments	141	4,245
Net (gain)/loss on financial assets held at fair value through profit or loss	(1,413)	(1,382)
Net (gain)/loss on foreign exchange	(12)	213
Non-cash movement in provision for deferred management fees/disposal fees	-	(48)
Changes in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	592	66
(Decrease)/increase in trade and other payables	(803)	1,030
(Decrease) in provision for deferred management fees/disposal fees	-	(1,459)
Net cash inflow from operating activities	10,998	8,378

23. Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2013 and 30 June 2012.

Leasing arrangements

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	Consolidated	
	30 June 2013	30 June 2012
	\$'000	\$'000
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within 1 year	21,163	20,727
Later than 1 year but not later than 5 years	88,240	87,404
Later than 5 years	79,824	99,913
	189,227	208,044

24. Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Trust disclosed in the consolidated balance sheet as at 30 June 2013 or on the results and cash flows of the Trust for the year ended on that date.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 30 to 67 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 Trust's financial position as at 30 June 2013 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable, and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the managing directors and chief financial officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



David Ross
Chairman

Melbourne

30 August 2013

Independent auditor's report to the unitholders of Arena REIT



Independent auditor's report to the unitholders of Arena REIT

Report on the financial report

We have audited the accompanying financial report of Arena REIT (the Trust), which comprises the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Arena REIT (the consolidated entity). The consolidated entity comprises Arena REIT and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Arena Investment Management Limited (the Responsible Entity of the Trust) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Independent auditor's report to the unitholders of
Arena REIT (continued)**

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Arena REIT is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the Trust's financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Charles Christie'.

Charles Christie
Partner

Melbourne
30 August 2013

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ASX additional information

Additional Securities Exchange Information as at 22 August 2013

There were 206,342,963 fully paid ordinary units on issue, held by 2,859 unitholders. There were 12 holders holding less than a marketable parcel.

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

- (i) on a show of hands every person present who is a unitholder has one vote; and
- (ii) on a poll each unitholder present in person or by proxy or attorney has one vote for each dollar of the value of the total interests they have in the Trust.

Distribution of Unitholders

Numbers of Units Held	Number of Unitholders	Total Units Held	% of Total Units on Issue
1-1,000	18	4,860	0.00
1,001-5,000	57	231,871	0.11
5,001-10,000	395	3,379,761	1.64
10,001-100,000	2,237	76,859,104	37.25
>100,000	153	125,867,367	61.00
Total	2,860	206,342,963	100.00

Substantial Unitholders

Name of Substantial Unitholder	Number of Units	% of Total Units on Issue
Arena Investment Management Limited	34,698,159	16.82
Morgan Stanley Australia Limited	26,952,874	13.06
Mitsubishi UFJ Financial Group, Inc.	26,952,874	13.06
Commonwealth Bank of Australia	10,559,590	5.12
BT Investment Management Limited	10,506,463	5.09
Westpac Banking Corporation	10,506,463	5.09

There were 26,952,874 units in the Trust subject to voluntary escrow. The escrow period ends on 13 December 2013.

There is currently an on-market buy-back in place. Refer to the ASX announcement and Appendix 3C form released on 13 June 2013.

ASX additional information

Twenty largest Unitholders as at 22 August 2013

Holder Name	Number of Units	Fully Paid Percentage
Trust Company (Australia) Limited <Citrus Subsidiary Trust>	26,952,874	13.062
National Nominees Limited	16,724,601	8.105
HSBC Custody Nominees (Australia) Limited	12,794,995	6.201
UBS Nominees Pty Ltd	9,395,749	4.553
J P Morgan Nominees Australia Limited	7,072,806	3.428
Sandhurst Trustees Ltd <Macarthur Cook PSF A/C>	6,768,319	3.28
Citicorp Nominees Pty Limited	4,801,259	2.327
BNP Paribas Noms Pty Ltd <DRP>	3,894,706	1.887
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,279,868	1.105
Navigator Australia Ltd <MLC Investment Sett A/C>	2,173,609	1.053
RBC Investor Services Australia Nominees Pty Limited <APN A/C>	1,650,000	0.8
Netwealth Investments Limited <Wrap Services A/C>	918,938	0.445
Goldman Sachs Australia Pty Ltd <SLF A/C>	879,300	0.426
HSBC Custody Nominees (Australia) Limited - A/C 2	858,915	0.416
Netwealth Investments Limited <Super Services A/C>	769,468	0.373
Keith David Kirk	722,195	0.35
Escor Equities Consolidated Pty Ltd	600,000	0.291
Arkwright Developments Pty Limited	594,059	0.288
Mr Jiebo Huang	547,030	0.265
James Edward John Goodwin	500,000	0.242
Subtotal	100,898,691	48.899
Other investors	105,444,272	51.101
Total Units	206,342,963	100

About Arena

Specialist property fund manager

Arena's managed funds include an ASX listed property trust (Arena REIT), 4 unlisted managed investment schemes and 2 joint venture vehicles.

Arena actively manages 211 commercial property investments in Australia and New Zealand, and invests in traditional property sectors such as office, industrial and retail, as well as growing specialised sectors like social infrastructure (eg childcare, healthcare).

Arena's Board is majority independent and chaired by David Ross, who is joined by Dennis Wildenburg and Simon Parsons. The Company's investment management team is highly skilled with vast industry experience gained over many years.

The Company has been backed by Morgan Stanley Global Real Estate Investing (MSREI) since December 2011. MSREI has been active in Australia since 2004, with operations including several high-quality asset management platforms in the real estate space. Current platforms include Investa Property Group with expertise in office, residential, industrial and funds management, Grand Hotel Group, a hotel ownership and management platform, Arena Investment Management and Retire Australia.

Arena Investment Management Limited (Arena or the Company) is one of Australia's leading property funds management companies managing approximately \$1.0 billion in funds on behalf of over 15,000 investors.

Corporate Directory

Responsible Entity and registered office

Arena Investment Management Limited
ABN 23 077 235 879; AFSL 233190

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Facsimile: +61 3 9093 9093
Email: info@arenainvest.com.au
Website: arenainvest.com.au

Directors of the Responsible Entity

David Ross (Non-executive Chairman)
Dennis Wildenburg (Non-executive Director)
Simon Parsons (Non-executive Director)
James Goodwin (Joint Managing Director)
Bryce Mitchelson (Joint Managing Director)

Company Secretary

Peter Hulbert

Registry

Boardroom Pty Limited
ABN 14 003 209 836
Level 7
297 Kent Street
Sydney NSW 2000

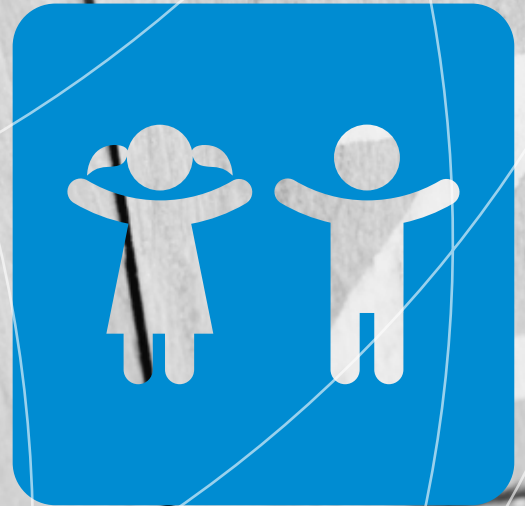
Investor and Adviser enquiries:
Freecall: 1800 008 494

Auditor

PricewaterhouseCoopers
Freshwater Place
2 Southbank Boulevard
Southbank Vic 3006



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