Arena REIT
Appendix 4D
For the period ended 31 December 2014

Name of entity:

Arena REIT (ARF) comprising the securities of Arena REIT Limited, Arena REIT No.1 and Arena REIT No.2

ARSN:

Arena REIT No.1 106 891 641 Arena REIT No.2 101 067 878

ACN:

Arena REIT Limited 602 365 186

Reporting period

This report details the consolidated results of Arena REIT for the half-year ended 31 December 2014. Arena REIT is a stapled security comprising Arena REIT Limited, Arena REIT No.1 and Arena REIT No.2.

Results for announcement to the market

All comparisons are to the half-year ended 31 December 2013.

				$A'000
Total income from ordinary activities	Up	79%	to	29,207
Profit from ordinary activities after tax attributable to Arena REIT stapled group investors	Up	70%	to	21,471
Net profit for the year attributable to Arena REIT stapled group investors	Up	70%	to	21,471

Distributions

Quarter	**Cents per security**	**Paid/Payable**
September Quarter	2.4375	14 November 2014
December Quarter	2.4625	12 February 2015
Total	**4.9000**	

Net assets per security

	Consolidated	
	31 December 2014	**30 June 2014**
Net asset value per ordinary security	$1.18	$1.13

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This information should be read in conjunction with the 31 December 2014 Half Year Financial Report of Arena REIT and any public announcements made during the period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and Listing Rules.

This report is based on the Arena REIT 31 December 2014 half-year financial statements which have been reviewed by PricewaterhouseCoopers. The Independent Auditor's Review Report provided by PricewaterhouseCoopers is included in the 31 December 2014 half year financial statements.

Signed:

David Ross
Chairman
25 February 2015

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Arena REIT

ARSN 106891641

Interim report
For the half-year ended 31 December 2014

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Arena REIT

ARSN 106 891 641

Interim report - 31 December 2014

Contents **Page**

These financial statements cover Arena REIT (the 'Group') comprising Arena REIT No. 1, Arena REIT No. 2, Arena REIT Limited, and their controlled entities. The financial statements are presented in Australian currency.

The Responsible Entity of Arena REIT No.1 and Arena REIT No. 2 (the 'Trusts') is Arena REIT Management Limited (ACN 600069761). The Responsible Entity's registered office is:

71 Flinders Lane
Melbourne VIC 3000

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Directors' report

The directors of Arena REIT Limited ('ARL') and Arena REIT Management Limited ('ARML'), as responsible entity of Arena REIT No. 1 and Arena REIT No. 2 (the 'Trusts'), present their report together with the financial statements of Arena REIT for the period ended 31 December 2014. The interim financial report covers ARL, Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2'), and their controlled entities.

On 5 December 2014, the investors of the Arena REIT Stapled Group voted in favour of a proposal to internalise the corporate governance and management functions of Arena REIT. The internalisation took effect from 12 December 2014 and involved the following:

- the distribution to investors of one fully paid ordinary share in ARL for each existing stapled security in Arena REIT;
- the stapling of each share in ARL to each existing stapled security to form a new stapled security;
- the acquisition by ARL of Citrus Investment Services Pty Ltd ('CISL') and its wholly owned subsidiaries Arena REIT Management Limited ('ARML') and Arena Property Services Pty Ltd; and
- ARML replacing Arena Investment Management Limited ('AIML') as responsible entity of the Trusts.

Arena REIT No.1, Arena REIT No. 2 and Arena REIT Limited are separate entities for which the units have been stapled together to enable trading as one security. The units of Arena REIT No.1, Arena REIT No.2 and Arena REIT Limited cannot be traded separately. None of the stapled entities controls any of the other stapled entities, however for the purposes of statutory financial reporting the entities form a consolidated group.

Directors

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

David Ross (Chairman) (Independent, non-executive) (appointed 16 October 2014)
Simon Parsons (Independent, non-executive) (appointed 16 October 2014)
Dennis Wildenburg (Independent, non-executive) (appointed 16 October 2014)
Bryce Mitchelson (Executive) (appointed 16 October 2014)

The following persons held office as directors of Arena REIT Management Limited on 12 December 2014 when it became responsible entity of the Trusts and up to the date of this report:

David Ross (Chairman) (Independent, non-executive)
Simon Parsons (Independent, non-executive)
Dennis Wildenburg (Independent, non-executive)
Bryce Mitchelson (Executive)
Gareth Winter (Executive)

Principal activities

Arena REIT invests in a portfolio of investment properties and is listed on the Australian Stock Exchange under the code ARF.

There were no changes in the principle activities of the Group during the period.

Distributions to unitholders

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

	31 December 2014 $'000	31 December 2013 $'000	**31 December 2014 cps**	31 December 2013 cps
September quarter	**5,155**	4,230	**2.4375**	2.0500
December quarter	**5,211**	3,508	**2.4625**	1.7000
Total distributions to unitholders	**10,366**	7,738	**4.9000**	3.7500

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Operating and Financial Review

During the period Arena REIT internalised its corporate governance and management function. The Arena REIT Group now comprises Arena REIT No. 1, Arena REIT No. 2 and Arena REIT Limited. The Group operates with the aim of generating attractive and predictable distributions for unitholders with earnings growth prospects over the medium to long term.

The Group'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

Key financial metrics

	31 December 2014	31 December 2013	Change
Net profit (statutory)	$21.5 million	$12.6 million	+ 70.6%
Distributable income	$10.5 million	$8.5 million	+ 23.5%
Distributable income per security	4.97 cents	4.13 cents	+ 20.3%
Distributions per security	4.90 cents	3.75 cents	+ 30.7%

	31 December 2014	30 June 2014	Change
Total assets	$403.6 million	$375.3 million	+ 7.5%
Investment properties	$382.3 million	$355.8 million	+ 7.4%
Borrowings	$138.0 million	$125.0 million	+ 10.4%
Net assets	$249.5 million	$238.2 million	+ 4.7%
NAV per security	$1.18	$1.13	+ 4.4%
Gearing *	34.2%	33.3%	+ 2.7%

** Gearing calculated as Borrowings / Total Assets*

31 December 2014 half year highlights

- Successful implementation of the proposal to internalise corporate governance and management of the Group, resulting in enhanced alignment of Board and Management, and a FY15 distribution guidance upgrade from 9.75 cents to 10.0 cents per security;
- The property portfolio increased with the addition of 3 childcare development sites. During the period, the construction of 4 childcare development sites were completed and leases commenced;
- Half year distributable income was $10.5 million, up 23.5% on the previous half year;
- Gearing was 34.2% at 31 December 2014. The Group's maximum gearing range is 35-45%;
- NAV per security at 31 December 2014 was $1.18, an increase of 4% on 30 June 2014. This was due to an increase in investment property value, offset partially by transaction costs associated with the internalisation and fair value of interest rate swaps.

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Operating and Financial Review (continued)

31 December 2014 half year highlights (continued)

Financial results

	31 December 2014 $'000	31 December 2013 $'000
Rental income	**15,218**	11,370
Other income	**54**	30
Total operating income	**15,272**	11,400
Direct property expenses	**(605)**	(445)
Trust administration and other operating expenses	**(343)**	(384)
Former responsible entity management fees	**(1,353)**	(1,022)
Finance costs	**(2,458)**	(1,016)
Distributable income *	**10,513**	8,533
Non-distributable items:		
Straight-line rental income	**190**	451
Revaluation gain on investment properties	**13,745**	4,438
Change in fair value of derivatives	**(1,860)**	(43)
Stapling and asset acquisition costs	**(1,016)**	(736)
Profit/(loss) on sale of investment properties	**(101)**	-
Statutory net profit	**21,471**	12,643

** 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 Group 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 Group’s underlying operating earnings.
- The increase in Distributable Income during the period is primarily due to:
  - A full period of Arena REIT No. 2 results following the stapling of Arena REIT No. 1 and Arena REIT No. 2 in December 2013;
  - Ongoing annual rent increases on the Group's property portfolio; and
  - Receipt of rent on completion of 4 childcare development sites during the period.

Operating and Financial Review (continued)

Investment property portfolio

Key property metrics

	31 December 2014	30 June 2014
Total value of investment properties	$382.3 million	$355.8 million
Number of properties under lease	184	181
Development sites	10	10
Properties available for lease or sale	2	2
Properties held for sale	-	-
Total properties in portfolio	**196**	**193**

Portfolio occupancy	99%	99%
Weighted average lease expiry (WALE)	8.4 years	8.5 years

- The increase in the value of investment properties is primarily due to:
    - the purchase of 3 childcare development sites for $4.6 million;
    - new childcare development expenditure of $6.9 million;
    - a net revaluation increment to the portfolio of $13.745 million for the period.

Capital management

Bank facilities & gearing

- During the period, the facility limit was increased by $15m to $155m. On 16 January 2015, the facility limit increased a further $20 million.
- The balance drawn increased throughout the period as acquisitions were funded through debt drawdowns and used to fund the implementation of the internalisation proposal.
- Gearing was 34.2% at 31 December 2014, which is within the maximum gearing range of 35-45%.
- Refer to note 5 for further information.

Interest rate management

- As at 31 December 2014, 62% of Arena REIT borrowings are hedged. The average swap fixed rate is 3.30%.
- On 16 January 2015, an additional $20 million of Arena REIT borrowings were hedged with the commencement of 2 new interest rate swaps. These swaps increased the percentage of hedged borrowings to 71% at the date of this report.

FY15 outlook

Arena REIT presently expects to pay a distribution of 10.0 cents per security for FY15. The FY15 distribution is comprised of the 4.90 cents per security declared by Arena REIT up until 31 December 2014 and 5.10 cents per security forecast by the Group for the period from 1 January 2015 to 30 June 2015.

Notwithstanding the Group’s strategy to acquire new investments, the distribution outlook assumes that the Group does not acquire any new investments or issue additional equity during the remainder of FY15 other than the Institutional Placement on 25 February 2015 referred to in this report. The distribution outlook also assumes that the Group's existing leases are enforceable, tenants meet all their obligations in respect of those leases, and that developments are completed on schedule.

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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 Group that occurred during the financial period.

Matters subsequent to the end of the financial period

Since the end of the financial period, Arena REIT has agreed terms for market rent reviews of 45 childcare centres and received notification for the exercise of options for an extension of five years to the existing lease term of 20 childcare centres.

On 25 February 2015, the Group announced that it was undertaking a $25 million fully underwritten Institutional equity placement. The issue of new securities pursuant to the placement is expected to occur on 10 March 2015.

No other matters or circumstances have arisen since 31 December 2014 that have significantly affected, or may significantly affect:

(i) the operations of the Group in future periods, or
(ii) the results of those operations in future financial periods, or
(iii) the state of affairs of the Group in future financial periods.

Likely developments and expected results of operations

The Group will continue to be managed in accordance with the investment objectives and guidelines as set out in the stapled entities' constitutions.

The results of the Group's operations will be affected by a number of factors, including the performance of investment markets in which the Group 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.

Relief under ASIC Class Order 13/1050

The Group has applied the exemption provided in ASIC Class Orders 13/1050 and 13/1644, issued by the Australian Securities and Investments Commission, allowing stapled entities to prepare consolidated financial statements. The Group has prepared consolidated financial statements covering the stapled group for the period ended 31 December 2014. The financial statements separately present the amounts of "non-controlled interest" attributable to the stapled security unitholders as required by the class orders.

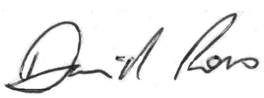
Rounding of amounts to the nearest thousand dollars

The Group is an entity of a kind referred to in Class Order 98/0100 (as amended) issued by ASIC 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 7.

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



David Ross
Chairman

Melbourne
25 February 2015

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Auditor's Independence Declaration

As lead auditor for the review of Arena REIT for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

This declaration is in respect of Arena REIT, Arena REIT No.2, Arena REIT Limited and the entities controlled during the period.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
25 February 2015

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Consolidated statement of comprehensive income

		Consolidated	
	Notes	**31 December 2014 $'000**	31 December 2013 $'000
Income			
Property rental	3	**15,408**	11,821
Management fee income		**17**	-
Interest		**37**	30
Revaluation of investment properties	4	**13,745**	4,438
Total income		**29,207**	16,289
Expenses			
Direct property expenses		**(605)**	(445)
Former Responsible Entity's management fee		**(1,353)**	(1,022)
Stapling and asset acquisition costs		**(1,016)**	(736)
Administration and other expenses		**(343)**	(384)
Profit/(loss) on sale of investment properties		**(101)**	-
Net loss on fair value of derivative financial instruments		**(1,860)**	(43)
Finance costs		**(2,458)**	(1,016)
Total expenses		**(7,736)**	(3,646)
Net profit for the half-year		**21,471**	12,643
Other comprehensive income		**-**	-
Total comprehensive income for the half-year		**21,471**	12,643
Total comprehensive income for the half-year is attributable to Arena REIT stapled group investors, comprising:			
Unitholders of Arena REIT No. 1		**19,266**	12,429
Unitholders of Arena REIT No. 2 (non-controlling interest)		**2,200**	214
Unitholders of Arena REIT Limited (non-controlling interest)		**5**	-
		21,471	12,643
		Cents	Cents
Earnings per security:			
Basic earnings per security in Arena REIT No. 1		**9.11**	6.01
Diluted earnings per security in Arena REIT No. 1		**9.11**	6.01
Basic earnings per security in Arena REIT Group		**10.15**	6.12
Diluted earnings per security in Arena REIT Group		**10.15**	6.12

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

Consolidated balance sheet

	Notes	Consolidated 31 December 2014 $'000	30 June 2014 $'000
Current assets			
Cash and cash equivalents		**6,699**	3,947
Trade and other receivables		**2,619**	15,519
Total current assets		**9,318**	19,466
Non-current assets			
Receivables		**1,070**	-
Property, plant and equipment		**227**	-
Investment properties	4	**382,296**	355,831
Intangible assets	2	**10,730**	-
Total non-current assets		**394,323**	355,831
Total assets		**403,641**	375,297
Current liabilities			
Trade and other payables		**11,701**	10,985
Provisions		**1,152**	-
Total current liabilities		**12,853**	10,985
Non-current liabilities			
Derivative financial instruments	6	**3,122**	1,298
Provisions		**442**	-
Interest bearing liabilities	5	**137,754**	124,811
Total non-current liabilities		**141,318**	126,109
Total liabilities		**154,171**	137,094
Net assets		**249,470**	238,203
Equity			
Contributed equity - Arena REIT No. 1	7	**170,355**	183,221
Contributed equity - Arena REIT No. 2	7	**21,303**	21,285
Contributed equity - Arena REIT Limited	7	**13,000**	-
Accumulated profit	8	**44,802**	33,697
Reserves		**10**	-
Total equity		**249,470**	238,203

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

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Consolidated statement of changes in equity

					Consolidated	
	Contrib. equity - ARF1	**Contrib. equity - ARF2**	**Contrib. equity - ARL**	**Reserves**	**Accumulated profit**	**Total equity**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2013	205,252	-	-	-	4,813	210,065
Profit for the half-year	-	-	-	-	12,643	12,643
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**12,643**	**12,643**
Transactions with owners in their capacity as owners:						
Arising on stapling	-	24,197	-	-	2,871	27,068
Unitholder redemption	(22,235)	(2,912)	-	-	-	(25,147)
Distributions to unitholders	-	-	-	-	(7,738)	(7,738)
Contributions of equity, net of transaction costs	(29)	-	-	-	-	(29)
Balance at 31 December 2013	**182,988**	**21,285**	**-**	**-**	**12,589**	**216,862**
Balance at 1 July 2014	183,221	21,285	-	-	33,697	238,203
Profit for the half-year	-	-	-	-	21,471	21,471
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**21,471**	**21,471**
Transactions with owners in their capacity as owners:						
Arising on stapling	(13,000)	-	13,000	-	-	-
Distributions to unitholders	-	-	-	-	(10,366)	(10,366)
Employee share scheme - value of employee services	-	-	-	10	-	10
Contributions of equity, net of transaction costs	134	18	-	-	-	152
Balance at 31 December 2014	**170,355**	**21,303**	**13,000**	**10**	**44,802**	**249,470**

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

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Consolidated statement of cash flows

	Consolidated	
	31 December 2014	31 December 2013
	$'000	$'000
Cash flows from operating activities		
Property rental receipts	**14,577**	11,746
Other receipts from customers	**39**	-
Payments to suppliers	**(3,555)**	(6,427)
Interest received	**37**	30
Finance costs paid	**(3,051)**	(775)
Net cash inflow from operating activities	**8,047**	4,574
Cash flows from investing activities		
Cash arising on stapling	**1,625**	598
Acquisition of subsidiaries	**(4,862)**	-
Net proceeds from sale of investment properties	**13,539**	1,464
Payments for capital expenditure	**(729)**	(126)
Acquisition of investment properties	**(2)**	(29,408)
Land acquisition and development capital expenditure	**(11,922)**	(2,476)
Net cash (outflow) from investing activities	**(2,351)**	(29,948)
Cash flows from financing activities		
Net proceeds from issue of units	**(2)**	(29)
Distributions paid to unitholders	**(9,918)**	(7,499)
Loan establishment costs paid	**(91)**	(92)
Proceeds from borrowings	**25,500**	58,571
Repayment of borrowings	**(18,396)**	(24,971)
Termination of derivatives	**(37)**	(46)
Net cash (outflow)/inflow from financing activities	**(2,944)**	25,934
Net increase in cash and cash equivalents	**2,752**	560
Cash and cash equivalents at the beginning of the financial period	**3,947**	4,995
Cash and cash equivalents at the end of the financial period	**6,699**	5,555

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

Contents of the notes to the financial statements

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1 Summary of significant accounting policies

(a) Basis of preparation of half-year financial report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2014 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Arena REIT during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The Arena REIT Stapled Group (the 'Group') now comprises Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2') and Arena REIT Limited ('ARL'), following the stapling of ARL (the 'Aggregation'). The stapling occurred as a consequence of the internalisation of corporate governance and management rights of the Group, as approved by unitholders in December 2014.

(i) Net working capital deficiency

At 31 December 2014, the Group had a net working capital deficiency of $3.5 million. This deficiency is due to working capital management and the difference in the timing of drawdowns from the Group's debt facility and timing of development expenditure. The Group has $35.5 million of unused debt facility which can be drawn to fund cashflow requirements.

After taking into account all available information, the directors of the Group have concluded that there are reasonable grounds to believe:

- The Group will be able to pay its debts as and when they fall due; and
- The basis of preparation of the financial report on a going concern basis is appropriate.

(b) Principles of consolidation

The constitutions of ARF1, ARF2 and ARL provide that the units of the trusts are “stapled” together and the stapled securities are listed on the ASX under the symbol ARF. The securities cannot be separately traded. The Group has relied on ASIC class orders 13/1050 and 13/1644 which allows stapled entities to prepare consolidated financial statements.

The half year financial statements reflect the consolidation of ARF2 and ARL by ARF1. For the financial reporting purposes as required by AASB 3R *Business Combinations* and AASB 127 *Separate Financial Statements*, one entity in the staple must be identified as the acquirer or parent entity of the other. ARF1 has been identified as the acquirer of ARF2 and ARL. The comparatives therefore reflect the results of only ARF1 and ARF2.

Unitholders approved the internalisation proposal on 5 December 2014, with the implementation and stapling of ARL to the existing stapled group being completed on 12 December 2014. 12 December 2014 is therefore the date the Aggregation has occurred for financial reporting purposes. The financial statements presented include the net profit and loss of ARF1 and ARF2 for the period including the results of ARL from 12 December 2014. The Balance Sheet includes the aggregated Balance Sheet of ARF1, ARF2 and ARL as at 31 December 2014.

(c) Presentation of members interests in ARF2 and ARL

As ARF1 has been nominated as parent of the Group, the unitholders interests in ARF2 and ARL are included in equity as "non-controlling interests" relating to the stapled entity. Unitholders interests in ARF2 and ARL are not presented as attributable to owners of the parent reflecting the fact that ARF2 and ARL are not owned by ARF1, but by the investors of the stapled group.

(d) New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time in their annual reporting period commencing 1 July 2014:

- AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities;*

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1 Summary of significant accounting policies (continued)

(d) New and amended standards adopted by the group (continued)

- AASB 2013-3 *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets;*
- AASB 2013-4 *Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting;*
- *Annual improvements 2010-2012 cycle*;
- Annual improvements 2011-2013 cycle.

The Group did not have to change its accounting policies or make retrospective adjustments as a result of the adoption of these standards. There will be some changes to the disclosures in the 30 June 2015 annual report as a result of these amendments.

(e) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2014 reporting periods. The Group has not early adopted these standards/interpretations. The Group's assessment of the impact of these 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, AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures, AASB2014-1 Amendments to Australian Accounting Standards.	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. Management does not expect this to have any impact on the Group's financial statements.	1 January 2018	30 June 2019

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.

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2 Business combination to form new Arena REIT Stapled Group

(a) Summary of business combination

On 5 December 2014, the investors of the Arena REIT Stapled Group voted in favour of a proposal to internalise management of the Group. The internalisation took effect from 12 December 2014, which involved the following:

- the distribution to investors of one fully paid ordinary share in Arena REIT Limited ('ARL') for each existing stapled security in Arena REIT;
- the stapling of each share in ARL to each existing stapled security to form a new stapled security;
- the acquisition by ARL of Citrus Investment Services Pty Ltd ('CISL') and its wholly owned subsidiaries Arena REIT Management Limited ('ARML') and Arena Property Services Pty Ltd;

The above transaction has been accounted for as a business combination through contract under AASB 3. As noted in note 1(b) the exemption under ASIC Class orders 13/1050 and 13/1644 has been applied allowing consolidated stapled accounts to be prepared.

(b) Purchase consideration

Details of the consideration transferred are:

	31 December 2014 Fair value $'000
Purchase consideration	
Cash paid	4,869
Total purchase consideration	4,869

(c) Assets and liabilities

The fair value of assets and liabilities acquired are as follows:

Assets	**$'000**
Cash and cash equivalents	1,625
Trade and other receivables	2,160
Property, plant & equipment	234
Intangible assets (goodwill)	10,730
Total Assets	**14,749**
Liabilities	
Trade and other payables	(2,659)
Current tax liabilities	(1,013)
Provisions	(312)
Borrowings	(5,896)
Total Liabilities	**(9,880)**
Net Assets	**4,869**

The goodwill is attributable to the ARF1, ARF2 and wholesale funds management (intangible rights) now controlled by the stapled group on internalisation.

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3 Property rental income

The following table details the property rental earned by the Group during the period:

	Consolidated	
	31 December 2014	31 December 2013
	$'000	$'000
Base rent	**15,218**	11,370
Other rental income (recognised on a straight line basis)	**190**	451
Total property rental income	**15,408**	11,821

4 Investment properties

	Consolidated	
	31 December 2014	30 June 2014
	$'000	$'000
At fair value		
Opening balance	**355,831**	233,784
Additions through business combination	**-**	55,237
Property acquisitions	**-**	33,729
Disposals	**-**	(9,985)
Revaluations	**13,745**	24,489
Capital expenditure	**495**	543
Land acquisition and development capital expenditure	**11,990**	17,455
Other IFRS revaluation adjustments	**235**	579
Closing balance	**382,296**	355,831

5 Interest bearing liabilities

	Consolidated	
	31 December 2014	30 June 2014
	$'000	$'000
Non-current		
Secured		
Cash advance facility	**138,000**	125,000
Unamortised transaction costs	**(246)**	(189)
Total non-current interest bearing liabilities	**137,754**	124,811

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5 Interest bearing liabilities (continued)

The Arena REIT Group has a $77.5 million facility expiring on 30 June 2017 and a $77.5 million facility expiring on 30 June 2019, which is jointly held by ARF1 and ARF2. Either Trust can draw on the facilities. The assets of the Trusts are held as security under the facility.

All parties to the Arena REIT facility were compliant with all facility covenants throughout the period and at 31 December 2014.

6 Derivative financial instruments

	Consolidated	
	31 December 2014	30 June 2014
	$'000	$'000
Non-current liabilities		
Interest rate swaps	**3,122**	1,298
	3,122	1,298

The Group has entered into interest rate swap contracts under which they receive interest at variable rates and pay interest at fixed rates to protect interest bearing liabilities from exposure to changes in interest rates.

Swaps in place cover 62% (30 June 2014: 68%) of the facility principle outstanding. The weighted average fixed interest swap rate at 31 December 2014 was 3.30% (30 June 2014: 3.33%).

Periodic swap settlements match the period for which interest is payable on the underlying debt, and are settled on a net basis.

7 Contributed equity

(a) Units

	31 December 2014 Units '000	30 June 2014 Units '000	**31 December 2014 $'000**	30 June 2014 $'000
Ordinary Stapled Units				
Fully paid	**211,605**	211,496	**204,658**	204,506

(b) Movement in ordinary stapled units

Date	**Details**	**Number of units '000**	**$'000**
1 July 2013	Opening balance	206,343	205,252
	Less: Transaction costs arising from capital raising		(35)
	Arising on stapling (net of unitholder redemption)	5,153	(950)
	Other		239
30 June 2014	Closing balance	211,496	204,506
1 July 2014	Opening balance	**211,496**	**204,506**
	Less: Transaction costs arising from capital raising		**(2)**
14 November 2014	Securities issued under DRP	**109**	**154**
31 December 2014	Closing balance	**211,605**	**204,658**

7 Contributed equity (continued)

(b) Movement in ordinary stapled units (continued)

(i) Stapled securities

An ordinary stapled security comprises one unit in Arena REIT No.1, one unit in Arena REIT No.2 and one unit in Arena REIT Limited. As stipulated in the Trust's and Company's constitutions, each stapled security represents a right to an individual unit in each Stapled Entity and does not extend to a right to the underlying assets of the Stapled Entities. There are no separate classes of securities and each security has the same rights attaching to it as all other securities of the Stapled Entities.

(ii) Securities issued under DRP

The Stapled Group commenced a new dividend reinvestment plan (DRP), effective for the September 2014 quarter dividend. 109,450 new securities were issued during the period pursuant to the DRP.

8 Accumulated profit

Movement in accumulated profit was as follows:

	31 December 2014 $'000	30 June 2014 $'000
Opening accumulated profit	**33,697**	4,813
Arising on stapling	**-**	2,871
Net profit for the half-year/year	**21,471**	44,564
Distributions paid or payable	**(10,366)**	(18,312)
Other	**-**	(239)
Closing accumulated profit	**44,802**	33,697

(i) Distributions paid or payable to unitholders

	31 December 2014 $'000	31 December 2013 $'000	**31 December 2014 cps**	31 December 2013 cps
September quarter	**5,155**	4,230	**2.4375**	2.0500
December quarter	**5,211**	3,508	**2.4625**	1.7000
Total distributions to unitholders	**10,366**	7,738	**4.9000**	3.7500

9 Segment information

The Group operates as one material business segment being investment in social infrastructure assets and in one geographic segment being Australia. The Group's segments are based on reports used by the directors of the Responsible Entity in making strategic decisions about the Group, assessing the financial performance and financial position of the Group, and determining the allocation of resources.

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10 Fair value measurement of financial instruments

The carrying amounts of the Group'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.

(a) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

AASB 13 requires disclosure of fair value measurements by level of fair value hierarchy. 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.

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 Group's financial assets and financial liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2014 and 30 June 2014.

Consolidated

31 December 2014

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial liabilities				
Financial liabilities held for trading:				
Interest rate swaps	-	3,122	-	3,122
Total	-	3,122	-	3,122

10 Fair value measurement of financial instruments (continued)

(a) Fair value hierarchy (continued)

Consolidated

30 June 2014

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Financial liabilities held for trading:				
Interest rate swaps	-	1,298	-	1,298
Total	-	1,298	-	1,298

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels during the period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2014.

(ii) Valuation techniques used to derive level 2 and level 3 values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, taking into account any material credit risk.

11 Contingent assets and liabilities

There are no material contingent assets or liabilities as at 31 December 2014.

12 Events occurring after the reporting period

Since the end of the financial period, Arena REIT has agreed terms for market rent reviews of 45 childcare centres and received notification for the exercise of options for an extension of five years to the existing lease term of 20 childcare centres.

On 25 February 2015, the Group announced that it was undertaking a $25 million fully underwritten Institutional equity placement. The issue of new securities pursuant to the placement is expected to occur on 10 March 2015.

No other significant events have occurred since the end of the reporting period which would impact on the financial position of the Group disclosed in the consolidated balance sheet as at 31 December 2014 or on the results and cash flows of the Group for the half-year ended on that date.

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Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 8 to 20 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 Group's financial position as at 31 December 2014 and of its performance for the financial period ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay their debts as and when they become due and payable, and

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

David Ross
Chairman

Melbourne
25 February 2015

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Independent auditor's review report to the members of Arena REIT

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Arena REIT (the Company), which comprises the consolidated balance sheet as at 31 December 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Arena REIT Group (the consolidated entity). The consolidated entity comprises Arena REIT, Arena REIT No.2, Arena REIT Limited and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of Arena REIT Management Limited (the responsible entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arena REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Arena REIT is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
25 February 2015