Arena REIT
Appendix 4D
For the period ended 31 December 2021

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 (ARSN 106 891 641) Arena REIT No.2 (ARSN 101 067 878)

ACN:

Arena REIT Limited (ACN 602 365 186)

Reporting period

This report details the consolidated results of Arena REIT for the half-year ended 31 December 2021. 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 2020.

				$A'000
Total income from ordinary activities	Up	194%	to	191,835
Profit from ordinary activities after tax attributable to Arena REIT stapled group investors	Up	204%	to	185,796
Net profit for the period attributable to Arena REIT stapled group investors	Up	204%	to	185,796

Distributions

Quarter	**Cents per security**	**Paid/Payable**
September Quarter	3.9500	4 November 2021
December Quarter	3.9500	3 February 2022
Total	**7.9000**	

Net assets per security

	Consolidated	
	31 December 2021	**30 June 2021**
Net asset value per ordinary security	$3.02	$2.56

This information should be read in conjunction with the 31 December 2021 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 2021 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 2021 half year financial statements.

Signed:

David Ross
Chairman
11 February 2022

Arena REIT

ARSN 106891641

Interim Report
31 December 2021

Arena REIT

ARSN 106 891 641

Interim Report
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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, AFSL 465754). The Responsible Entity's registered office is:

Level 32, 8 Exhibition Street
Melbourne VIC 3000

Directors' report

The directors of Arena REIT Limited ('ARL') and Arena REIT Management Limited ('ARML'), the 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 2021. The interim financial report covers ARL, Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2'), and their controlled entities.

ARF1, ARF2 and ARL are separate entities for which the units and shares have been stapled together to enable trading as one security. The units of ARF1, ARF2 and shares of ARL 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 ARL during the financial period and up to the date of this report:

David Ross (Chair, Independent, non-executive)
Rosemary Hartnett (Independent, non-executive)
Simon Parsons (Independent, non-executive)
Dennis Wildenburg (Independent, non-executive)
Rob de Vos (Executive)

The following persons held office as directors of ARML during the financial period and up to the date of this report:

David Ross (Chair, Independent, non-executive)
Rosemary Hartnett (Independent, non-executive)
Simon Parsons (Independent, non-executive)
Dennis Wildenburg (Independent, non-executive)
Rob de Vos (Executive)
Gareth Winter (Executive)

Principal activities

The Group invests in a portfolio of investment properties and is listed on the Australian Securities Exchange under the code ARF.

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

Distributions to securityholders

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

	31 December 2021 $'000	31 December 2020 $'000	**31 December 2021 cps**	31 December 2020 cps
September quarter	**13,628**	12,363	**3.950**	3.625
December quarter	**13,651**	12,735	**3.950**	3.725
Total distributions to securityholders	**27,279**	25,098	**7.900**	7.350

Operating and Financial Review

The Group operates with the aim of generating attractive and predictable distributions for securityholders 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. The Group will consider investment in sectors with the required characteristics, which may include:

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

In preparing its financial statements, the Group has considered the current and ongoing impact the COVID-19 pandemic has on its business operation and key estimates.

During the period, the COVID-19 pandemic did not have a material impact on the Group as all of the Group's properties remained in operation and Government support was provided to the tenants.

The uncertainty of the impact of COVID-19 has been considered in the valuation of investment properties. Refer to note 4 for more information on the Group's valuation approach. The Group has also assessed the impact of COVID-19 on its carrying values of other assets and liabilities. Specific areas of assessment include the measurement and classification of trade receivables, recoverability of the carrying amount of goodwill and associated disclosures within the financial statements.

Key financial metrics

	31 December 2021	31 December 2020	Change
Net profit (statutory)	$185.8 million	$61.1 million	+ 204%
Net operating profit (distributable income)	$27.5 million	$24.7 million	+ 11.2%
Distributable income per security	7.97 cents	7.26 cents	+ 9.8%
Distributions per security	7.90 cents	7.35 cents	+ 7.5%

	31 December 2021	30 June 2021	Change
Total assets	$1,346.8 million	$1,151.5 million	+ 17%
Investment properties	$1,305.1 million	$1,112.4 million	+ 17%
Borrowings	$275.0 million	$240.0 million	+ 15%
Net assets	$1,042.7 million	$878.9 million	+ 19%
NAV per security	$3.02	$2.56	+ 18%
Gearing *	18.8%	19.9%	- 110 bps

** Gearing calculated as Net Borrowings / Total Assets less Cash*

Operating and Financial Review (continued)

31 December 2021 half-year highlights

- Half-year net statutory profit was $185.8 million, up 204% on the previous half-year comparative period. This is primarily due to the increase in net operating profit (refer below), a higher investment property revaluation gain compared to the prior period, and a revaluation gain on derivatives;
- Half-year net operating profit was $27.5 million, up 11.2% on the previous half-year comparative period, primarily driven by the increase in rental income;
- COVID-19 rent relief arrangements have previously been reached with all tenants where appropriate. All tenants were in compliance with rent relief arrangements including the collection of deferred rent during the period;
- Distributions for the period were 7.90 cents per security, up 7.5% on the previous half year comparative period;
- NAV per security at 31 December 2021 was $3.02, an increase of 18% on 30 June 2021. This was primarily due to an increase in investment property values;
- Gearing was 18.8% at 31 December 2021, down from 19.9% at 30 June 2021, largely due to the investment property revaluation gain recognised for the period; and
- The property portfolio increased with the addition of eight Early Learning Centre ('ELC') development sites and one operational ELC. During the period, three ELC developments were completed; two operating ELC's were sold with sale proceeds of $10.1 million.

Financial results

	31 December 2021 $'000	31 December 2020 $'000
Property income	**32,351**	28,232
Other income	**285**	257
Total operating income	**32,636**	28,489
Property expenses	**(448)**	(356)
Operating expenses	**(2,511)**	(1,944)
Finance costs	**(2,186)**	(1,473)
Net operating profit (distributable income) *	**27,491**	24,716
Non-distributable items:		
Investment property revaluation and straight-lining of rent income	**153,335**	35,351
Profit/(loss) on sale of investment properties	**1,047**	749
Change in fair value of derivatives	**4,655**	764
Transaction costs	**(326)**	(25)
Amortisation of equity-based remuneration (non-cash)	**(443)**	(375)
Other	**37**	(46)
Statutory net profit	**185,796**	61,134

** Net operating profit (distributable income) is not a statutory measure of profit*

Operating and Financial Review (continued)

Financial results (continued)

Financial results summary

	31 December 2021	31 December 2020
Net operating profit (distributable income) ($'000)	**27,491**	24,716
Weighted average number of ordinary securities ('000)	**344,755**	340,639
Distributable income per security (cents)	**7.97**	7.26

- Net operating profit is the measure used to determine securityholder distributions and represents the underlying cash-based profit of the Group for the relevant period. Net operating profit excludes fair value changes from asset and derivative revaluations and items of income or expense not representative of the Group's underlying operating earnings or cashflow.
- The increase in net operating profit during the period is primarily due to:
    - Ongoing fixed annual rent increases and market reviews on the Group's property portfolio;
    - Commencement of rental income from three ELC developments completed during the six months ended 31 December 2021, and the acquisition of one operational ELCs during the period; and
    - The full period effect of acquisitions and developments completed during FY21.
- Non-distributable items increased during the period primarily due to a higher revaluation gain on investment properties and derivatives compared to the prior period.

Investment property portfolio

Key property metrics

	31 December 2021	**30 June 2021**
Total value of investment properties	$1,305.1 million	$1,112.4 million
Number of properties under lease	239	237
Development sites	17	12
Properties available for lease or sale	-	-
Total properties in portfolio	**256**	**249**
Portfolio occupancy	100%	100%
Weighted average lease expiry (WALE)	19.8 years	14.4 years

- The increase in the value of investment properties is primarily due to:
    - Property acquisition, development and capital expenditure of $48.1 million; and
    - A net revaluation increment to the portfolio of $153.3 million for the period, inclusive of straight-lining of rent accrual.
- Offset by the following investment property disposals during the period:
    - Two operating ELCs were sold during the period with sale proceeds of $10.1 million.

Operating and Financial Review (continued)

Capital management

Equity

- During the period, 1.3 million securities were issued at an average price of $3.88 to raise $4.9 million of equity pursuant to the Distribution Reinvestment Plan (DRP).

Bank facilities & gearing

- The Group refinanced its syndicated debt facility during the period, increasing the facility limit by $100 million to $430 million and extending the maturity dates. The Group has a $150 million facility expiring 31 March 2024, a $130 million facility expiring 31 March 2026 and a $150 million facility expiring 31 March 2027, providing a remaining weighted average term of 3.9 years as at 31 December 2021;
- The balance drawn increased by $35 million to fund acquisitions and development capital expenditure;
- The Group has undrawn capacity of $155 million to fund ELC development commitments and new investment opportunities;
- Gearing was 18.8% at 31 December 2021 (30 June 2021: 19.9%);
- The Group was fully compliant with all bank facility covenants throughout the period and as at 31 December 2021. At 31 December 2021, the Loan to Valuation Ratio was 25.4% (Covenant: 50%) and the Interest Cover Ratio was 8.4 times (Covenant: 2.0 times);
- Refer to note 5 for further information.

Interest rate management

- As at 31 December 2021, the Group has hedged 76% of borrowings for a weighted average term of 4.7 years (30 June 2021: 81% for 4.4 years). The average swap fixed rate at 31 December 2021 is 1.60% (30 June 2021: 1.67%).

FY22 outlook

The Group presently expects to pay a distribution of 16.0 cents per security for FY22. This represents an upgrade of 0.2 cents per security on previously provided guidance. The FY22 distribution is comprised of the 7.90 cents per security declared by Arena REIT up until 31 December 2021 and 8.10 cents per security forecast by the Group for the period from 1 January 2022 to 30 June 2022.

FY22 distribution guidance is estimated on a status quo basis, assuming no new acquisitions or disposals, all developments in progress are completed in line with forecast assumptions, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.

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

No material events have occurred since 31 December 2021 that have affected, or may materially 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 its existing investment objectives and guidelines.

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.

Material business risks

The material business risks that could adversely affect the achievement of the Group'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.

COVID-19

The COVID-19 pandemic has significantly impacted the Australian and global economy and the ability of individuals, companies and governments to operate. There is uncertainty as to the duration and further impact of COVID-19 on the ASX and wider securities markets, the Group and the tenants of the Group's properties.

These factors could have a major impact on the Group's operations, performance and growth. The Government's measures to limit the transmission of the virus (including vaccinations, social distancing, quarantine policies, and restrictions on the operation of non-essential services) have resulted in major disruptions to business, the Australian and wider global economy.

The extent of the impact on the Group's operations, financial performance and cash flow is dependent on future factors which are uncertain and outside of the control of the Group. These factors could have a material adverse effect on the overall economy and impact upon the Group's business and financial performance.

The significance of the impact of COVID-19 on the Group will largely depend upon the extent to which the Group's tenants, and their ability to pay rent, is impacted by COVID-19.

Concentration risk

The Group's property portfolio is presently 87% invested in ELCs and ELC development sites and 13% in healthcare assets. Adverse events to the early learning and/or healthcare property sectors may result in general deterioration of tenants' ability to meet their lease obligations and the future growth prospects of the portfolio.

As at 31 December 2021, 54% of the portfolio by income (excluding developments) is leased to the largest three tenants (Goodstart Early Learning Ltd 27%, Green Leaves Group Ltd 17%, and Idameneo (No. 123) Pty Ltd 10% (a controlled entity of BGH Capital Fund No. 1 formerly owned by Healius Ltd)). Any material deterioration in the operating performance of the Group's tenants may result in them not meeting their lease obligations which could reduce the Group's income and portfolio value if a suitable replacement cannot be found.

Tenant risk

The Group relies on tenants to generate its revenue. Tenants may be not-for-profit companies, private entities or listed public companies. If a tenant is affected by financial difficulties they may default on their rental or other contractual obligations which may result in loss of rental income and loss in value of the Group's properties. The COVID-19 pandemic has heightened this risk, with high COVID-19 case numbers potentially affecting operating conditions through labour disruption.

Typically, 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, as security for their performance under the lease.

Material business risks (continued)

Macroeconomic risk

The operations and performance of the Group are influenced by the macroeconomic condition of the Australian and the wider global economy. A prolonged economic downturn and its related effects, including increasing rates of unemployment, in addition to other factors such as inflation and rising interest rates, could have a material adverse impact on the Group’s business or financial performance.

Government policy risk and change in law

Childcare and healthcare operators rely heavily on government funding which, if reduced or otherwise modified, may adversely impact the underlying demand for these services and therefore tenants’ ability to meet lease obligations and/or their demand for these properties. There is a risk that there may be material adverse changes in legislation, government policies or legal or judicial interpretation relating to the childcare and/or healthcare sectors.

Property valuations

Changes in the property market, especially changes in the valuation of properties and in market rents, may adversely affect the Group’s financial performance and the price of ARF securities.

Rounding of amounts to the nearest thousand dollars

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, 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 Instrument, 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 9.

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

David Ross
Chair

Melbourne
11 February 2022

Auditor's Independence Declaration

As lead auditor for the review of Arena REIT No. 1 for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Arena REIT No. 1 and the entities it controlled during the period.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
11 February 2022

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Consolidated statement of comprehensive income

	Notes	Consolidated 31 December 2021 $'000	31 December 2020 $'000
Income			
Property income	3	**38,741**	32,339
Management fee income		**433**	194
Interest		**14**	18
Net gain on change in fair value of derivative financial instruments		**4,655**	764
Realised gain on sale of investment properties		**1,047**	749
Revaluation of investment properties	4	**146,945**	31,244
Total income		**191,835**	65,308
Expenses			
Property expenses		**(448)**	(355)
Management and administration expenses		**(2,949)**	(2,226)
Finance costs		**(2,404)**	(1,475)
Other expenses		**(238)**	(118)
Total expenses		**(6,039)**	(4,174)
Net profit for the half-year		**185,796**	61,134
Other comprehensive income		**-**	-
Total comprehensive income for the half-year		**185,796**	61,134
Total comprehensive income for the half-year is attributable to Arena REIT stapled group investors, comprising:			
Unitholders of Arena REIT No. 1		**168,623**	54,555
Unitholders of Arena REIT No. 2 (non-controlling interest)		**17,415**	7,245
Unitholders of Arena REIT Limited (non-controlling interest)		**(242)**	(666)
		185,796	61,134
		Cents	Cents
Earnings per security:			
Basic earnings per security in Arena REIT No. 1		**48.91**	16.02
Diluted earnings per security in Arena REIT No. 1		**48.73**	15.94
Basic earnings per security in Arena REIT Group		**53.89**	17.95
Diluted earnings per security in Arena REIT Group		**53.69**	17.87

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

Consolidated balance sheet

		Consolidated	
		31 December 2021	30 June 2021
	Notes	**$'000**	$'000
Current assets			
Cash and cash equivalents		**26,113**	14,018
Trade and other receivables		**3,222**	11,887
Total current assets		**29,335**	25,905
Non-current assets			
Receivables		**691**	1,372
Property, plant and equipment		**892**	987
Investment properties	4	**1,305,094**	1,112,431
Intangible assets		**10,816**	10,816
Total non-current assets		**1,317,493**	1,125,606
Total assets		**1,346,828**	1,151,511
Current liabilities			
Trade and other payables		**14,901**	12,801
Distributions payable		**13,651**	12,801
Provisions		**431**	413
Lease liabilities		**208**	215
Total current liabilities		**29,191**	26,230
Non-current liabilities			
Derivative financial instruments	6	**853**	6,174
Provisions		**356**	335
Interest bearing liabilities	5	**273,164**	239,163
Lease liabilities		**559**	691
Total non-current liabilities		**274,932**	246,363
Total liabilities		**304,123**	272,593
Net assets		**1,042,705**	878,918
Equity			
Contributed equity - ARF1	7	**410,957**	406,736
Accumulated profit	8	**480,033**	335,143
Non-controlling interests - ARF2 and ARL	9	**151,715**	137,039
Total equity		**1,042,705**	878,918

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

Consolidated statement of changes in equity

	Contributed equity $'000	Accumulated profit $'000	Non-controlling interests - ARL & ARF2 $'000	Total equity $'000
Balance at 1 July 2020	396,825	235,956	119,099	751,880
Profit for the half-year	-	54,555	6,579	61,134
Total comprehensive income for the period	**-**	**54,555**	**6,579**	**61,134**
Transactions with owners in their capacity as owners:				
Issue of securities under the DRP	5,330	-	799	6,129
Distributions to securityholders	-	(21,835)	(3,263)	(25,098)
Equity-based remuneration	-	-	352	352
Balance at 31 December 2020	**402,155**	**268,676**	**123,566**	**794,397**
Balance at 1 July 2021	406,736	335,143	137,039	878,918
Profit for the half-year	-	168,623	17,173	185,796
Total comprehensive income for the period	**-**	**168,623**	**17,173**	**185,796**
Transactions with owners in their capacity as owners:				
Issue of securities under the DRP	4,221	-	634	4,855
Distributions to securityholders	-	(23,733)	(3,546)	(27,279)
Equity-based remuneration	-	-	415	415
Balance at 31 December 2021	**410,957**	**480,033**	**151,715**	**1,042,705**

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

Consolidated statement of cash flows

	Consolidated	
	31 December 2021	31 December 2020
	$'000	$'000
Cash flows from operating activities		
Receipts in the course of operations	**35,760**	31,481
Payments in the course of operations	**(6,909)**	(5,545)
Interest received	**14**	17
Finance costs paid	**(1,893)**	(1,357)
Net cash inflow from operating activities	**26,972**	24,596
Cash flows from investing activities		
Proceeds from sale of investment properties	**15,005**	13,698
Payments for investment properties and capital expenditure	**(41,666)**	(75,151)
Refund of investment property acquisition costs	**384**	-
Proceeds from transfer of ownership of plant and equipment	**142**	-
Net cash (outflow) from investing activities	**(26,135)**	(61,453)
Cash flows from financing activities		
Net proceeds from issue of securities	**(20)**	(51)
Distributions paid to securityholders	**(21,555)**	(28,603)
Loan establishment costs paid	**(1,420)**	-
Capital receipts from lenders	**35,065**	45,000
Capital payments to lenders	**(666)**	(26,987)
Finance lease payments	**(146)**	(74)
Net cash inflow/(outflow) from financing activities	**11,258**	(10,715)
Net increase/(decrease) in cash and cash equivalents	**12,095**	(47,572)
Cash and cash equivalents at the beginning of the financial period	**14,018**	76,330
Cash and cash equivalents at the end of the financial period	**26,113**	28,758

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

Contents of the notes to the financial statements

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 2021 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 2021 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The Arena REIT Stapled Group (the 'Group') comprises Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2') and Arena REIT Limited ('ARL'), and their controlled entities. The Responsible Entity of ARF1 and ARF2 is Arena REIT Management Limited (the ‘Responsible Entity’).

(b) Principles of consolidation

The units of ARF1, ARF2 and the shares of ARL are combined and issued as stapled securities in the Arena REIT Stapled Group. The units of ARF1, ARF2 and shares of ARL cannot be traded separately and can only be traded as a stapled security. This interim financial report consists of the consolidated financial statements of the Arena REIT Group, which comprises ARF1, ARF2, and ARL and its controlled entities.

AASB 3 Business Combinations requires one of the stapled entities in a stapling structure to be identified as the parent entity for the purpose of preparing consolidated financial reports. In accordance with this requirement, ARF1 has been identified as the parent entity in relation to the stapling with ARF2 and ARL.

The consolidated financial statements of the Group incorporate the assets and liabilities of the entities controlled by ARF1 at 31 December 2021, including those deemed to be controlled by ARF1 by identifying it as the parent of the Group, and the results of those controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Non-controlling interests in the results and equity are shown separately in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position respectively. Non-controlling interests are those interests in ARF2 and ARL which are not held directly or indirectly by ARF1.

(c) Presentation of members interests in ARF2 and ARL

As ARF1 has been assessed as the parent of the Group, the securityholders interests in ARF2 and ARL are included in equity as "non-controlling interests" relating to the stapled entity. Securityholders 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 securityholders of the stapled group.

(d) New and amended standards adopted by the group

There are no upcoming standards that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(e) New accounting standards and interpretations not yet adopted

There are no 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.

2 Segment information

The Group operates as one business segment being investment in real estate, and in one geographic segment being Australia. The Group's segments are based on reports used by the Board (as the Chief Operating Decision Maker) in making strategic decisions about the Group, assessing the financial performance and financial position of the Group, determining the allocation of resources and risk management.

3 Property income

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

	Consolidated	
	31 December 2021	31 December 2020
	$'000	$'000
Property income	**32,351**	28,232
Other property income (recognised on a straight line basis)	**6,390**	4,107
Total property income	**38,741**	32,339

4 Investment properties

Arena 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.

Independent valuations were performed over 48 Early Learning Centres ('ELC') and 3 healthcare properties as at 31 December 2021. The board of directors has reviewed these valuations and has determined they are appropriate to adopt during the financial period ending 31 December 2021. Director valuations were performed over investment properties not independently valued.

Development properties have been subject to a Director valuation and are carried at the lower of cost or fair value on completion less cost to complete.

The key inputs into valuations are:

- Passing rent;
- Market rents;
- Capitalisation rates;
- Lease terms;
- Rent reviews;
- Planning status and approvals;
- Discount rates (healthcare properties); and
- Capital expenditure and vacancy contingencies (healthcare properties).

The key inputs into the valuation are based on market information for comparable properties. The majority of ELC and healthcare properties are located in markets with evidence to support valuation inputs and methodology. The independent valuers have experience in valuing similar assets and have access to market evidence to support their conclusions. Comparable assets are considered those in similar markets and condition.

Investment properties have been classified as Level 3 in the fair value hierarchy.

There have been no transfers between the levels in the fair value hierarchy during the financial period.

4 Investment properties (continued)

(i) Key assumptions - ELCs

	31 December 2021	30 June 2021
Market rent per licenced place	**$1,300 to $5,500**	$1,300 to $5,400
Capitalisation rates	**4.25% to 7.50%**	5.00% to 7.50%
Passing yields	**3.50% to 7.75%**	4.00% to 7.50%

(ii) Key assumptions - Healthcare properties

	31 December 2021	30 June 2021
Capitalisation rates	**4.25% to 5.75%**	4.75% to 6.25%
Passing yields	**4.75% to 6.00%**	5.00% to 6.25%

(iii) Sensitivity analysis

For ELC properties, if the capitalisation rate expanded by 25 basis points, fair value would reduce by $50.3 million from the fair value as at 31 December 2021 and if the capitalisation rate compressed by 25 basis points, fair value would increase by $55.5 million from the fair value as at 31 December 2021.

For healthcare properties, if the discount rates or capitalisation rates expanded by 25 basis points, fair value would reduce by $7.6 million from the fair value as at 31 December 2021 and if the discount rates or capitalisation rates compressed by 25 basis points, fair value would increase by $8.3 million from the fair value as at 31 December 2021.

(iv) Movements during the financial period

	Consolidated	
	31 December 2021	30 June 2021
	$'000	$'000
At fair value		
Opening balance	**1,112,431**	914,007
Property acquisitions and capital expenditure	**48,499**	105,762
Refund of property acquisition costs	**(384)**	-
Disposals	**(8,785)**	(14,914)
Revaluations	**146,945**	99,099
Other IFRS revaluation adjustments	**6,388**	8,477
Closing balance	**1,305,094**	1,112,431

5 Interest bearing liabilities

	Consolidated	
	31 December 2021	30 June 2021
	$'000	$'000
Non-current		
Secured		
Syndicated facility	**275,000**	240,000
Unamortised transaction costs	**(1,836)**	(837)
Total non-current interest bearing liabilities	**273,164**	239,163

The Group refinanced its syndicated debt facility during the period, increasing the facility limit by $100 million to $430 million and extending the maturity dates. The Group now has a $150 million facility expiring 31 March 2024, a $130 million facility expiring 31 March 2026 and a $150 million facility expiring 31 March 2027, providing a remaining weighted average term of 3.9 years as at 31 December 2021.

Either Trust can draw on the facility and the assets of the Trusts are held as security under the facility.

The Group was compliant with all facility covenants throughout the period and at 31 December 2021.

6 Derivative financial instruments

	31 December 2021	30 June 2021
	$'000	$'000
Non-current liabilities		
Interest rate swaps	**853**	6,174
	853	6,174

The Group has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates to reduce the exposure of interest bearing liabilities to changes in interest rates.

Swaps in place cover 76% (30 June 2021: 69%) of drawn debt. The weighted average fixed interest swap rate at 31 December 2021 was 1.60% (30 June 2021: 1.86%) and the weighted average term was 4.7 years (30 June 2021: 4.4 years).

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 2021 Securities '000	30 June 2021 Securities '000	**31 December 2021 $'000**	30 June 2021 $'000
Ordinary Stapled Securities				
Fully paid	**345,600**	343,644	**410,957**	406,736

Other contributed equity attributable to securityholders of the Group relating to ARF2 and ARL of $83.8 million is included within Non-controlling interests - ARF2 and ARL (30 June 2021: $82 million).

(b) Movement in ordinary stapled units

Date	**Details**	**Number of securities '000**	**$'000**
1 July 2020	Opening balance	327,278	396,825
1 July 2020	Issue of securities under the Security Purchase Plan (iii)	11,270	-
	Issue of securities under the DRP (i)	4,449	9,911
	Vesting of equity-based remuneration (ii)	647	-
30 June 2021	Closing balance	343,644	406,736
1 July 2021	Opening balance	**343,644**	**406,736**
	Issue of securities under the DRP (i)	**1,256**	**4,221**
	Vesting of equity-based remuneration (ii)	**700**	**-**
31 December 2021	Closing balance	**345,600**	**410,957**

(i) Distribution Reinvestment Plan (DRP)

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

(ii) Equity-based remuneration

In September 2021, 498,522 performance rights granted to employees of a related party of the Responsible Entity in FY19 vested as a result of performance conditions being fulfilled. In addition, 201,081 deferred short-term incentive rights granted to employees of a related party of the Responsible Entity in FY20 vested.

(iii) Security Purchase Plan (SPP)

In conjunction with the Institutional Placement in June 2020, the Group offered a Security Purchase Plan (SPP) to eligible investors. $24.92 million was raised through the issue of 11,269,908 stapled securities at a price of $2.2115 per stapled security. New stapled securities under the SPP were issued on 1 July 2020.

8 Accumulated profit

Movement in accumulated profit was as follows:

	31 December 2021 $'000	30 June 2021 $'000
Opening accumulated profit	**335,143**	235,956
Net profit for the half-year/year attributable to ARF1	**168,623**	143,270
Distribution paid or payable attributable to ARF1	**(23,733)**	(44,083)
Closing accumulated profit	**480,033**	335,143

(i) Distributions paid or payable to securityholders

The following table details the distributions to securityholders during the financial period on a consolidated basis, including distributions declared by ARF2 (classified as a non-controlling interest) of $3.5 million (31 December 2020: $3.3 million).

	31 December 2021 $'000	31 December 2020 $'000	**31 December 2021 cps**	31 December 2020 cps
September quarter	**13,628**	12,363	**3.950**	3.625
December quarter	**13,651**	12,735	**3.950**	3.725
Total distributions to securityholders	**27,279**	25,098	**7.900**	7.350

9 Non-controlling interest

The financial statements reflect the consolidation of ARF1, ARF2 and ARL. For financial reporting purposes, one entity in the stapled group must be identified as the acquirer or parent entity of the others. ARF1 has been identified as the acquirer of ARF2 and ARL, resulting in ARF2 and ARL being disclosed as Non-controlling interests.

9 Non-controlling interest (continued)

Movements in non-controlling interests were as follows:

	ARF2 31 December 2020 $'000	ARL 31 December 2020 $'000	Total 31 December 2020 $'000
Opening balance - 1 July 2020	**98,169**	**20,930**	**119,099**
Issue of securities under the DRP	**799**	**-**	**799**
Vesting of equity-based remuneration	**-**	**1,322**	**1,322**
Net profit/(loss) for the period attributable to non-controlling interests	**7,245**	**(666)**	**6,579**
Distributions paid or payable attributable to non-controlling interests	**(3,263)**	**-**	**(3,263)**
Increase/(decrease) in reserves (i)	**-**	**(970)**	**(970)**
Closing balance - 31 December 2020	**102,950**	**20,616**	**123,566**

	ARF2 31 December 2021 $'000	ARL 31 December 2021 $'000	Total 31 December 2021 $'000
Opening balance - 1 July 2021	**116,292**	**20,747**	**137,039**
Issue of securities under the DRP	**634**	**-**	**634**
Vesting of equity-based remuneration	**-**	**1,126**	**1,126**
Net profit/(loss) for the period attributable to non-controlling interests	**17,415**	**(242)**	**17,173**
Distributions paid or payable attributable to non-controlling interests	**(3,546)**	**-**	**(3,546)**
Increase/(decrease) in reserves (i)	**-**	**(711)**	**(711)**
Closing balance - 31 December 2021	**130,795**	**20,920**	**151,715**

(i) Reserves

	31 December 2021 $'000	30 June 2021 $'000
Opening balance	**1,751**	2,113
Vesting of equity-based remuneration	**(1,126)**	(1,322)
Equity-based remuneration expense	**415**	960
Closing balance	**1,040**	1,751

The equity-based remuneration reserve is used to recognise the fair value of rights issued under the Group's Deferred Short Term and Long Term Incentive Plan.

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 2021 and 30 June 2021.

Consolidated

31 December 2021

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial liabilities				
Interest rate swaps	-	853	-	853
Total	-	853	-	853

10 Fair value measurement of financial instruments (continued)

(a) Fair value hierarchy (continued)

Consolidated

30 June 2021

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Interest rate swaps	-	6,174	-	6,174
Total	-	6,174	-	6,174

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 2021.

(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 2021 and 30 June 2021.

12 Events occurring after the reporting period

No material 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 2021 or on the results and cash flows of the Group for the period 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 10 to 23 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 2021 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.

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

David Ross
Chair

Melbourne
11 February 2022

Independent auditor's review report to the unitholders of Arena REIT No. 1

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Arena REIT No. 1 and the entities it controlled during the half-year (together the Group or Arena REIT), which comprises the consolidated balance sheet as at 31 December 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the Directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date

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

Basis for conclusion

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

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

Responsibilities of the Directors for the half-year financial report

The Directors of Arena REIT Limited and Arena REIT Management Limited are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of 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.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
11 February 2022