Arena REIT
Annual Report 2015

Delivering value for investors

About Arena REIT

Arena REIT (ASX code: ARF) is an internally managed Australian Real Estate Investment Trust (A-REIT) listed on the ASX and included in the S&P/ASX 300 Index (the Index). Arena REIT owns and manages 197 properties, comprising 179 childcare centres, seven medical centres and 11 childcare development sites that have an aggregate value of $420 million. Arena REIT also manages two unlisted joint ventures each owning a healthcare property with assets under management of $34 million.

Arena REIT's investment strategy is to invest in sectors such as childcare, healthcare, education and government tenanted facilities leased on a long term basis.

The Boards of Arena REIT comprise majority independent directors.

The Arena REIT Group (**Group**) operates with the objective to generate an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

Further information on Arena can be found at **www.arena.com.au**

About this report

These financial statements cover Arena REIT (the 'Group') comprising Arena REIT Limited, Arena REIT No. 1, Arena REIT No. 2, 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 600 069 761, AFSL 465754).

Registered office is:
71 Flinders Lane, Melbourne VIC 3000

Annual General Meeting

19 November 2015
10am (AEDT)
Sofitel Melbourne Victoria Suites
25 Collins Street, Melbourne VIC 3000

Contents

Corporate Governance Statement

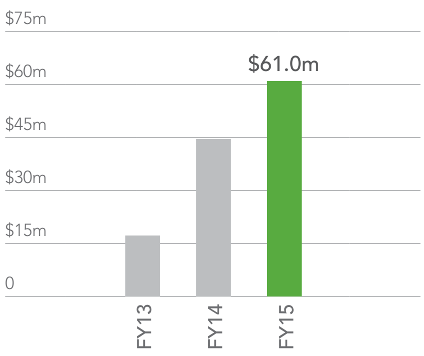
Arena REIT has adopted the principles outlined in the 3rd edition of the ASX Corporate Governance Council's Corporate Government Principles and Recommendations. This statement can be downloaded from the Arena website (**www.arena.com.au**).

197 properties with an aggregate value of $420m.

Above: Petit Early Learning Journey, Dickson Street, Craiglie, QLD. Top: Leichhardt Medical and Dental Centre, 30-38 Short Street, Leichhardt, NSW

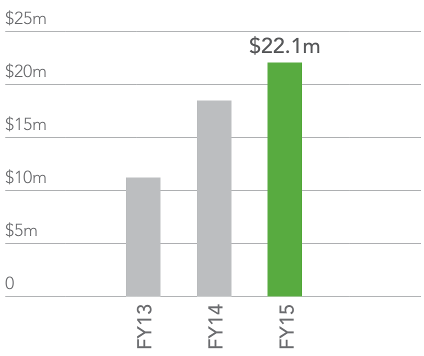
A year of outperformance

Results delivering income and capital growth



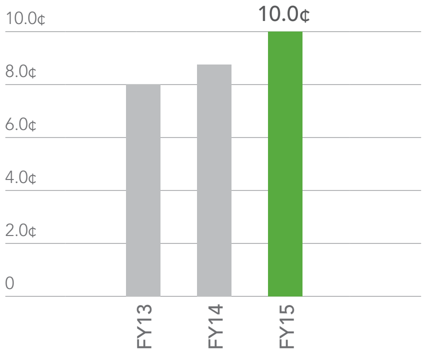
Statutory profit

+37%



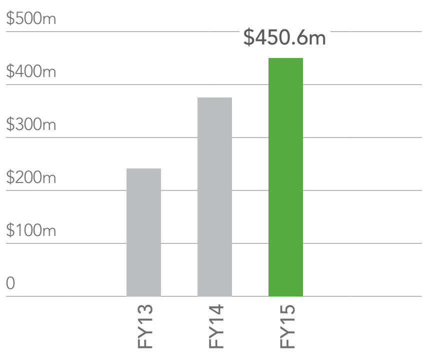
Operating profit

+19%



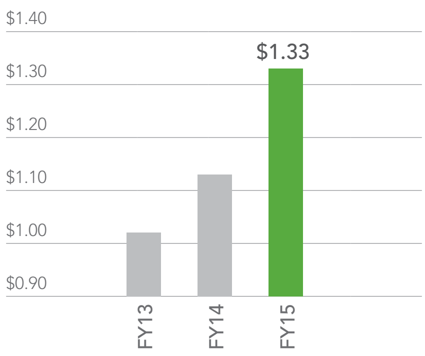
Distribution per security

+14%



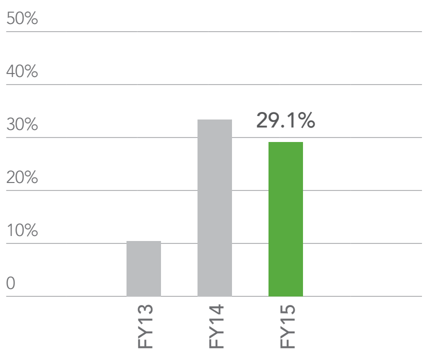
Total asset value

+20%



NAV per security

+18%



Gearing

-420bps*

*Basis points

Arena REIT overview

Arena REIT (ARF) is an **S&P/ASX 300 listed REIT** invested in childcare and healthcare properties.

Arena REIT owns 197 properties, comprising 179 childcare centres, seven medical centres and 11 childcare development sites that have an aggregate value of $420 million. Arena REIT also manages two unlisted joint ventures each owning a healthcare property with assets under management of $34 million.

Arena REIT's objective is to provide an attractive and predictable distribution to investors, with earnings growth prospects over the medium to long term.

Childcare portfolio

The portfolio consists of 179 childcare centres and 11 childcare centre development sites located throughout Australia. A high proportion of the centres are purpose built, with the majority built after 2000. The portfolio is leased to a total of 14 tenants, the top three being Goodstart Early Learning, Affinity Education Group Limited (ASX: AFJ) Limited and G8 Education Limited (ASX: GEM).

Typical childcare centre

Arena REIT's properties are childcare facilities that provide long day care accommodation for 39-150 children. They typically have four to six activity rooms that cater for different age groups, as well as nurseries, reception and administration areas, toilets and shower facilities, staff areas and a commercial kitchen. The external areas include play areas, with shade cloths and sandpits.

Healthcare portfolio

The portfolio consists of seven multidisciplinary primary care medical centres located in and around Sydney and Queensland. Each property is leased to Primary Health Care Limited, an ASX 100 listed company with a market capitalisation of $2.7 billion as at 30 June 2015.

Healthcare properties

The properties are all purpose built multidisciplinary medical centres with a mix of the following facilities: GP consulting rooms, treatment rooms for services such as dentistry, radiology, pathology collection, ultrasound, physiotherapy, chemists, reception, patient waiting areas and car parking.

Childcare key metrics

$353m
Total value

99%
Occupancy

190
Number of properties (centres and development sites)

9.3 years
Weighted average lease expiry (WALE)

Healthcare key metrics

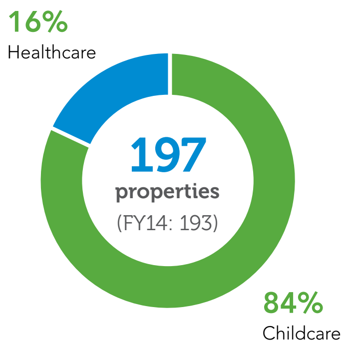
$67m
Total value

100%
Occupancy

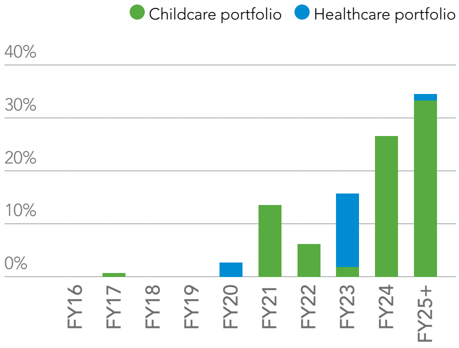
7
Number of assets

7.5 years
Weighted average lease expiry (WALE)

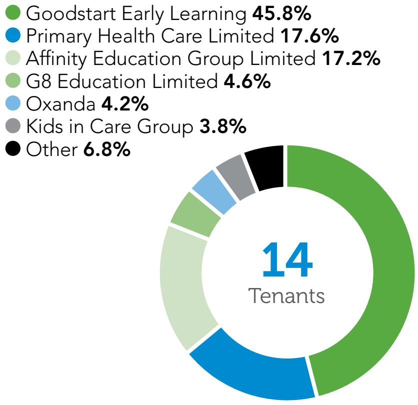
Combined portfolio overview



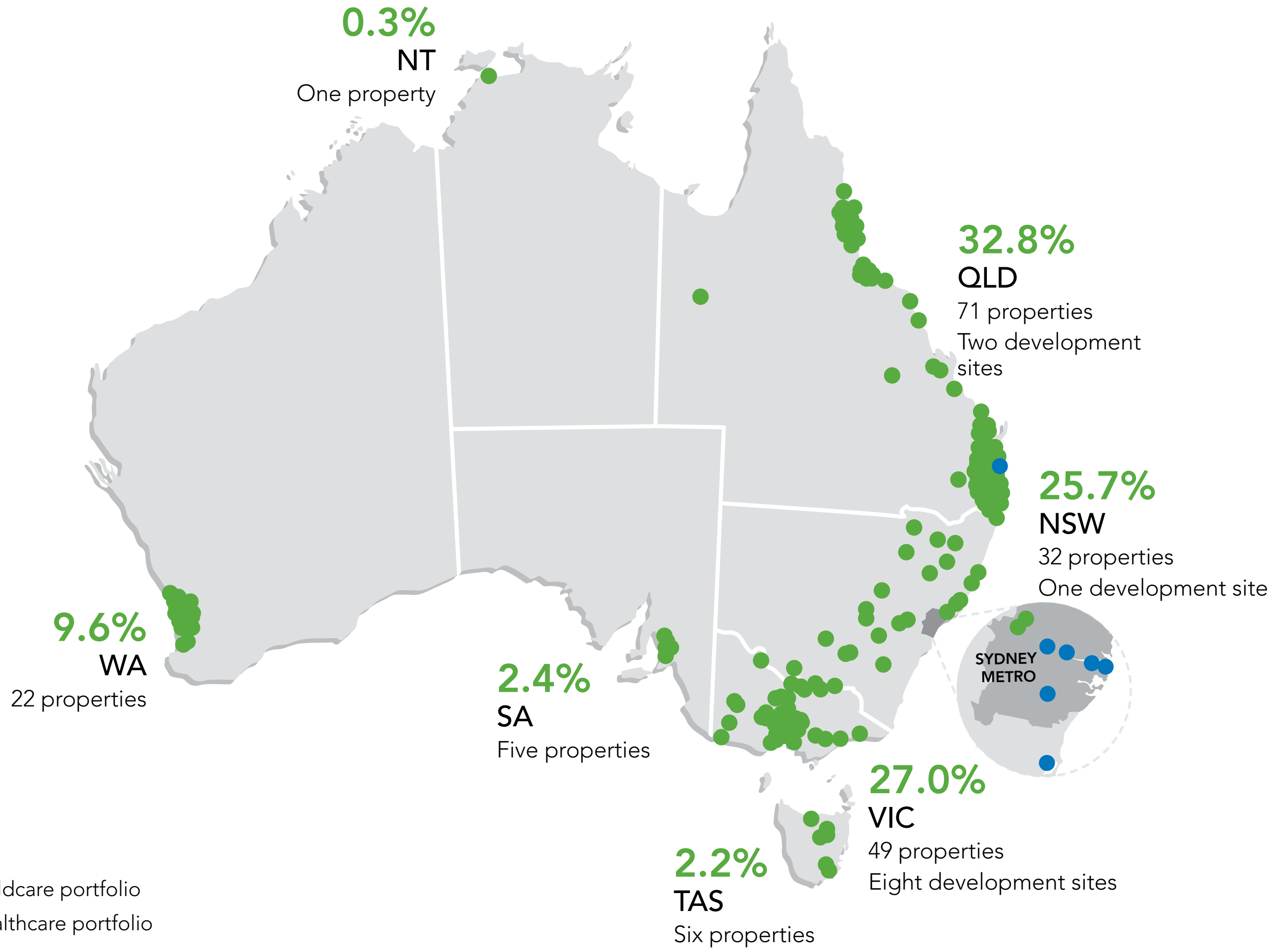
Combined portfolio value
(as at 30 June)



Lease expiry by income
(as at 30 June)



Tenants by centre value
(as at 30 June)



Geographic diversification by value
(as at 30 June)

Letter from the Chairman and Managing director

On behalf of the Board and managment, we are pleased to present the Arena REIT Group 2015 Annual Report for the 12 months ended 30 June 2015.

David Ross
Chairman

Bryce Mitchelson
Managing Director

Sustained development pipeline

Creating high quality investments

8* sites

- **$45m** estimated total project costs
- **8.4%** average initial yeild
- **10%** of total asset value

*Excludes three owned development sites.

It has been another successful and active year for Arena REIT with the investment portfolio and the Arena management team delivering strong results. We are also pleased to advise that the investor approved management internalisation has been successfully implemented and the expected overhead savings for the year have been delivered.

The reported statutory profit for the year of $61 million (up 37% on the prior year) was mainly derived from a combination of strong revaluation and disposal gains ($42 million) experienced across the property portfolio and increased recurring operating earnings of $22 million (up 15% on the prior year).

From an investor perspective the statutory profit is reflected in both the underlying earnings and net asset value movement over the year:

- Underlying earnings of 10.2 cents per security (an increase of 15% on FY14); and
- Net asset value of $1.33 per security (an increase of 18% over the 12 months).

The performance of Arena has been supported by strong property market conditions. The low interest rate environment driven by the Reserve Bank of Australia reducing cash interest rates in response to slowing economic growth has fuelled investor demand and competition for assets, especially those with comparatively higher yields and secure income streams. This has driven property prices up and market yields down across most property sectors, including the childcare and medical centre sectors, which has been reflected in Arena's portfolio and performance in the last year.

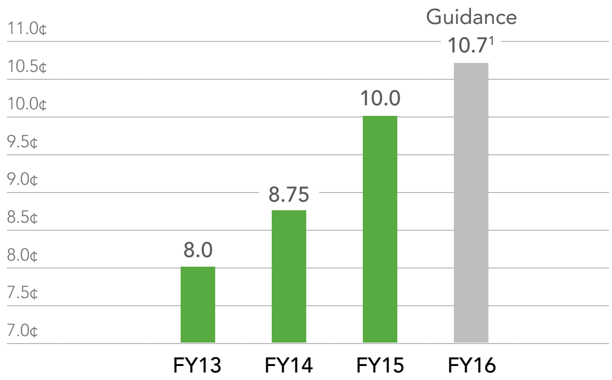
In the childcare property sector, the strong market conditions and the high demand for childcare services has encouraged an increase in the supply of new centres being built. This demand for childcare services is being underpinned by several factors including the growth in the number of children up to five years of age, increasing female work place participation, and government cost subsidisation. The Federal Government announced in its Federal Budget Papers in May 2015 that it proposes to significantly increase its funding of the childcare sector by $3.5 billion from 1 July 2017.

During the year Arena sought to take advantage of these market conditions by disposing of four older style childcare centres and successfully completing the development of several new modern childcare centres in markets with demand for Childcare services, all leased on attractive investment return metrics. We believe that this active portfolio management has improved the quality and security of Arena's cash flows and is reflected in no rental arrears and an extended average remaining lease term of 8.9 years.

Arena finished the year with a strong Balance Sheet with gearing at 29% of total assets, down from 33% a year ago, and below Arena's maximum gearing range of 35% to 45%.

Arena currently has $44 million in undrawn debt available to fund the development pipeline and new investments.

These market conditions and activities contributed to Arena outperforming the benchmark ASX 300 A-REIT Accumulation Index by 16.1%, returning a strong 36.3% over the year.



Distribution per security

Actual FY distribution ■ Distribution guidance

+14% FY15 growth

+7% FY16 expected growth

Looking forward to the financial year ended 30 June 2016 and taking into account the expected rental growth, the full benefit of overhead savings and the completion of new childcare centres, Arena advises distribution guidance of 10.7 cents[1] per security; this is an increase of 0.7 cents per security and equates to 7% distribution growth compared to FY15.

Arena will maintain its disciplined approach to portfolio management and acquisition opportunities in the prevailing market conditions and will continue to review new investment opportunities in property sectors with Arena's preferred investment characteristics.

Please note that Arena has scheduled to hold its inaugural Annual General Meeting on 19 November 2015 in Melbourne. Further details will be provided closer to the date and we hope you will be able to join us.

Finally, we would like to thank the Arena Board and management team for all their dedication and effort during this past year. Arena remains well placed to continue delivering on its objective to generate an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

David Ross,
Chairman

Bryce Mitchelson,
Managing Director

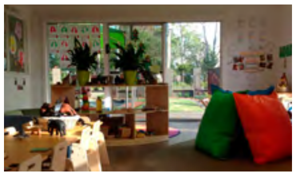
FY15 completed developments

Successful completion of seven childcare centre projects

Maddingley, VIC
No. of places: **103**
Lease start: **Q2FY15**
Yield on cost: **9.5%**

Port Douglas, QLD
No. of places: **88**
Lease start: **Q2FY15**
Yield on cost: **9.5%**

Augustine Heights[2], QLD
No. of places: **74**
Lease start: **Q2FY15**
Yield on cost: **9.5%**



Griffin, QLD
No. of places: **75**
Lease start: **Q2FY15**
Yield on cost: **9.0%**

Seaford Meadows, SA
No. of places: **72**
Lease start: **Q3FY15**
Yield on cost: **9.3%**

Caloundra, QLD
No. of places: **121**
Lease start: **Q4FY15**
Yield on cost: **9.5%**

Marian, QLD
No. of places: **104**
Lease start: **Q4FY15**
Yield on cost: **9.5%**

"Arena will maintain its disciplined approach to portfolio management and acquisition opportunities in the prevailing market conditions."

1. Estimated on a status quo basis assuming no new acquisitions or dispositions, developments in progress are completed in line with budget assumptions, and tenants comply with all their lease obligations.
2. Existing Centre expansion.

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 year ended 30 June 2015. The 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 Arena REIT approved the 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 and shares have been stapled together to enable trading as one security. The units of Arena REIT No. 1, Arena REIT No. 2 and shares of 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.

The financial report combines the results of Arena REIT No. 1 and Arena REIT No. 2 for the entire year and the results of Arena REIT Limited from 12 December 2014. The comparative financial information presented is that of Arena REIT No. 1 and Arena REIT No. 2.

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.

Other than the internalisation of management noted above, there were no changes in the principal activities of the Group during the year.

Distributions to securityholders

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

	2015 $'000	2014 $'000	2015 cps	2014 cps
September quarter	**5,156**	4,230	**2.4375**	2.0500
December quarter	**5,211**	3,508	**2.4625**	1.7000
March quarter	**5,803**	5,657	**2.5500**	2.6750
June quarter	**5,821**	4,917	**2.5500**	2.3250
Total distributions to securityholders	**21,991**	18,312	**10.0000**	8.7500

Operating and financial review

During the year Arena REIT internalised its corporate governance and management function. The 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 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:

- 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

	30 June 2015	30 June 2014	Change
Net profit (statutory)	**$61.0 million**	$44.6 million	+ 37%
Distributable income	**$22.1 million**	$18.5 million	+ 19%
Distributable income per security	**10.2 cents**	8.85 cents	+ 15%
Distributions per security	**10.0 cents**	8.75 cents	+ 14%

Total assets	**$450.6 million**	$375.3 million	+ 20%
Investment properties	**$420.5 million**	$355.8 million	+ 18%
Borrowings	**$131.0 million**	$125.0 million	+ 5%
Net assets	**$303.5 million**	$238.2 million	+ 27%
NAV per security	**$1.33**	$1.13	+ 18%
Gearing *	**29.1%**	33.3%	-420bps
Management Expense Ratio (MER)	**0.70%**	1.01%	-31bps

* Gearing calculated as Borrowings / Total assets

Directors' Report

FY15 highlights

- Successful implementation of the proposal to internalise corporate governance and management of the Group on 12 December 2014, resulting in enhanced alignment of Board and Management, a FY15 distribution upgrade from 9.75 cents to 10.0 cents per security and reduced MER;
- Distributable income was $22.1 million, up 19% on the previous year;
- 15% growth in distributable income per security and 14% growth in distributions paid to investors;
- Completion of seven purpose-built childcare centre developments at an aggregate cost of $17 million generating an initial rental yield of 9.4% on initial 15 year lease terms;
- The property portfolio increased with the addition of seven childcare development sites and one operational childcare centre;
- The Group disposed of four childcare centres for an aggregate price of $7.6 million, reflecting an overall premium to their book value of 51%;
- The Group successfully completed a fully underwritten placement to institutional and professional investors of 15.625 million stapled securities at a price of $1.60 per stapled security, raising approximately $25 million;
- Gearing was 29.1% at 30 June 2015, below the maximum gearing range of 35%-45%;
- NAV per security at 30 June 2015 was $1.33, an increase of 18% on 30 June 2014. This was primarily due to the increase in investment property values and equity raised at prices above NAV, offset partially by transaction costs associated with the management internalisation change.

Financial results and distributable income

	30 June 2015 $'000	30 June 2014 $'000
Rental income	31,196	26,382
Other income	480	71
Total operating income	31,676	26,453
Direct property expenses	(1,306)	(1,051)
Operating expenses	(1,875)	(835)
Former responsible entity management fees	(1,353)	(2,377)
Finance costs	(5,048)	(3,682)
Distributable income *	22,094	18,508
Non-distributable items:		
Straight-line rental income	23	401
Revaluation gain on investment properties	39,828	24,489
Change in fair value of derivatives	(1,781)	(1,200)
Profit on sale of investment properties	2,232	3,784
Write-off capitalised debt establishment costs	-	(449)
Stapling and asset acquisition costs	(1,438)	(969)
Other	8	-
Statutory net profit	60,966	44,564

* Distributable income is not a statutory measure of profit

Financial results summary

Distributable income per security

	30 June 2015	30 June 2014
Distributable income ($'000)	**22,094**	18,508
Weighted average number of ordinary securities ('000)	**216,627**	209,096
Distributable income per security (cents)	**10.20**	8.85

- Distributable Income is the measure used to determine securityholder 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 and cashflow.
- The increase in Distributable Income during the year is primarily due to:
  - A full period of ARF2 results following the stapling of ARF1 and ARF2 in December 2013;
  - Ongoing annual rent increases on the Group's property portfolio;
  - Commencement of rental income from the seven childcare developments completed during the year;
  - The full year effect of acquisitions and developments completed during FY14; and
  - Cost savings arising directly from the management internalisation reflected in the reduced MER.
- Non-distributable items primarily increased due to a higher investment property revaluation gain compared to the prior period.

Investment property portfolio

Key property metrics

	30 June 2015	30 June 2014
Total value of investment properties	**$420.5 million**	$355.8 million
Number of properties under lease	**184**	181
Development sites	**11**	10
Properties available for lease or sale	**2**	2
Properties held for sale	**-**	-
Total properties in portfolio	**197**	193
Portfolio occupancy	**99%**	99%
Weighted average lease expiry (WALE)	**8.9 years**	8.5 years

The increase in the value of investment properties is primarily due to the addition of:

- The purchase of seven childcare development sites and one operational childcare centre for $16.2 million;
- New childcare development expenditure of $11.9 million;
- A net revaluation increment to the portfolio of $39.8 million for the year.

Offset by the following investment property disposals during the year:

- Four non-core childcare centres with a book value of $5.1 million were sold during the year for $7.6 million (representing a 51% premium to book value).

Directors' Report

Capital management

Equity

- A Distribution Re-investment Plan (DRP) commenced with the September 2014 investor distribution. During the year, 1.2 million securities were issued to raise $1.9 million of equity;
- A fully underwritten placement to institutional and professional investors was completed during the year, raising $25 million through the issue of 16.25 million stapled securities at a price of $1.60.

Bank facilities and gearing

- During the year, the facility limit was increased by $35m to $175m;
- The balance drawn increased by $6 million during the year as acquisitions and development capital expenditure were funded through debt drawdowns and used to fund the implementation of the internalisation proposal. The funding of this expenditure was partially offset by proceeds from the institutional placement;
- Gearing was 29.1% at 30 June 2015 (30 June 2014: 33.3%);
- The Group was fully compliant with all bank facility covenants throughout FY15 and as at 30 June 2015.

Interest rate management

- During the year the Group managed its interest rate risk in accordance with its interest rate risk management policy. The swap portfolio was rebalanced due to near term swap expiry and to reflect changes in the Group's borrowings following the Institutional Placement.
- As at 30 June 2015, 69% of Arena REIT borrowings are hedged for a weighted average term of 3.5 years (2014: 68% for 3.1 years). The average swap fixed rate at 30 June 2015 is 2.62% (2014: 3.33%).
- The Group will manage its interest rate swaps to deal with near term expiry and as debt is drawn in accordance with its interest rate risk management policy.

FY16 outlook

The Group presently expects to pay a distribution of 10.7 cents per security for FY16.

The distribution outlook assumes a status quo basis, with no new acquisitions or dispositions, developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations.

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 year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

(i) the operations of the Group in future financial years, or

(ii) the results of those operations in future financial years, or

(iii) the state of affairs of the Group in future financial years.

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.

Concentration risk

The Group's property portfolio is presently 84% invested in childcare centres and childcare centre development sites and 16% in healthcare assets. Adverse events to the childcare sector or healthcare sector may result in a general deterioration of tenants' ability to meet their lease obligations and the future growth prospects of the current portfolio. As at 30 June 2015, 81% of the portfolio by income (excluding developments) is leased to the largest three tenants (Goodstart Early Learning Ltd with 46%, Primary Health Care Limited with 18% and Affinity Education Group with 17%). Any material deterioration in the operating performance of these tenants may result in them not meeting their lease obligations which could reduce the Group's income.

Tenant risk

The Group relies on tenants to generate its revenue. Tenants may be not for profit companies limited by guarantee, 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. 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, for an amount equivalent to six months' rent (plus GST) as security for their performance under the lease. Refer to note 10(d) for further details on tenancy risk for the portfolio.

Information on directors

The directors at the date of this report are:

David Ross, Independent Non-Executive Chairman

Experience and qualifications

David has 30 years' experience in the real estate and investment management sectors.

He held senior positions with Lend Lease Corporation over a period of 10 years, including Global and US Chief Executive Officer Real Estate Investments, Chief Executive Officer Asia Pacific and Chief Executive Officer of General Property Trust. He was also Chief Operating Officer of Babcock and Brown, responsible for the Group's corporate and administrative support functions globally.

David holds a Bachelor of Commerce, a Property Valuation qualification and is a Graduate of the Australian Institute of Company Directors (AICD).

Other current directorships: Arena Investment Management Limited.

Former directorships in last three years: None.

Simon Parsons, Independent Non-Executive Director

Experience and qualifications

Simon has over 30 years' experience in the commercial property industry. He is presently Managing Director of Parsons Hill Stenhouse Pty Ltd, a commercial property practice.

Simon is a Fellow of the Royal Institution of Chartered Surveyors (RICS), a Fellow of the Australian Institute of Company Directors (AICD), and is a member of the RICS Oceania Property Board.

Simon holds a Master of Science (Real Estate) and a Master of Social Science (Env & Planning).

Other current directorships: Arena Investment Management Limited.

Former directorships in last three years: None.

Directors' Report

Dennis Wildenburg, Independent Non-Executive Director, Chairman of Board Audit Committee

Experience and qualifications

Dennis has over 30 years' experience in the financial services and funds management industry including senior management, Board and compliance committee roles.

Dennis is a member of the Institute of Chartered Accountants in Australia.

Other current directorships: Investa Wholesale Funds Management Limited; Arena Investment Management Limited.

Former directorships in last three years: None.

Bryce Mitchelson, Executive Director

Experience and qualifications

Bryce is Managing Director of Arena and joined Arena in May 2009.

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

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

Other current directorships: None.

Former directorships in last three years: Arena Investment Management Limited.

Gareth Winter, Executive Director and Company Secretary

Experience and qualifications

Gareth was appointed Chief Financial Officer of Arena in March 2012, and Executive Director of Arena REIT Management Limited in December 2014. Gareth was formerly a partner at PricewaterhouseCoopers and has over 20 years' professional experience.

Throughout his professional career Gareth has specialised in advising the listed and unlisted property and infrastructure funds management sector on corporate finance, capital management, risk management, transaction structuring and financial systems and reporting.

Gareth is a member of the Institute of Chartered Accountants in Australia and holds a Bachelor of Commerce.

Other current directorships: None.

Former directorships in last three years: None.

Meetings of directors

The number of meetings of the Responsible Entity's board of directors and of each board committee held during the year ended 30 June 2015, and the number of meetings attended by each director were:

	ARL Board		ARML Board#		Audit Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B	A	B
David Ross	12	12	13	13	3	3	2	2
Simon Parsons	12	12	13	13	3	3	2	2
Dennis Wildenburg	12	12	13	13	3	3	2	2
Bryce Mitchelson	12	12	13	13	*	*	*	*
Gareth Winter	*	*	13	13	*	*	*	*

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

* = Not a member of the relevant committee.

= Number of meetings held since the implementation of the internalisation proposal on 12 December 2014.

Remuneration report

This remuneration report describes Arena REIT's remuneration arrangements for Key Management Personnel (KMP) for the period ended 30 June 2015. The report has been prepared and audited in accordance with the requirements of the Corporations Act and Regulations.

1. Overview

1.1 Governance

The directors have appointed a Remuneration and Nomination Committee (the "Committee") comprising independent directors to advise the Board on remuneration policy and practices. The Committee is chaired by Mr David Ross. The Committee will, as required, appoint external remuneration advisers to review and advise on aspects of a remuneration policy and associated frameworks. The Committee engaged Ernst & Young (EY) in conjunction with the Arena REIT Internalisation Proposal to advise on the establishment of a remuneration policy and structure that is consistent with market practice in the A-REIT sector. EY did not provide any remuneration recommendations in respect of KMP.

1.2 Key Management Personnel (KMP)

KMP are those persons who are identified as having authority and responsibility for planning, directing and controlling the activities of Arena REIT. Unless otherwise noted, each person listed in the table below was considered to be a KMP in respect of the entire FY14 and FY15 period.

The remuneration disclosures in respect of the KMP are for the period 12 December 2014 to 30 June 2015, being the period following implementation of the Arena REIT internalisation proposal at which time the KMP commenced being employed and remunerated by Arena REIT. Prior to 12 December 2014, Arena REIT paid management fees to a Responsible Entity.

	Position	FY15 KMP	FY14 KMP
Non-Executive Directors			
David Ross	Non-Executive Chairman Chair – Remuneration & Nomination Committee Member – Audit Committee	Yes	Yes
Simon Parsons	Non-Executive Director Member – Remuneration & Nomination Committee Member – Audit Committee	Yes	Yes
Dennis Wildenburg	Non-Executive Director Chair – Audit Committee Member – Remuneration & Nomination Committee	Yes	Yes
Executive KMP			
Bryce Mitchelson	Managing Director	Yes	Yes
Gareth Winter	Chief Financial Officer	Yes	Yes
Robert de Vos (from 12 December 2014)	Head of Property	Yes	-

There has been no change in KMP since the end of the reporting period.

Directors' Report

Remuneration report (continued)

1.3 Remuneration Policy

The Directors of Arena REIT have adopted a remuneration policy that recognises the need to attract, motivate and retain employees to deliver sustainable and superior business performance. The remuneration policy is underpinned by the following principles:

- Remuneration is externally competitive in terms of quantum, mix and design to support the attraction and retention of employees and takes into account the relative size and nature of the Arena REIT business and its ability to pay and the role and experience of employees.
- The remuneration framework supports the delivery of Arena REIT's business strategy.
- Remuneration is made up of fixed and variable reward.
- Variable reward will be used to recognise performance in both the short term and longer term and will depend on performance against key targets and objectives.

2. Non-Executive Director Remuneration Framework

Each non-executive director of Arena REIT is paid an amount determined by the Board to a maximum aggregate amount approved by security holders of $650,000 per annum.

The Board fees are set to ensure non-executive directors are remunerated fairly for their services, recognising the level of skill, expertise and experience required to perform the role. Non-executive directors do not receive any equity based payments, retirement benefits or incentive payments.

Annual fees in respect of FY15 (inclusive of applicable superannuation) were:

Board Fees		Audit Committee Fees		Remuneration & Nomination Committee Fees	
Chairman*	Member	Chairman	Member	Chairman	Member
$175,000	$87,500	$10,000	$5,000	$10,000	$5,000

*The Board fee received by the Chairman of the Board fee is inclusive of all Committee fees.

Arena REIT commenced payment of fees to Non-Executive Directors from 12 December 2014 being the implementation date of the internalisation proposal.

3. Executive KMP Remuneration Framework

In FY15 Executive KMP remuneration comprised:

- Total fixed remuneration (TFR);
- Short term incentive (STI); and
- Long-term incentive (LTI).

The target mix of total remuneration components for FY15 for the Executive KMP is set out in the table below:

			Variable Performance Based Remuneration	
Executive KMP	Position	TFR	STI	LTI
Bryce Mitchelson	Managing Director	50%	25%	25%
Gareth Winter	Chief Financial Officer	60%	20%	20%
Robert de Vos	Head of Property	55%	25%	20%

Remuneration report (continued)

3.1 Fixed Remuneration

TFR consists of base salary, employer superannuation contribution, salary sacrifice benefits and other non-monetary benefits. TFR is set based on the role responsibilities, experience and qualifications of the individual, and with reference to market data of comparable organisations. TFR will generally be reviewed on an annual basis. Arena REIT commenced payment of TFR to the Executive KMP from 12 December 2014, being the implementation date of the internalisation proposal.

3.2 Short Term Incentive Plan (STI)

The short term incentive is a performance based component of remuneration and is designed to reward annual performance and focus Executive KMP on meeting business plan objectives. Executive KMP participation in the STI is at the discretion of the Board.

The opportunity for an STI award is based on the maximum STI expressed as a percentage of TFR and the achievement of the specific KPIs for each Executive KMP.

STI objectives for each Executive KMP take into account their respective role and the objectives of the organisation to which they are expected to contribute. The link between the organisation's objectives and the Executive KMP's incentive plans is designed to align Executive KMP to Arena REIT's objectives and includes, where relevant, stretch targets.

FY15 performance was measured across two categories of KPIs:

- Financial – linked to achieving target Distributions per Security and Distributable Income per Security
- Non-financial – linked to non-financial metrics specific to each role eg. strategy development and execution, business performance, risk management, people, stakeholder management and relationships and specific personal objectives.

STIs are paid in cash following the end of the relevant financial year following Board approval. Taking into consideration circumstances over the course of the financial year, the Board has discretion to reduce, cancel or increase STI payments. The STI Plan came into effect from 12 December 2014 being the implementation date of the Arena REIT internalisation proposal.

3.3 Long Term Incentive Plan (LTI)

The LTI Plan is an equity based incentive scheme designed to align the interests of key management personnel and investors over the long term and retain high performing individuals. The first grant under Arena REIT's LTI Plan was effective on 12 December 2014 being the implementation date of the Arena REIT internalisation proposal. Executive KMP participation in the LTI is at the discretion of the Board.

The opportunity for an LTI award is expressed as a percentage of TFR for each Executive KMP. The actual benefit delivered to the Executive KMP will depend on the quantum of rights granted, the extent to which the performance hurdles are achieved and security price performance. The LTI will be satisfied through the issue of one fully paid ordinary stapled security for each Right that vests.

3.3.1 LTI - Performance Rights

Arena REIT's ongoing LTI Plan is in the form of Performance Rights. The vesting of each grant of Performance Rights is subject to the achievement of threshold and stretch performance hurdles measured over a three year period. The number of Performance Rights granted is based on the value of the LTI award opportunity divided by an independent valuation of the fair value of a Performance Right as at the grant date.

Under the LTI Plan grants for FY15 there are two independent hurdles to the vesting of Performance Rights, each with a 50% weighting:

Directors' Report

Remuneration report (continued)

Hurdle 1: Relative total shareholder return (TSR)

Relative TSR performance is determined based on Arena REIT's total ASX return (assuming reinvestment of distributions) ranked against the members of the comparator group over the performance period. The comparator group in respect of the FY15 Performance Rights grant are the members of the S&P / ASX 300 A-REIT Index.

The relative TSR vesting schedule is as follows:

Arena REIT's TSR ranking	Proportion of TSR Hurdle Performance Rights that vest
Below 50th percentile	0%
50th to 75th percentile	50% at the threshold plus progressive pro-rata vesting between 50% and 100% (ie on a straight-line basis)
At or above the 75th percentile	100%

Relative TSR was selected as a performance condition because:

- It aligns Executive KMP rewards with Arena REIT security holder returns;
- The effects of market cycles are reduced because it measures Arena REIT's performance relative to its peers, which are presently considered to be the A-REIT members of the S&P / ASX 300 Index.

Hurdle 2: Distributable Income per Security (DIS)

The DIS hurdle is based on a target range to be assessed in the final year of a three year performance period. DIS is determined in accordance with Arena REIT's Distribution Policy.

The DIS vesting schedule is as follows:

Arena REIT's DIS (in year three of the performance period)	Proportion of DIS Hurdle Performance Rights that vest
Below the Target Range	0%
In the Target Range	50% plus progressive pro-rata vesting between 50% and 100% (ie on a straight-line basis)
Above the Target Range	100%

DIS was selected as a performance condition (for STI and LTI) because:

- It aligns Executive KMP rewards with Arena REIT security holder returns;
- DIS is a key performance indicator referenced by the Board in preparing the annual budget and business plan and in measuring Arena REIT's underlying performance.

The Board retains discretion to adjust the conditions and / or the performance outcome used for assessing whether the performance related conditions have been satisfied to ensure that executive KMP are neither advantaged nor disadvantaged by matters that affect the conditions, for example the timing of a material equity raising or excluding the effects of one-off / non recurrent items.

3.3.2 LTI - Recognition Rights

Executive KMP received a once-off grant of Recognition Rights in FY15 to recognise their commitment to the Arena REIT internalisation and reward ongoing effort to deliver Arena REIT's business performance.

Recognition Rights are subject to an employment retention period ending 30 June 2017. The Board considered the Recognition Rights to be an important incentive for Executive KMP to remain with the business during Arena REIT's transition from an external to an internalised management structure.

Remuneration report (continued)

3.3.3 Other LTI Plan Terms

Other key terms of the LTI Plan are:

- Participants do not receive distributions or dividends on unvested LTI awards during the performance period.
- No payment for Performance Rights or Recognition Rights is required.
- No payment is required on the issue of stapled securities in respect of a vested Performance Right or Recognition Right.
- In the event of termination of employment, the following treatment applies to unvested awards:
  - Dismissal for cause or resignation: unvested awards will lapse unless the Board determines otherwise;
  - In all other circumstances: unvested awards will remain on-foot subject to the original performance conditions and vesting period. The Board will have discretion to pro-rate awards which remain on foot (eg to reflect the portion of the performance / vesting period that has elapsed). The Board may lapse an award in full and also allow accelerated vesting (pro-rated for time and performance) in special circumstances subject to termination benefit rules).
- In the event of an actual or proposed change of control event that the Board in its discretion determines should be treated as a change of control, a pro-rata number of unvested grants vest at the time of the relevant event, based on the performance period elapsed and the extent to which performance hurdles have been achieved at the time (unless the Board determines another treatment in its discretion).
- The LTI Plan restricts Executive KMP from entering into transactions (through the use of derivatives or otherwise) that would have the effect of limiting the economic risk from participating in the LTI Plan.

4. Link between Performance and Impact on Variable Remuneration Outcomes

Arena REIT's remuneration policy assesses variable remuneration outcomes in the context of performance and change in security holder wealth. The Remuneration and Nomination Committee is responsible for assessing performance against KPI's and determining the STI to be paid and the extent to which the LTI vests. To assist in this process the Committee receives detailed financial reports, data capable of independent confirmation and individual performance assessments.

4.1 FY15 STI Performance Measures

4.1.1 STI Financial Objectives

A key measure of Arena REIT's performance and contributor to STI performance assessment is annual underlying profit results.

STI Financial Objective	Performance
Underlying Profit Performance:	
• Deliver the post internalisation upgraded FY15 Distribution of 10.0 cents per security	Actual FY15 Distributions of 10.0 cents per security.
• Deliver post internalisation upgraded distributable income earnings per security in a target range above 10.0 cents per security	Actual FY15 Distributable Income per Security of 10.20 cents.

4.1.2 STI Non-Financial Objectives

Individual objectives in relation to strategy development and execution, business performance, risk management, people, stakeholder management and relationships and specific personal objectives were assessed by the Committee and contributed to the determination of each Executive KMP's STI award.

Directors' Report

Remuneration report (continued)

4.2 LTI Performance Measures

No assessment of the Performance Rights vesting conditions was required in FY15. The first assessment of the relevant performance conditions will occur on 30 June 2017.

LTI Performance Measure	Performance Hurdle	Performance	Outcome of Incentive Award
Arena REIT TSR (from 12 December 2014 to 30 June 2017)	Ranking greater than 50th percentile of the members of the S&P ASX 300 A-REIT Accumulation Index	n/a	n/a
FY17 Distributable Income per Security	Target range of 11.0 cents to 12.0 cents	n/a	n/a

4.3 Performance Metrics

The table below summarises information on Arena REIT's key financial and performance metrics over the 5 year period to 30 June 2015.

Metric	FY15	FY14	FY13	FY12	FY11
Net Profit (Statutory) ($million)	61.0	44.6	17.2	15.7	18.0
Distributable Income ($million)	22.1	18.5	11.2	8.5	9.2
Distributable Income per Security (cents)	10.20	8.85	8.20	6.40	6.98
Distributions per Security (cents)	10.00	8.75	8.00	6.50	5.50
Net Asset Value per Security	$1.33	$1.13	$1.02	$1.00	$0.95
ASX Security Price	$1.54	$1.20	$1.02	n/a[1]	n/a[1]
Gearing[2]	29.1%	33.3%	10.4%	41.7%	45.4%
Annual Total Shareholder Return (TSR)	36.3%	26.7%	n/a[1]	n/a[1]	n/a[1]
Annual TSR of ASX-300 A-REITs Index	20.2%	11.1%	n/a	n/a	n/a

1. Arena REIT listed on ASX on 13 June 2013. Data prior to that date relates to periods when the fund was unlisted.
2. Borrowings / Total Assets

Remuneration report (continued)

5. FY15 Remuneration and Awards

5.1 Remuneration Summary (Statutory)

The table below shows details of the remuneration expense recognised in respect of the KMP measured in accordance with the requirements of accounting standards.

$	Short Term Benefits			Equity Based Payments		Other Long Term	Post Employ-ment	
FY15 Remuneration[1]	Salary and Fees	STI	Non-Monetary Benefits	Perfor-mance Rights[2]	Recog-nition Rights[2]	Long Service Leave[2]	Super-annuation	Total
Non-Executive Director								
David Ross	82,104	-	-	-	-	-	14,804	**96,908**
Simon Parsons	49,308	-	-	-	-	-	4,684	**53,992**
Dennis Wildenburg	44,832	-	-	-	-	-	11,928	**56,760**
Executive KMP								
Bryce Mitchelson	252,635	111,791	6,468	30,732	20,488	5,590	9,392	**437,096**
Gareth Winter	173,334	60,914	5,786	14,234	9,489	2,522	8,728	**275,007**
Robert de Vos	141,881	69,220	5,786	12,940	8,627	2,037	10,227	**250,718**

1. The remuneration disclosed for FY15 is for the period from 12 December 2014, being the date the KMP commenced their employment with Arena REIT. No comparative information is available.
2. Accrued but not yet entitled.

5.2 FY15 Executive KMP Remuneration Mix

The following table summarises the relative proportions of remuneration based on the FY15 Remuneration Summary.

Executive KMP	TFR	STI	LTI
Bryce Mitchelson	63%	26%	12%
Gareth Winter	69%	22%	9%
Robert de Vos	64%	28%	9%

Variation between target and actual remuneration mix occurs as a result of non-vesting of opportunities and timing differences between the granting of an LTI and the accounting recognition of the LTI expense which is generally amortised over the relevant vesting period.

Directors' Report

Remuneration report (continued)

5.3 FY15 STI Awards

As a result of the performance assessment set out in Section 4.1 of this report, the Board awarded STIs in respect of FY15 as set out below.

Executive KMP	Maximum STI Award as % of TFR	STI Award[1] ($)	% of Possible STI Opportunity Earned[1]
Bryce Mitchelson	50%	111,791	85%
Gareth Winter	33%	60,914	100%
Robert de Vos	45%	69,220	100%

1. The STI award and opportunity in respect of FY15 was pro-rated for the period 12 December 2014 to 30 June 2015 to reflect only the post internalisation period. Any STI opportunity not earned is forfeited.

5.4 FY15 LTI Grants

LTI Grants to Executive KMP during FY15 in accordance with the LTI Plan described in Section 3.3 are set out in the table below.

Executive KMP	Maximum LTI Award as % of TFR	Type	Grant Date	Vesting Date	Rights Granted In FY15	Fair value per Right[2]
Bryce Mitchelson[1]	50%	Performance Rights	12 Dec 2014	30 June 2017	151,596	$0.94
		Recognition Rights	12 Dec 2014	30 June 2017	77,869	$1.22
Gareth Winter	33%	Performance Rights	12 Dec 2014	30 June 2017	70,213	$0.94
		Recognition Rights	12 Dec 2014	30 June 2017	36,066	$1.22
Robert de Vos	36%	Performance Rights	12 Dec 2014	30 June 2017	63,830	$0.94
		Recognition Rights	12 Dec 2014	30 June 2017	32,787	$1.22

1. The grant of rights to Mr Mitchelson was approved by security holders on 5 December 2014.
2. Fair Value per Right was determined by an independent valuation. Refer Note 21 of the financial report for further information on the valuation inputs.

Remuneration report (continued)

The reconciliation of Performance Rights and Recognition Rights held by each Executive KMP from the beginning to the end of FY15 is set out in the table below.

Executive KMP Name and Grant Date	Grant Year	Opening Balance	Granted during Year	Vested During Year	Lapsed During Year	Closing Balance	Maximum Value yet to Vest $[1]	Minimum Value yet to Vest $[2]
Bryce Mitchelson								
Performance Rights	2014	–	151,596	–	–	151,596	233,458	Nil
Recognition Rights	2014	–	77,869	–	–	77,869	119,918	Nil
Gareth Winter								
Performance Rights	2014	–	70,213	–	–	70,213	108,128	Nil
Recognition Rights	2014	–	36,066	–	–	36,066	55,542	Nil
Robert de Vos								
Performance Rights	2014	–	63,830	–	–	63,830	98,298	Nil
Recognition Rights	2014	–	32,787	–	–	32,787	50,492	Nil

1. The maximum value of unvested Rights has been calculated as the maximum number of stapled securities that may be issued if all vesting conditions are satisfied multiplied by the security price at 30 June 2015. The actual security price on the date of issue may be higher or lower.
2. The minimum value of the unvested Rights may be nil if the relevant vesting conditions are not met and the Rights lapse or are forfeited.

No Performance Rights or Recognition Rights were granted to Executive KMP in previous reporting periods. No Performance Rights or Recognition Rights were eligible for exercise during FY15.

6. Other Disclosures

6.1 Service Agreements

Executive KMP Service Agreements detail the individual terms and conditions applying to the employment of the Executive KMP. Key employment terms in addition to the remuneration arrangements set out in this report are set out below:

	Managing Director	Other Executive KMP
Contract Term	Ongoing	Ongoing
Termination by the Executive KMP	Nine months' notice. Unvested STI or LTI entitlements lapse unless the Board determines otherwise.	Six months' notice. Unvested STI or LTI entitlements lapse unless the Board determines otherwise.
Termination by Arena REIT without cause or mutually agreed resignation	Nine months' notice or equivalent payment in lieu of notice based on TFR. Any unvested STI and LTI awards will be governed by the applicable STI or LTI plan rules summarised above.	Six months' notice or equivalent payment in lieu of notice based on TFR. Any unvested STI and LTI awards will be governed by the applicable STI or LTI plan rules summarised above.
Termination by Arena REIT for serious misconduct	No notice period or termination payment unless the board determines otherwise.	No notice period or termination payment unless the Board determines otherwise.
Post-employment restraints	Restrained from soliciting suppliers, customers and staff for a maximum of nine months post-employment.	Restrained from soliciting suppliers, customers and staff for a maximum of six months post-employment.

Directors' Report

Remuneration report (continued)

6.2 Interests in Securities

In addition to interests in securities of the Executive KMP set out in this report, the number of ordinary Arena REIT securities held by Directors and Executive KMP during the year and as at the date of this report is set out below.

	Opening	Securities Acquired	Securities Disposed	Securities Received as Remuneration	Closing
Independent Directors					
David Ross	200,000	–	–	–	200,000
Simon Parsons	200,000	–	–	–	200,000
Dennis Wildenburg	150,000	–	–	–	150,000
Executive KMP					
Bryce Mitchelson	749,000	4,907	–	–	753,907
Gareth Winter	75,000	–	–	–	75,000
Robert de Vos	25,000	1,235	–	–	26,235

6.3 Other

i. No loans have been provided to KMP at any time.

ii. Arena REIT paid management fees to the former Responsible Entity, Arena Investment Management Limited (AIML), on normal arms-length commercial terms up to 12 December 2014. The KMP were either directors of AIML or executives of an associate of AIML during that period.

Indemnification and insurance of officers and auditors

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

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

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

Non-audit services

Details of the non-audit services provided to the Group by the Independent Auditor during the year ended 30 June 2015 are disclosed in note 6 of the financial statements.

Audit partner rotation

Listed entities are required to rotate their audit partner every 5 years. Arena REIT first listed on the ASX in June 2013. The financial year ended 30 June 2015 is the 7th year in which the existing audit partner has been the lead auditor for the Group. The *Corporations Act 2001* (the 'Act') allows for an extension of the appointment of the lead audit partner for up to 2 years in certain circumstances.

The Group's auditor, PricewaterhouseCoopers, has provided confirmation that the extension of the term of audit partner would not give rise to a conflict of interest situation as defined in section 324 CD of the Act and appropriate safeguards are in place to ensure that appropriate objectivity and independence of the lead auditor is able to be maintained. Given that the requirements of the Act have been met, the existing audit partner was reappointed for a further period of 2 years, which commenced on 1 July 2013. The current financial year is therefore the last year for which the lead audit partner will be appointed. A new lead audit partner will be appointed for the year ending 30 June 2016.

Relief under ASIC Class Orders 13/1050 and 13/1644

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 year ended 30 June 2015. The financial statements separately present the amounts of "non-controlled interest" attributable to the stapled security unitholders as required by the class orders.

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

Fees paid to the Responsible Entity and its associates out of Group property during the year are disclosed in note 19 to the financial statements.

Interests in the Group

The movement in securities on issue in the Group during the year is disclosed in note 15 to the financial statements.

Corporate governance statement

The board of directors for Arena REIT Limited and Arena REIT Management Limited work together and take a co-ordinated approach to the corporate governance of the Group.

Each Board has a Board Charter which details the composition, responsibilities, and protocols of the Board. In addition, the Boards have a Code of Conduct which sets out the standard of business practices required of the Group's directors and staff.

Arena conducts its business in accordance with these policies and code, as well as other key policies which are published on its website. These include:

- Arena REIT Continuous Disclosure Policy
- Arena REIT Diversity Policy
- Arena REIT Privacy Policy
- Arena REIT Communications Policy
- Arena REIT Summary of Risk Management Policy and Framework
- Arena REIT Securities Trading Policy

In compliance with ASX Listing Rule 4.10.3, Arena has also published a statement disclosing the extent to which the Group has followed the recommendations for good corporate governance set by the ASX Corporate Governance Council (3rd Edition) during the reporting period on its website, **www.arena.com.au/about/governance**.

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration

The Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 28.

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

David Ross,
Chairman,

Melbourne, 25 August 2015

Auditor's independence declaration

Auditor's Independence Declaration

As lead auditor for the audit of Arena REIT for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
25 August 2015

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Consolidated statement of comprehensive income

	Notes	Consolidated 30 June 2015 $'000	Consolidated 30 June 2014 $'000
Income			
Property rental	10(c)	31,219	26,783
Management fee income		488	–
Interest		112	71
Revaluation of investment properties	10	39,828	24,489
Profit on sale of direct properties		2,232	3,784
Total income		**73,879**	55,127
Expenses			
Direct property expenses	10(c)	(1,306)	(1,051)
Former Responsible Entity's management fee	19	(1,353)	(2,377)
Employee benefits expense		(1,214)	–
Stapling and asset acquisition costs		(1,438)	(969)
Depreciation and amortisation expense		(29)	–
Administration and other expenses		(744)	(835)
Net loss on fair value of derivative financial instruments		(1,781)	(1,200)
Finance costs	4	(5,048)	(4,131)
Total expenses		**(12,913)**	(10,563)
Net profit for the year		**60,966**	44,564
Other comprehensive income		–	–
Total comprehensive income for the year		**60,966**	44,564
Total comprehensive income for the year is attributable to Arena REIT stapled group investors, comprising:			
Unitholders of Arena REIT No. 1		55,354	38,487
Unitholders of Arena REIT No. 2 (non-controlling interest)		5,626	6,077
Unitholders of Arena REIT Limited (non-controlling interest)		(14)	–
		60,966	44,564
Earnings per security:		Cents	Cents
Basic earnings per security in Arena REIT No. 1	7	25.55	18.41
Diluted earnings per security in Arena REIT No. 1	7	25.55	18.41
Basic earnings per security in Arena REIT Group	7	28.14	21.31
Diluted earnings per security in Arena REIT Group	7	28.14	21.31

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

Consolidated balance sheet

	Notes	Consolidated 30 June 2015 $'000	Consolidated 30 June 2014 $'000
Current assets			
Cash and cash equivalents	8	10,888	3,947
Trade and other receivables	9	7,163	15,519
Total current assets		**18,051**	19,466
Non-current assets			
Receivables	9	1,189	–
Property, plant and equipment		121	–
Investment properties	10	420,532	355,831
Intangible assets	11	10,730	–
Total non-current assets		**432,572**	355,831
Total assets		**450,623**	375,297
Current liabilities			
Trade and other payables	12	15,297	10,985
Provisions		212	–
Total current liabilities		**15,509**	10,985
Non-current liabilities			
Derivative financial instruments	14	398	1,298
Provisions		451	–
Interest bearing liabilities	13	130,774	124,811
Total non-current liabilities		**131,623**	126,109
Total liabilities		**147,132**	137,094
Net assets		**303,491**	238,203
Equity			
Contributed equity - Arena REIT No. 1	15	191,845	183,221
Contributed equity - Arena REIT No. 2 (non-controlling interest)	15	24,472	21,285
Contributed equity - Arena REIT Limited (non-controlling interest)	15	14,390	–
Accumulated profit	16	72,672	33,697
Reserves	17	112	–
Total equity		**303,491**	238,203

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

Consolidated statement of changes in equity

	Consolidated					
	Contrib. equity - ARF 1	Contrib. equity - ARF 2	Contrib. equity - ARL	Reserves	Accum. profit	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2013	205,252	–	–	–	4,813	210,065
Profit for the year	–	–	–	–	44,564	44,564
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**44,564**	**44,564**
Transactions with owners in their capacity as owners:						
Arising on stapling	–	24,197	–	–	2,871	27,068
Contributions of equity, net of transaction costs	(35)	–	–	–	–	(35)
Unitholder redemption	(22,235)	(2,912)	–	–	–	(25,147)
Distributions to securityholders	–	–	–	–	(18,312)	(18,312)
Other	239	–	–	–	(239)	–
Balance at 30 June 2014	**183,221**	**21,285**	–	–	**33,697**	**238,203**
Balance at 1 July 2014	183,221	21,285	–	–	33,697	238,203
Profit for the year	–	–	–	–	60,966	60,966
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**60,966**	**60,966**
Transactions with owners in their capacity as owners:						
Arising on stapling	(13,000)	–	13,000	–	–	–
Contributions of equity, net of transaction costs	19,980	2,971	1,390	–	–	24,341
Securities issued under DRP	1,644	216	–	–	–	1,860
Employee share scheme - value of employee services	–	–	–	112	–	112
Distributions to securityholders	–	–	–	–	(21,991)	(21,991)
Balance at 30 June 2015	**191,845**	**24,472**	**14,390**	**112**	**72,672**	**303,491**

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

Consolidated statement of cash flows

	Notes	Consolidated 30 June 2015 $'000	Consolidated 30 June 2014 $'000
Cash flows from operating activities			
Property rental receipts		**31,761**	27,734
Property management receipts		**432**	–
Payments to suppliers		**(4,446)**	(4,378)
Finance costs paid		**(4,911)**	(3,115)
Interest received		**112**	71
Income tax paid		**(18)**	–
Net cash inflow from operating activities	24	**22,930**	20,312
Cash flows from investing activities			
Cash arising on stapling		**1,510**	598
Acquisition of subsidiaries		**(4,862)**	–
Net proceeds from sale of investment properties		**14,938**	1,280
Payments for investment properties and capital expenditure		**(28,973)**	(51,762)
Other stapling cash flows		**(1,027)**	(4,509)
Net cash (outflow) from investing activities		**(18,414)**	(54,393)
Cash flows from financing activities			
Proceeds from equity placement		**25,000**	–
Payment of transaction costs from issue of securities		**(658)**	(583)
Payment of unitholder redemption		**–**	(25,147)
Distributions paid to securityholders		**(19,227)**	(17,191)
Loan establishment costs paid		**(112)**	(279)
Capital receipts from lenders		**41,000**	101,250
Capital payments to lenders		**(43,578)**	(25,017)
Net cash inflow from financing activities		**2,425**	33,033
Net increase/(decrease) in cash and cash equivalents		**6,941**	(1,048)
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	8	**10,888**	3,947

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

Contents for the notes to the consolidated financial statements

Notes to the consolidated financial statements

1. General information

These financial statements cover Arena REIT (the **Group**) comprising Arena REIT No. 1, Arena REIT No. 2, Arena REIT Limited, and their controlled entities. Arena REIT is listed on ASX and registered and domiciled in Australia.

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 Responsible Entity of ARF1 and ARF2 is Arena REIT Management Limited (the **Responsible Entity**). The stapling occurred in conjunction with the internalisation of corporate governance and management rights of the Group approved by securityholders in December 2014.

The financial statements were authorised for issue by the directors on 25 August 2015. The directors have the power to amend and reissue the financial statements.

2. Summary of significant accounting policies

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

(a) Basis of preparation

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

The financial report has been prepared on an accruals and historical cost basis except for investment properties, financial assets at fair value through profit or loss, derivative financial instruments which are measured at fair value, and assets held for sale which are recognised at fair value less costs to sell. Cost is based on the fair value of consideration given in exchange for assets. Comparative information is reclassified where appropriate to enhance comparability.

Compliance with International Financial Reporting Standards

The financial statements of the Group comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, with the exception of the consolidation of ARF1, ARF2 and ARL. The Group has relied on ASIC class orders 13/1050 and 13/1644 which allows stapled entities to prepare consolidated financial statements.

(i) 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 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*;
- Offsetting arrangements - AASB 2012-2 *Amendments to Australian Accounting Standards Disclosures Offsetting Financial Assets and Financial Liabilities*.

The adoption of the above standards did not result in any adjustments to the values included in the 30 June 2015 financial statements. The disclosure requirements of the above standards have been incorporated into this financial report.

2. Summary of significant accounting policies (continued)

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker.

The Chief Operating Decision Maker is responsible for making strategic decisions about the Group, assessing the financial performance and financial position of the Group, determining the allocation of resources and risk management.

(c) Principles of consolidation

(i) Stapled entities

The constitutions of ARF1, ARF2 and ARL provide that the units of the trusts and shares of the company 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 the relief provided by ASIC to stapled entities in Class Orders 13/1050 and 13/1644 allowing stapled groups to prepare Consolidated Financial Statements even where one entity in the stapled group is not deemed to have control over the other under the requirements of AASB 10. The Group has prepared consolidated financial statements at 30 June 2015 as if a business combination had occurred under AASB 3 *Business Combinations*. The relief provided by ASIC relates only to the relationship between ARF1, ARF2 and ARL. The Group otherwise complies with the requirements of AASB 10.

The financial statements reflect the consolidation of ARF1, ARF2 and ARL. For financial reporting purposes as required by AASB 3R *Business Combinations* and AASB 127 *Separate Financial Statements*, one entity in the stapled group must be identified as the acquirer or parent entity of the others. ARF1 has been identified as acquirer of ARF2 and ARL. The comparatives therefore reflect the results of the Stapled Group prior to the internalisation.

Securityholders approved the stapling effective from 12 December 2014 and this is the date the Aggregation has occurred for financial reporting purposes. The Balance Sheet includes the aggregated Balance Sheets of ARF1, ARF2 and ARL as at 30 June 2015.

(ii) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 2(f)).

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

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

(iii) Changes in ownership interests

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

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

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(d) Presentation of members interests in ARF2 and ARL

As ARF1 has been assessed as the parent entity 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 they are not owned by ARF1, but by the securityholders of the stapled group.

(e) Parent entity financial information

Parent entity information has been prepared on the same basis as the rest of the financial report.

(f) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition-date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(g) Revenue

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

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

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

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

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

Management service fees earned from managed investment schemes or trusts are calculated based on the agreed percentage of funds under management and agreed percentages of schemes or trust acquisitions and disposals. Management fees are recognised on an accrual basis.

2. Summary of significant accounting policies (continued)

(g) Revenue (continued)

Performance fees earned from managed funds are recorded when the Group has a legal or constructive right as a result of past events, and it is probable that an inflow of resources will occur and the amount can be reliably estimated.

Deferred management fees and performance fees are measured at the present value of the Responsible Entity's best estimate of the amount receivable at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(h) Expenses

All expenses are recognised in profit or loss on an accruals basis.

(i) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Security-based payments

For information relating to the Group's Long Term Incentive Plan, refer to note 21.

Employees may receive remuneration in the form of security-based incentives, whereby employees render services as consideration for equity-based incentives (equity-settled transactions). The Group did not have any cash-settled security-based incentives in the financial year.

The cost of equity-settled transactions is recognised, together with a corresponding increase in reserves in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for these transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and for awards subject to non-market vesting conditions, the Group's best estimate of the number of equity instruments that will ultimately vest in respect of the relevant rights. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee expenses.

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(i) Employee benefits (continued)

(iii) Security-based payments (continued)

If the terms of an equity-settled transaction are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the transaction, or is otherwise beneficial to the employee as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

(j) Income tax

(i) Trusts

Arena REIT No.1 and Arena REIT No.2 (the Trusts) are not subject to Australian income tax provided their taxable income is fully distributed to securityholders.

(ii) Companies

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(iii) Tax consolidation legislation

Arena REIT Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The head entity, Arena REIT Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

2. Summary of significant accounting policies (continued)

(j) Income tax (continued)

(iii) Tax consolidation legislation (continued)

In addition to its own current and deferred tax amounts, Arena REIT Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

All current tax balances are transferred from the controlled entities in the group to Arena REIT Limited. As there is no tax sharing agreement in place the current tax receivable or payable is transferred from each controlled entity to Arena REIT Limited as a contribution to (or distribution from) wholly owned entities.

(k) Distributions

The Group distributes income adjusted for amounts determined by the Group. Provision is made for any distribution amounts declared, being appropriately disclosed and no longer at the discretion of the entity, on or before the end of the reporting date but not distributed at the end of the reporting period. The distributions are recognised within the balance sheet and statement of changes in equity as a reduction in accumulated profit/(losses).

(l) Earnings per security (EPS)

(i) Basic earnings per security

Basic earnings per security is calculated by dividing:

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

(ii) Diluted earnings per security

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

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

(m) Cash and cash equivalents

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

(n) Receivables

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

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

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(n) Receivables (continued)

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

(o) Assets held for sale

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

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

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

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

(p) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(q) Investment properties

Investment property is real estate investments held to earn long-term rental income and for capital appreciation. Investment properties are carried at fair value determined either by the Directors or independent valuers with changes in fair value recorded in the statement of comprehensive income.

Land and buildings (including integral plant and equipment) that comprise investment property are not depreciated. The carrying amount of investment properties may include the cost of acquisition, additions, refurbishments, redevelopments, improvements, lease incentives, assets relating to fixed increases in operating lease rental in future periods and borrowing costs incurred during the construction period of qualifying assets.

(i) Valuation basis

The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on the market for similar properties.

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

2. Summary of significant accounting policies (continued)

(q) Investment properties (continued)

(i) Valuation basis (continued)

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

(r) Intangible assets - Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(s) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(t) Financial instruments

(i) Classification

The Group's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

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

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

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

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

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(t) Financial instruments (continued)

(ii) Recognition/derecognition

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

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

(iii) Measurement

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

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

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

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

Further detail on how the fair values of financial instruments are determined is disclosed in note 22(d).

Loans and receivables

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

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

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

(iv) Offsetting financial instruments

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

(u) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the Group's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

2. Summary of significant accounting policies (continued)

(v) Borrowings

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

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

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

(w) Borrowing costs

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

(x) Goods and Services Tax (GST)

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

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

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

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

(y) Use of estimates

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

(i) Financial instruments

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

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. For more information on how fair value is calculated please refer to note 22.

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(y) Use of estimates (continued)

(i) Financial instruments (continued)

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

(ii) Investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations at least every 3 years. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The key assumptions used in this determination are set out in note 2(q) and 10.

(iii) Impairment of intangibles - Goodwill

The Group assesses the recoverability of intangibles and goodwill on at least an annual basis. In determining the recoverability of these assets the Group uses a number of assumptions and estimates. The methodology and assumptions used are disclosed in note 11.

(iv) Income taxes

The Group may be subject to income taxes in Australia. Certain judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax outcomes based on estimates of taxes which may be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which a determination is made.

(v) Deferred disposal and performance fees

The Group may receive management fees on the sale of property by an investment scheme for which it is the responsible entity. Revenue for deferred disposal and performance fees is recognised for finite life schemes when the performance criteria has been met, and for indefinite life schemes, in the period when the decision to sell a property has been made. The amount of this "deferred" management fee is dependent on the sale price of the property. In the calculation of deferred disposal and performance fees, the sale price is assumed to be the most current valuation as reported in the investment scheme.

(z) Rounding of amounts

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

2. Summary of significant accounting policies (continued)

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods. The Group has not early adopted these standards/interpretations. The Group's assessment of the impact of relevant new standards and interpretations is set out below:

Standard / Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	The standard addresses the classification, measurement and derecognition of financial instruments. For financial liabilities that are measured under the fair value option, entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss. New hedge accounting rules align hedge accounting more closely with common risk management processes. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation. In December 2014, the AASB introduced a new impairment model. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. Management does not expect the above changes to have a significant impact on the Group's financial statements.	1 January 2018	30 June 2019
AASB 15 Revenue from contracts with customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. Management does not expect this to have an impact on the Group's financial statements.	1 January 2017	30 June 2018

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.

Notes to the consolidated financial statements

3. Business combination to form new Arena REIT Stapled Group

(a) Summary of business combination

On 5 December 2014, the investors of Arena REIT approved the internalisation of the corporate governance and management functions of the Group. The internalisation took effect from 12 December 2014 and 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:

	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:

	Fair value $'000
Assets	
Cash and cash equivalents	1,510
Trade and other receivables	2,275
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.

4. Finance costs

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Finance costs:		
Interest paid or payable	4,730	3,476
Loan establishment and other finance costs	318	206
Write-off of loan establishment costs due to refinancing	–	449
Total finance costs expensed	5,048	4,131
Finance costs capitalised (a)	1,268	232
Total finance costs	6,316	4,363

(a) Finance costs are capitalised in relation to current property developments. The capitalisation rate used to determine the amount of finance costs to be capitalised was the weighted average interest rate applicable to the Group's outstanding borrowings at the end of each month.

5. Income taxes

Under current Australian income tax legislation, ARF1 and ARF2 are not liable to Australian income tax, provided that the members are presently entitled to the income of the Trusts. Trust distributions are subject to income tax in the hands of securityholders.

ARL and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. ARL as the head entity in the tax consolidated group, accounts for its own current and deferred tax amounts. ARL also recognises the current and deferred tax liabilities (or assets) of the entities in the tax consolidation group. Where appropriate, deferred tax assets and liabilities are offset.

(a) Numerical reconciliation of tax expense per the statutory income tax rate to income tax expense recognised

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Profit before income tax	60,966	44,564
Tax at the applicable Australian tax rate of 30% (2014 - 30%)	(18,290)	(13,369)
Profit attributable to entities not subject to tax	18,294	13,369
Deferred tax assets not recognised	(256)	–
Other movements	252	–
Income tax expense	–	–

Unrecognised deferred tax assets are $0.3 million (2014: $nil). These have not been recognised as it is not probable that future taxable profit will arise to offset these deductible temporary differences.

Notes to the consolidated financial statements

6. Remuneration of auditors

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

	Consolidated	
	30 June 2015 $	30 June 2014 $
PricewaterhouseCoopers Australian firm		
Audit and other assurance services		
Audit and review of financial statements	**86,000**	57,000
Audit of compliance plans	**6,000**	6,000
Total remuneration for audit and other assurance services	**92,000**	63,000
Taxation services		
Tax compliance services, including review of income tax returns	**21,156**	26,685
Total remuneration for taxation services	**21,156**	26,685
Other services		
Investigating Accountant report and due diligence in respect of the staplings and management internalisation	**135,648**	191,560
Total remuneration of PricewaterhouseCoopers	**248,804**	281,245

7. Earnings per security ('EPS')

	2015 Cents	2014 Cents
Basic EPS in Arena REIT No. 1	**25.55**	18.41
Diluted EPS in Arena REIT No. 1	**25.55**	18.41
Basic EPS in Arena REIT Group	**28.14**	21.31
Diluted EPS in Arena REIT Group	**28.14**	21.31

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

	2015 Number of securities '000	2014 Number of securities '000
Weighted average number of ordinary securities used in calculating basic EPS	**216,627**	209,096
Bonus element of security options which are dilutive	**–**	–
Adjusted weighted average number of ordinary securities used in calculating diluted EPS	**216,627**	209,096

7. Earnings per security ('EPS') (continued)

	30 June 2015 $'000	30 June 2014 $'000
Earnings used in calculating basic EPS for Arena REIT No. 1	**55,354**	38,487
Earnings used in calculating diluted EPS for Arena REIT No. 1	**55,354**	38,487
Earnings used in calculating basic EPS for Arena REIT Group	**60,966**	44,564
Earnings used in calculating diluted EPS for Arena REIT Group	**60,966**	44,564

8. Cash and cash equivalents

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Cash at bank	**10,888**	3,947
Total cash and cash equivalents	**10,888**	3,947

9. Trade and other receivables

(a) Trade and other receivables - Current

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Trade receivables	**296**	65
Other receivables	**6,457**	15,023
Prepayments	**410**	431
	7,163	15,519

Other receivables as at 30 June 2015 includes $6.2 million of sales proceeds payable to the Group following the auction of 3 childcare properties on 24 June 2015 (2014: $14.2 million of sale proceeds receivable following the auction of 10 childcare properties on 25 June 2014).

(i) Impairment and ageing

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

	Gross 2015 $'000	Impairment 2015 $'000	Gross 2014 $'000	Impairment 2014 $'000
Not past due	**240**	**–**	65	–
Past due 0 - 30 days	**22**	**–**	–	–
Past due 31 - 60 days	**34**	**–**	–	–
Past due 61 - 90 days	**–**	**–**	–	–
Past due over 90 days	**–**	**–**	–	–
	296	**–**	65	–

Notes to the consolidated financial statements

9. Trade and other receivables (continued)

(a) Trade and other receivables - Current (continued)

(i) Impairment and ageing (continued)

No other class of financial asset is past due.

Any receivables which are doubtful have been provided for.

From time to time, tenant payments are delayed for administrative reasons such as lease assignment. Management have reviewed all receivables for impairment and are comfortable that the balances are due and payable, and that recovery can be obtained. Past history also supports the recoverability of these receivables.

(b) Receivables - Non-current

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Deferred management & performance fees receivable	1,189	–

(i) Impairment and ageing

None of the non-current receivables are impaired or past due but not impaired.

(ii) Fair values

The fair values and carrying values of non-current receivables are as follows:

	Consolidated 30 June 2015	
	Carrying amount	Fair value
	$'000	$'000
Deferred management & performance fees receivable	1,189	1,189

10. Investment properties

(a) Valuations and carrying amounts

	Carrying amount		Latest external valuation	
	2015	2014	2015	2014
Property Portfolio	$'000	$'000	$'000	$'000
Childcare properties	322,822	271,639	287,631	266,708
Childcare developments	30,117	20,004	23,430	–
Healthcare properties	67,593	64,188	63,855	63,855
Total	**420,532**	**355,831**	**374,916**	**330,563**

Independent valuations were performed over 61 childcare properties as at 31 December 2014, and a further 18 childcare properties as at 30 June 2015. The board of directors has reviewed these valuations and has determined they are appropriate to adopt during the financial period ending 30 June 2015. Directors valuations were performed over investment properties not independently valued.

10. Investment properties (continued)

(a) Valuations and carrying amounts (continued)

The key inputs into valuations are:

- Passing rent
- Market rent per licenced place (childcare properties)
- Market rents (healthcare properties)
- Capitalisation rates
- Lease term

The key inputs into the valuation are based on market information for comparable properties. The majority of childcare 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 2 in the fair value hierarchy.

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

(i) Key assumptions - Childcare properties

	30 June 2015	30 June 2014
Market rent per licenced place	**$1,200 to $3,300**	$1,107 to $3,320
Capitalisation rates	**7.0% to 10.75%**	7.25% to 11.0%

(ii) Key assumptions - Healthcare properties

	30 June 2015	30 June 2014
Capitalisation rates	**7.5% to 8.5%**	7.5% to 8.75%

(b) Movements during the financial year

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
At fair value		
Opening balance	**355,831**	233,784
Additions through business combination	**–**	55,237
Property acquisitions and capital expenditure	**29,839**	51,727
Disposals	**(5,080)**	(9,985)
Revaluations	**39,828**	24,489
Other IFRS revaluation adjustments	**114**	579
Closing balance	**420,532**	355,831

Notes to the consolidated financial statements

10. Investment properties (continued)

(c) Amounts recognised in profit or loss for investment properties

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Rental income	31,196	26,382
Other rental income (recognised on a straight line basis)	23	401
Direct operating expenses from property that generated rental income	(923)	(674)
Direct operating expenses from property that did not generate rental income	(383)	(377)
Revaluation gain on investment properties	39,828	24,489

(d) Tenancy risk

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

Goodstart Early Learning Ltd ("Goodstart") - representing 46% of the Group's investment property portfolio by income. Like most not-for-profit entities, Goodstart is a company limited by guarantee. It therefore does not have "shareholders," rather, each of the member charities (Mission Australia, Benevolent Society, Brotherhood of St Laurence and Social Ventures Australia) is a member of the company. Goodstart's "capital" is loan capital of varying degrees of risk and subordination.

Primary Health Care Limited ('PRY') - representing 18% of the Group's investment property portfolio by income. PRY is a listed company and a major operator of medical clinics throughout Australia. PRY has entered into a deed of cross guarantee with its subsidiaries which are parties to the Group's healthcare property leases. The Group also has a parent entity guarantee with PRY to provide security for their performance under the leases.

Other Tenants

Operator	% of Investment Property Portfolio by Income
Affinity Education Group	17%
Oxanda Education	4%
G8 Education	4%
Kids in Care Group	4%

All of the above tenants are childcare centre operators. Affinity Education Group and G8 Education are listed on the Australian Stock Exchange. The other tenants are privately owned, with experience operating childcare centres. Their lease obligations are typically secured by bank guarantees and in some cases personal guarantees from the major shareholders.

(e) Assets pledged as security

Refer to note 13 for information on investment properties and other assets pledged as security by the Group.

(f) Contractual obligations

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	30 June 2015 $'000	30 June 2014 $'000
Investment properties	3,521	8,466

The above commitments include the costs associated with developments, and the acquisition of childcare properties.

10. Investment properties (continued)

(g) Leasing arrangements

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

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Minimum lease receivable under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	**31,138**	29,958
Later than one year but not later than 5 years	**130,599**	124,550
Later than 5 years	**146,760**	123,440
	308,497	277,948

11. Intangible assets

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Goodwill	10,730	–
	10,730	–

Goodwill represents the ARF1, ARF2 and wholesale funds management (intangible rights) acquired by the Group on the internalisation of ARF1 and ARF2 in December 2014.

The Group tests annually whether goodwill has been impaired on the basis of a value-in-use assessment:

- cash flow projections are based on internal financial budgets covering a five year period;
- methodology and key assumptions have been made with reference to, and are supported by, the Independent Expert's Report obtained at the time of internalisation;
- management fee rates used to assess cash flow savings are based on the Arena REIT Constitution and PDS;
- for the purposes of the assessment, growth rates have been set in the range of 2-3% per annum; and
- cash flows have been discounted at a rate of 8.5% per annum.

12. Trade and other payables

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Prepaid rental income	**2,161**	1,612
Investment property acquisition	**1,722**	–
Sundry creditors and accruals	**5,593**	4,456
Distributions payable	**5,821**	4,917
	15,297	10,985

Trade and other payables are non-interest bearing.

Notes to the consolidated financial statements

13. Interest bearing liabilities

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Non-current:		
Secured		
Cash advance facility	**131,000**	125,000
Unamortised transaction costs	**(226)**	(189)
Total secured non-current borrowings	**130,774**	124,811

(a) Financing arrangements

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Committed facilities available at the end of the reporting period		
Interest bearing liabilities	**175,000**	140,000
Facilities used at the end of the reporting period		
Interest bearing liabilities	**131,000**	125,000

The Arena REIT Group has a $87.5 million facility expiring on 30 June 2017 and a $87.5 million facility expiring on 30 June 2019. The facilities are available to both ARF1 and ARF2 and the assets of both trusts are held as security under the facilities.

The Group's debt facilities were expanded during the year from a total of $140 million at 30 June 2014 to $175 million at 30 June 2015, expiring on the same dates and ratio as the facilities at 30 June 2014. There were no changes made to the other terms of the facilities during the year.

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

The undrawn amount of the bank facilities may be drawn at any time.

(b) Assets pledged as security

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

The carrying amounts of assets pledged as security are:

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Financial assets pledged		
Cash and cash equivalents	**6,966**	3,947
Trade and other receivables	**6,718**	15,519
	13,684	19,466
Other assets pledged		
Investment properties	**420,532**	355,831
	420,532	355,831

13. Interest bearing liabilities (continued)

(c) Covenants

The covenants over the Group's bank facility requires an interest cover ratio of greater than 2.0 times and a loan to market value of investment properties ratio of less than 50%. The Group was in compliance with its covenants throughout the year and as at 30 June 2015.

14. Derivative financial instruments

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Non-current liabilities		
Interest rate swaps	**398**	1,298
	398	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 currently in place cover 69% (2014: 68%) of the facility principal outstanding. The weighted average fixed interest swap rate at 30 June 2015 was 2.62% (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.

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

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Less than 1 year	–	–
1 - 2 years	**15,000**	35,000
2 - 3 years	**25,000**	15,000
3 - 4 years	**10,000**	15,000
4 - 5 years	**20,000**	10,000
Greater than 5 years	**20,000**	10,000
	90,000	85,000

Notes to the consolidated financial statements

15. Contributed equity

(a) Securities

	Consolidated			
	30 June 2015 Securities '000	30 June 2014 Securities '000	30 June 2015 $'000	30 June 2014 $'000
Ordinary Securities				
Fully paid	**228,290**	211,496	**230,707**	204,506

(b) Movements in ordinary securities

Date	Details	Number of securities ('000)	$'000
1 July 2013	Opening balance	206,343	205,252
	Less: Transaction costs arising from capital raising	–	(35)
18 December 2013	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**
	Issue of securities under DRP (i)	**1,169**	**1,860**
10 March 2015	Issue of securities under institutional placement (ii)	**15,625**	**24,341**
30 June 2015	Closing balance	**228,290**	**230,707**

(i) Distribution Re-investment 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. The DRP first came into operation with the distribution for the quarter-ended 30 September 2014.

(ii) Institutional Placement

The Group completed a fully underwritten placement to institutional and professional investors during the year.

$25 million was raised through the issue of 15,625,000 stapled securities at a price of $1.60 per stapled security. Settlement of the new stapled securities under the placement occurred 10 March 2015.

(c) Capital management

The objectives of the Stapled Group are to generate attractive and predictable income distributions to investors with earnings growth prospects over the medium to long term.

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

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

15. Contributed equity (continued)

(c) Capital management (continued)

Consistent with others in the industry, the Group monitors capital through the analysis of a number of financial ratios, including the Gearing ratio.

Gearing Ratio	2015 $'000	2014 $'000
Interest bearing liabilities	**131,000**	125,000
Total assets	**450,623**	375,297
Gearing ratio	**29.1%**	33.3%

16. Accumulated profit

	Consolidated 30 June 2015 $'000	 30 June 2014 $'000
Movements in accumulated profit were as follows:		
Opening accumulated profit	**33,697**	4,813
Arising on stapling	**–**	2,871
Net profit for the year	**60,966**	44,564
Distribution paid or payable	**(21,991)**	(18,312)
Other	**–**	(239)
Closing accumulated profit	**72,672**	33,697

Distributions to securityholders

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

Distributions declared	2015 $'000	2014 $'000	2015 cps	2014 cps
September quarter	**5,156**	4,230	**2.4375**	2.0500
December quarter	**5,211**	3,508	**2.4625**	1.7000
March quarter	**5,803**	5,657	**2.5500**	2.6750
June quarter	**5,821**	4,917	**2.5500**	2.3250
Total distributions to securityholders	**21,991**	18,312	**10.0000**	8.7500

Notes to the consolidated financial statements

17. Reserves

	Consolidated	
	30 June 2015 $'000	30 June 2014 $'000
Balance 1 July	–	–
Security-based benefits expense	112	–
Balance 30 June	**112**	–

The security-based benefits reserve is used to recognise the fair value of rights issued under the Group's Long Term Incentive Plan.

18. 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 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.

19. Related party disclosures

Subsidiaries

Interests in subsidiaries are set out in note 20.

Key management personnel compensation

	30 June 2015 $	30 June 2014 $
Short-term employee benefits	1,011,950	–
Post-employment benefits	59,763	–
Long-term benefits	10,149	–
Termination benefits	–	–
Security-based payments	96,510	–
	1,178,372	–

Detailed remuneration disclosures are provided in the Remuneration report.

Stapled group

The Arena REIT Stapled Group comprises ARF1, ARF2, and ARL and its controlled entities.

Arena REIT Management Limited (a wholly owned subsidiary of ARL) replaced Arena Investment Management Limited as responsible entity of the Trusts on 12 December 2014.

19. Related party disclosures (continued)

Responsible entity

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

	30 June 2015 $	30 June 2014 $
The following transactions occurred with related parties:		
Property management fees paid or payable to other related parties	–	45,244
Acquisition of interests in related parties	485,428	–
Property management income received from other related parties	7,000	–
Management fees received by the Group from other related parties	180,494	–
Property income received from other related parties	18,054	–
Increase/(decrease) in performance fee receivable by the Group from other related parties	118,968	–
Amounts receivable:		
Amount receivable from other related parties at the end of the reporting period	48,341	–
Deferred management and performance fees receivable at the end of the reporting period	1,189,137	–
Amounts payable:		
Amounts payable to other related parties at the end of the reporting period	–	14,371

Former Responsible Entity

On 11 December 2014, Arena Investment Management Limited ('AIML') retired as Responsible Entity of the funds within the Arena REIT Stapled Group. The former Responsible Entity received the following fees during the year, up to the date of retirement:

	30 June 2015 $	30 June 2014 $
The following transactions occurred with the former Responsible Entity prior to its retirement on 11 December 2014:		
Management fees paid or payable by the Group to the former Responsible Entity	1,352,599	2,377,253
Deferred management and disposal fees paid to the former Responsible Entity	–	3,400,000
Reimbursement of stapling costs paid by the former Responsible Entity on behalf of the Group	–	1,094,514
Property acquisition fees paid to the former Responsible Entity	–	876,280
Property disposal and performance fees paid or payable by the Group to the former Responsible Entity	284,150	–
Amounts payable:		
Amounts payable to the former Responsible Entity at the end of the reporting period in relation to management fees and cost recoveries	–	546,760

Notes to the consolidated financial statements

20. Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries of ARL:

Name of entity	Country of incorporation	Class of shares	Equity holding 2015 %	Equity holding 2014 %
Citrus Investment Services Limited	Australia	Ordinary	100	–
Arena Property Services Pty Limited	Australia	Ordinary	100	–
Arena REIT Management Limited	Australia	Ordinary	100	–

The management function of the Arena REIT Group was internalised during the year, taking effect from 12 December 2014. The internalisation process involved the stapling of each share in Arena REIT Limited ('ARL') to each existing stapled security, as well as the acquisition by ARL of Citrus Investment Services Pty Ltd and its wholly owned subsidiaries Arena REIT Management Limited and Arena Property Services Pty Ltd.

21. Security-based benefits expense

(a) Performance Rights and Recognition Rights Plan (Rights)

The performance rights and recognition rights are unquoted securities. Conversion to stapled securities is subject to service and performance conditions which are discussed in the Remuneration Report.

Performance rights	2015 Number	Total Number
Rights issued on 12/12/14	304,987	304,987
Performance rights issued	304,987	304,987
Number rights forfeited/lapsed in prior years	–	–
Number rights forfeited/lapsed in current year	–	–
Number rights vested in prior years	–	–
Number rights vested in current year	–	–
Closing balance	**304,987**	**304,987**

Recognition rights	2015 Number	Total Number
Rights issued on 12/12/14	186,660	186,660
Recognition rights issued	186,660	186,660
Number rights forfeited/lapsed in prior years	–	–
Number rights forfeited/lapsed in current year	–	–
Number rights vested in prior years	–	–
Number rights vested in current year	–	–
Closing balance	**186,660**	**186,660**

21. Security-based benefits expense (continued)

(b) Rights expense

Total expenses relating to the Rights recognised during the year as part of employee benefit expense was as follows:

	30 June 2015 $'000	30 June 2014 $'000
Performance rights and recognition rights	112	–
	112	–

(c) Rights valuation inputs

Rights issued were independently valued for the purposes of valuation and accounting using a Black-Scholes or Monte Carlo method, as applicable. The model inputs for the Rights issued during FY15 and outstanding as at 30 June 2015 to assess the fair value are as follows:

Performance rights

Grant date	12/12/14
Security price at grant date	$1.45
Fair value of right	$0.94
Expected price volatility	20%
Risk-free interest rate	2.57%

Recognition rights

Grant date	12/12/14
Security price at grant date	$1.45
Fair value of right	$1.22
Expected price volatility	20%
Risk-free interest rate	2.57%

Notes to the consolidated financial statements

22. Financial risk management and fair value measurement

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

(a) Market risk

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

(i) Cash flow and fair value interest rate risk

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

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

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

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Financial assets		
Cash and cash equivalents (floating interest rate)	10,888	3,947
Financial liabilities		
Interest bearing liabilities - floating interest rate	(131,000)	(125,000)
Derivative financial instruments (notional principal amount) - fixed rate interest rate swaps	90,000	85,000
Net Exposure	**(30,112)**	(36,053)

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

	Consolidated	
	2015	2014
	$'000	$'000
Market interest rate increased by 100 basis points (2014: 100 bp)	(301)	(361)
Market interest rate decreased by 100 basis points (2014: 100 bp)	301	361
Instruments with fair value risk:		
Derivative financial instruments	90,000	85,000

22. Financial risk management and fair value measurement (continued)

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

	Consolidated	
	2015	2014
	$'000	$'000
Market interest rate increased by 100 basis points (2014: 100 bp)	3,142	1,942
Market interest rate decreased by 100 basis points (2014: 100 bp)	(3,142)	(1,942)

The interest rate range for sensitivity purposes has been determined using the assumption that interest rates changed by +/- 100 basis points from year end rates with all other variables held constant. In determining the impact of an increase/decrease in equity to securityholders arising from market risk the Group has considered prior period and expected future movements of the portfolio information in order to determine a reasonable possible shift in assumptions.

(b) Credit risk

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

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

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Cash at bank	10,888	3,947
Other receivables	1,745	880
Less: Allowance for impairment of trade receivables	–	–
Maximum exposure to credit risk	**12,633**	4,827

The Group manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank and interest rate swaps are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Before accepting a new tenant, the Group endeavours to obtain financial information from the prospective tenant, and rental guarantees are sought before tenancy is approved. Third party credit risk is secured against land and corporate and personal guarantees where possible.

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

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

Notes to the consolidated financial statements

22. Financial risk management and fair value measurement (continued)

(c) Liquidity risk

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

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

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

	Less than 12 months $'000	1-2 years $'000	Greater than 2 years $'000
Consolidated 30 June 2015			
Trade and other payables	15,297	–	–
Interest rate swaps	914	434	1,726
Interest bearing liabilities	3,632	90,122	48,317
Contractual cash flows (excluding gross settled derivatives)	**19,843**	**90,556**	**50,043**
Consolidated 30 June 2014			
Trade and other payables	10,985	–	–
Interest rate swaps	569	554	1,196
Interest bearing liabilities	7,168	7,168	139,335
Contractual cash flows (excluding gross settled derivatives)	**18,722**	**7,722**	**140,531**

(d) Fair value estimation

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.

22. Financial risk management and fair value measurement (continued)

(e) 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 following table presents the Group's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2015 and 30 June 2014 on a recurring basis:

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Consolidated 30 June 2015				
Financial liabilities				
Interest rate swaps	–	398	–	398
Total	**–**	**398**	**–**	**398**
Consolidated 30 June 2014				
Financial liabilities				
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 year.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2015.

Notes to the consolidated financial statements

22. Financial risk management and fair value measurement (continued)

(e) Fair value hierarchy (continued)

(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.

(f) AFSL financial compliance risk

The Group is exposed to the risk of having inadequate capital and liquidity. Arena REIT Management Limited, a subsidiary of ARL, holds an Australian Financial Services License (**AFSL**) and acts as a responsible entity for a number of the Group's managed investment schemes. The AFSL requires minimum levels of net tangible assets, liquid assets, cash reserves and liquidity, which may restrict the Group in paying dividends that would breach these requirements.

The directors regularly review and monitor the Group's balance sheet to ensure ARML's compliance with its AFSL requirements.

23. Parent entity financial information

Summary of financial information

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

Parent	30 June 2015 $'000	30 June 2014 $'000
Income statement information		
Net profit attributable to Arena REIT No. 1	**55,354**	38,505
Comprehensive income information		
Total comprehensive income attributable to Arena REIT No. 1	**55,354**	38,505
Balance Sheet		
Current assets	**11,129**	18,895
Non-current assets	**352,939**	291,642
Total assets	**364,068**	310,537
Current liabilities	**12,884**	10,024
Non-current liabilities	**97,439**	91,302
Total liabilities	**110,323**	101,326
Equity attributable to securityholders of Arena REIT No. 1		
Contributed equity	**191,845**	183,221
Accumulated profit	**61,900**	25,990
	253,745	209,211

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

	Consolidated	
	30 June 2015	30 June 2014
	$'000	$'000
Profit for the year	60,966	44,564
Amortisation of borrowing costs	75	590
Net increase in fair value of investment properties	(39,828)	(24,489)
Straight lining adjustment on rental income	(23)	(401)
Amortisation of leasing costs	51	–
Net (gain)/loss on sale of direct property	(2,232)	(3,784)
Net (gain)/loss on derivative financial instruments	1,781	1,200
Security-based payments expense	112	–
Deferred management fee revenue	(119)	–
Depreciation and amortisation expense	29	–
Other stapling costs	1,027	699
Changes in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	890	1,150
(Decrease)/increase in trade and other payables	150	783
(Decrease)/increase in provisions	51	–
Net cash inflow from operating activities	22,930	20,312

25. Contingent assets and liabilities and commitments

There are no material outstanding contingent assets or liabilities as at 30 June 2015 and 30 June 2014. For details of commitments of the Group as at 30 June 2015, refer to note 10.

26. Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Group disclosed in the consolidated balance sheet as at 30 June 2015 or on the results and cash flows of the Group for the year ended on that date.

Directors' declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 29 to 67 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the financial year ended on that date, and

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

(c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, with the exception of the consolidation of Arena REIT No. 1, Arena REIT No. 2 and Arena REIT Limited, where ASIC class orders 13/1050 and 13/1644 have been applied.

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

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

David Ross
Chairman

Melbourne
25 August 2015

Independent auditor's report

Independent auditor's report to the securityholders of Arena REIT

Report on the financial report

We have audited the accompanying financial report of Arena REIT (the Group), which comprises the consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Group. The Group comprises Arena REIT No. 1, Arena REIT No. 2, Arena REIT Limited and the entities they controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Independent auditor's report

pwc

Auditor's opinion

In our opinion:

(a) the financial report of Arena REIT is in accordance with the *Corporations Act 2001,* including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the remuneration report included in pages 17 to 26 of the directors' report for the year ended 30 June 2015. The directors of the Group are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Arena REIT for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
25 August 2015

ASX additional information

Additional Stock Exchange Information as at 11 August 2015

There were 228,290,098 fully paid ordinary securities on issue, held by 3,631 securityholders. There were 94 holders holding less than a marketable parcel.

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

(i) on a show of hands every person present who is a securityholder has one vote; and

(ii) on a poll each securityholder present in person or by proxy or attorney has one vote for each security they have in the Group.

Distribution of securityholders

Number of securities held	Number of securityholders	Total securities held	% of total securities on issue
1-1,000	247	111,340	0.05
1,001-5,000	418	1,260,334	0.55
5,001-10,000	581	4,662,241	2.04
10,001-100,000	2,253	70,828,904	31.03
100,000 and over	132	151,427,279	66.33
Total	**3,631**	**228,290,098**	**100**

Substantial securityholders as disclosed by the ASX

Name of substantial securityholder	Number of securities
Australian Unity Funds Management Limited	25,096,538
Westpac Banking Corporation	13,753,759
Commonwealth Bank of Australia	12,290,090
The Vanguard Group, Inc	11,412,967

ASX additional information

Twenty largest registered securityholders

Holder Name	Number of securities	Fully paid (%)
National Nominees Limited	34,271,670	15.01
J P Morgan Nominees Australia Limited	26,931,118	11.80
HSBC Custody Nominees (Australia) Limited	25,097,270	10.99
Citicorp Nominees Pty Limited	12,048,446	5.28
Sandhurst Trustees Ltd <AIMS PSF A/C>	6,005,319	2.63
Perpetual Nominees Limited <PNL 1 A/C>	5,969,753	2.62
Perpetual Nominees Limited <INV 1 A/C>	4,400,556	1.93
RBC Investor Services Australia Nominees Pty Limited <APN A/C>	3,641,506	1.60
BNP Paribas Noms Pty Ltd	1,643,757	0.72
Brispot Nominees Pty Ltd <House Head Nominee No. 1 A/C>	1,372,320	0.60
UBS Nominees Pty Ltd	1,338,326	0.59
Navigator Australia Ltd <MLC Investment Sett A/C>	1,197,789	0.53
Taverners No. 11 Pty Ltd <Brencorp No. 11 Unit A/C>	786,804	0.35
HSBC Custody Nominees (Australia) Limited - A/C 3	774,639	0.34
HSBC Custody Nominees (Australia) Limited - A/C 2	752,261	0.33
Keith David Kirk	722,195	0.32
Netwealth Investments Limited <WRAP Services A/C>	640,663	0.28
HGT Investments Pty Ltd	600,000	0.26
Arkwright Developments Pty Limited <The Findlay A/C>	594,059	0.26
Mr Jiebo Huang	547,030	0.24
Sub-totals	**129,335,481**	**56.68**
Total securities issued	**228,290,098**	**100**

Notes

Corporate directory

Principal place of business

Arena REIT Limited
ACN 602 365 186

Arena REIT Management Limited
ACN 600 069 761, AFSL 465754

71 Flinders Lane
Melbourne Vic 3000

Telephone: +61 3 9093 9000
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Email: info@arena.com.au
Website: arena.com.au

Directors

- David Ross (Independent, Non-Executive Chairman)
- Simon Parsons (Independent, Non-Executive Director)
- Dennis Wildenburg (Independent, Non-Executive Director)
- Bryce Mitchelson (Managing Director)
- Gareth Winter (Chief Financial Officer)

Secretary

Gareth Winter

Registry

Boardroom Pty Limited

Level 12, 225 George Street
Sydney NSW 2001

Telephone: 1300 737 760
Website: boardroomlimited.com.au

Auditor

PricewaterhouseCoopers

Freshwater Place, 2 Southbank Boulevard
Southbank Vic 3006

Stock exchange listings

Arena REIT stapled securities are listed on the Australian Stock Exchange (ASX).

Stay up to date with **arena.com.au**

The Arena website provides a wealth of information on Arena REIT and its activities.

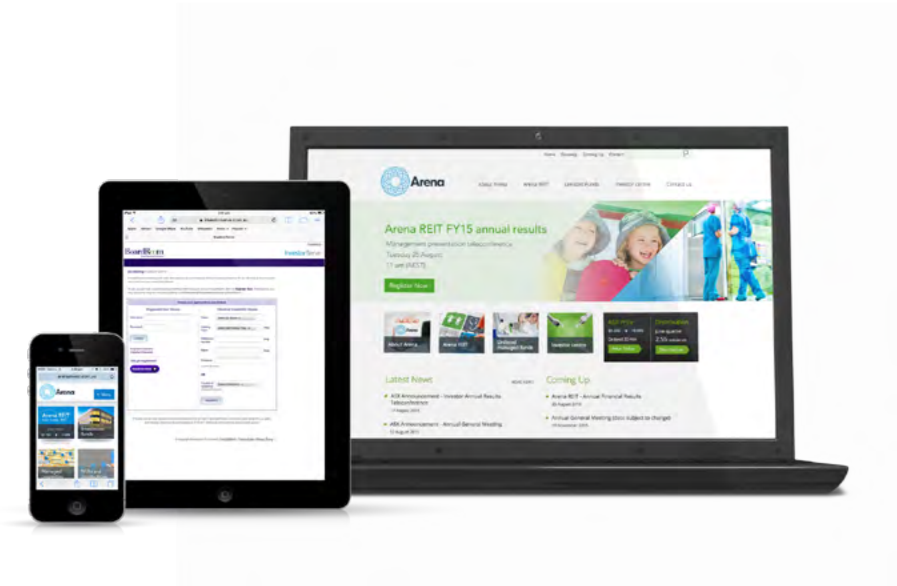
Information includes full and interim year financial reports, presentations and videos as well as Arena tax statement guides

Manage your investments online with InvestorServe

You can manage your investments through InvestorServe, via Arena's website. This allows investors to view holding balances, transaction history and distribution payments, along with other useful functions.

To register with InvestorServe:

1. Call 1800 008 494 and request a password for InvestorServe.
2. Once received, visit Arena's website and click on the InvestorServe link shown on the Investor Centre page. Once there, simply select Register Now.
3. Enter the required information and follow the prompts to verify your identity and create your own account.
4. You should now be able to access and manage your investments.



Arena