Arena REIT
Appendix 4D
For the period ended 31 December 2017

Name of entity:

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

ARSN:

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

ACN:

Arena REIT Limited (ACN 602 365 186)

Reporting period

This report details the consolidated results of Arena REIT for the half-year ended 31 December 2017. Arena REIT is a stapled security comprising Arena REIT Limited, Arena REIT No.1 and Arena REIT No.2.

Results for announcement to the market

All comparisons are to the half-year ended 31 December 2016.

				$A'000
Total income from ordinary activities	Down	34%	to	42,045
Profit from ordinary activities after tax attributable to Arena REIT stapled group investors	Down	38%	to	37,087
Net profit for the period attributable to Arena REIT stapled group investors	Down	38%	to	37,087

Distributions

Quarter	Cents per security	Paid/Payable
September Quarter	3.2000	9 November 2017
December Quarter	3.2000	8 February 2018
Total	**6.4000**	

Net assets per security

	Consolidated	
	31 December 2017	**30 June 2017**
Net asset value per ordinary security	$1.93	$1.84

This information should be read in conjunction with the 31 December 2017 Half Year Financial Report of Arena REIT and any public announcements made during the period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and Listing Rules.

This report is based on the Arena REIT 31 December 2017 half-year financial statements which have been reviewed by PricewaterhouseCoopers. The Independent Auditor’s Review Report provided by PricewaterhouseCoopers is included in the 31 December 2017 half year financial statements.

Signed:

David Ross
Chairman
22 February 2018

Arena REIT

ARSN 106891641

Interim Report
31 December 2017

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

The Responsible Entity of Arena REIT No.1 and Arena REIT No. 2 (the 'Trusts') is Arena REIT Management Limited (ACN 600069761, AFSL 465754). The Responsible Entity's registered office is:

Level 5, 41 Exhibition Street
Melbourne VIC 3000

Directors' report

The directors of Arena REIT Limited ('ARL') and Arena REIT Management Limited ('ARML'), the Responsible Entity of Arena REIT No. 1 and Arena REIT No. 2 (the 'Trusts'), present their report together with the financial statements of Arena REIT for the period ended 31 December 2017. The interim financial report covers ARL, Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2'), and their controlled entities.

ARF1, ARF2 and ARL are separate entities for which the units and shares have been stapled together to enable trading as one security. The units of ARF1, ARF2 and shares of ARL cannot be traded separately. None of the stapled entities controls any of the other stapled entities, however for the purposes of statutory financial reporting the entities form a consolidated group.

Directors

The following persons held office as directors of ARL during the whole of the financial period 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)

The following persons held office as directors of ARML during the whole of the financial period 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

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

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

Distributions to securityholders

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

	31 December 2017 $'000	31 December 2016 $'000	**31 December 2017 cps**	31 December 2016 cps
September quarter	**8,570**	6,807	**3.2000**	2.9250
December quarter	**8,583**	6,834	**3.2000**	2.9250
Total distributions to securityholders	**17,153**	13,641	**6.4000**	5.8500

Operating and Financial Review

The Group operates with the aim of generating attractive and predictable distributions for securityholders with earnings growth prospects over the medium to long term.

The Group's strategy is to invest in property underpinned by relatively long leases and in sectors with supportive macro-economic trends. The Group will consider investment in sectors with the required characteristics, which may include:

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

Key financial metrics

	31 December 2017	**31 December 2016**	**Change**
Net profit (statutory)	$37.1 million	$59.6 million	- 38%
Net operating profit (distributable income)	$16.8 million	$14.2 million	+ 18%
Distributable income per security	6.42 cents	6.11 cents	+ 5%
Distributions per security	6.40 cents	5.85 cents	+ 9%

	31 December 2017	**30 June 2017**	**Change**
Total assets	$704.3 million	$621.3 million	+ 13%
Investment properties	$676.6 million	$591.7 million	+ 14%
Borrowings	$169.0 million	$171.0 million	- 1%
Net assets	$518.5 million	$432.5 million	+ 20%
NAV per security	$1.93	$1.84	+ 5%
Gearing *	24.0%	27.5%	- 350 bps

** Gearing calculated as Borrowings / Total Assets*

31 December 2017 half year highlights

- Half year net statutory profit was $37.1 million, down 38% on the previous half year comparative period. This is primarily due to a smaller revaluation uplift for investment properties compared to the prior period;
- Half year net operating profit was $16.8 million, up 18% on the previous half year comparative period;
- The property portfolio increased with the addition of 9 Early Learning Centre ('ELC') development sites and one operational ELC. During the period, 11 ELC developments were completed and leases commenced;
- Distributions for the period were 6.40 cents per security, up 9% on the previous half year comparative period;
- The Group completed a fully underwritten Institutional Placement in July 2017, raising $55 million through the issue of 27.1 million securities;
- In conjunction with the Institutional Placement, the Group offered a Security Purchase Plan (SPP) to eligible investors in August 2017. $10 million was raised through the issue of 4.9 million securities;
- NAV per security at 31 December 2017 was $1.93, an increase of 5% on 30 June 2017. This was primarily due to an increase in investment property values; and
- Gearing was 24.0% at 31 December 2017, representing a 350bps reduction on 30 June 2017, primarily due to the proceeds from equity issued during the period to fund the Group's ELC developments.

Operating and Financial Review (continued)

31 December 2017 half year highlights (continued)

Financial results

	31 December 2017 $'000	31 December 2016 $'000
Property income	**20,701**	18,047
Other income	**317**	337
Total operating income	**21,018**	18,384
Property expenses	**(401)**	(449)
Operating expenses	**(1,687)**	(1,635)
Finance costs	**(2,172)**	(2,078)
Net operating profit (distributable income) *	**16,758**	14,222
Non-distributable items:		
Investment property revaluation and straight-lining of rent	**21,252**	43,176
Profit/(loss) on sale of investment properties	**67**	17
Change in fair value of derivatives	**(264)**	2,499
Transaction costs	**(401)**	(4)
Amortisation of security-based payments (non-cash)	**(363)**	(284)
Other	**38**	(26)
Statutory net profit	**37,087**	59,600

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

Financial results summary

	31 December 2017	31 December 2016
Net operating profit (distributable income) ($'000)	**16,758**	14,222
Weighted average number of ordinary securities ('000)	**261,013**	232,808
Distributable income per security (cents)	**6.42**	6.11

- Net operating profit is the measure used to determine securityholder distributions and represents the underlying cash-based profit of the Group for the relevant period. Net operating profit excludes fair value changes from asset and derivative revaluations and items of income or expense not representative of the Group's underlying operating earnings or cashflow.
- The increase in net operating profit during the period is primarily due to:
    - Ongoing fixed annual rent increases and market reviews on the Group's property portfolio;
    - Commencement of rental income from 11 ELC developments completed during the six months ended 31 December 2017, and the acquisition of an operational ELC during the period; and
    - The full year effect of acquisitions and developments completed during FY17.
- Non-distributable items primarily decreased due to lower revaluation gains for investment properties and derivatives compared to the prior period. This is partially offset by a higher straight-line rental income adjustment compared to the prior period as a result of the lease extensions agreed in late FY17.

Operating and Financial Review (continued)

Investment property portfolio

Key property metrics

	31 December 2017	30 June 2017
Total value of investment properties	$676.6 million	$591.7 million
Number of properties under lease	207	195
Development sites	7	10
Properties available for lease or sale	-	-
Total properties in portfolio	**214**	**205**
Portfolio occupancy	100%	100%
Weighted average lease expiry (WALE)	13.1 years	12.8 years

- The increase in the value of investment properties is primarily due to:
  - New ELC development expenditure and capital expenditure of $64.5 million; and
  - A net revaluation increment to the portfolio of $19.2 million for the period.

Capital management

Equity

- During the period, 868,210 securities were issued at an average price of $2.15 to raise $1.9 million of equity pursuant to the Distribution Re-investment Plan (DRP);
- On 3 August 2017, 27,093,596 securities were issued at a price of $2.03 following the completion of a fully underwritten placement to institutional and professional investors;
- On 5 September 2017, 4,925,032 securities were issued at a price of $2.03 following the completion of the Security Purchase Plan (SPP).

Bank facilities & gearing

- The Group has refinanced its syndicated debt facility, increasing the facility limit by $25 million to $230 million and extending maturity dates. The Group's debt facility now comprises an $80 million facility expiring 31 March 2022 and a $150 million facility expiring 31 March 2023 providing a remaining weighted average term of 4.9 years as at 31 December 2017;
- The Group has undrawn capacity of $61 million to fund ELC development commitments and new investment opportunities;
- Gearing was 24.0% at 31 December 2017 (30 June 2017: 27.5%);
- The Group was fully compliant with all bank facility covenants throughout the period and as at 31 December 2017. At 31 December 2017 the Loan to Valuation Ratio was 27.6% (Covenant: 50%) and the Interest Cover Ratio was 6.4 times (Covenant: 2.0 times);
- Refer to note 4 for further information.

Interest rate management

- As at 31 December 2017, the Group has hedged 75% of borrowings for a weighted average term of 6.3 years (30 June 2017: 79% for 4.3 years). The average swap fixed rate at 31 December 2017 is 2.42% (30 June 2017: 2.39%).

Operating and Financial Review (continued)

FY18 outlook

The Group presently expects to pay a distribution of 12.8 cents per security for FY18. The FY18 distribution is comprised of the 6.40 cents per security declared by Arena REIT up until 31 December 2017 and 6.40 cents per security forecast by the Group for the period from 1 January 2018 to 30 June 2018.

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 period.

Matters subsequent to the end of the financial period

No matters or circumstances have arisen since 31 December 2017 that have significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

The Group will continue to be managed in accordance with 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.

Rounding of amounts to the nearest thousand dollars

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

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

David Ross
Chairman

Melbourne
22 February 2018

Auditor's Independence Declaration

As lead auditor for the review of Arena REIT No. 1 for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
22 February 2018

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Consolidated statement of comprehensive income

		Consolidated	
	Notes	**31 December 2017 $'000**	31 December 2016 $'000
Income			
Property income	2	**22,740**	17,750
Management fee income		**220**	229
Interest		**136**	81
Net (loss)/gain on change in fair value of derivative financial instruments		**(264)**	2,499
Revaluation of investment properties	3	**19,213**	43,473
Total income		**42,045**	64,032
Expenses			
Direct property expenses		**(401)**	(449)
Management and administration expenses		**(2,026)**	(1,893)
Finance costs		**(2,472)**	(2,078)
Other expenses		**(59)**	(12)
Total expenses		**(4,958)**	(4,432)
Net profit for the half-year		**37,087**	59,600
Other comprehensive income		**-**	-
Total comprehensive income for the half-year		**37,087**	59,600
Total comprehensive income for the half-year is attributable to Arena REIT stapled group investors, comprising:			
Unitholders of Arena REIT No. 1		**34,748**	55,186
Unitholders of Arena REIT No. 2 (non-controlling interest)		**2,481**	4,765
Unitholders of Arena REIT Limited (non-controlling interest)		**(142)**	(351)
		37,087	59,600
		Cents	Cents
Earnings per security:			
Basic earnings per security in Arena REIT No. 1		**13.31**	23.70
Diluted earnings per security in Arena REIT No. 1		**13.23**	23.55
Basic earnings per security in Arena REIT Group		**14.21**	25.60
Diluted earnings per security in Arena REIT Group		**14.12**	25.44

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

Consolidated balance sheet

		Consolidated	
		31 December 2017	30 June 2017
	Notes	**$'000**	$'000
Current assets			
Cash and cash equivalents		**9,026**	9,082
Trade and other receivables		**6,918**	8,613
Total current assets		**15,944**	17,695
Non-current assets			
Receivables		**748**	860
Property, plant and equipment		**176**	199
Investment properties	3	**676,593**	591,712
Intangible assets		**10,816**	10,816
Total non-current assets		**688,333**	603,587
Total assets		**704,277**	621,282
Current liabilities			
Trade and other payables		**8,388**	9,305
Distributions payable		**8,582**	7,221
Provisions		**272**	288
Total current liabilities		**17,242**	16,814
Non-current liabilities			
Derivative financial instruments	5	**273**	1,031
Provisions		**324**	337
Interest bearing liabilities	4	**167,897**	170,624
Total non-current liabilities		**168,494**	171,992
Total liabilities		**185,736**	188,806
Net assets		**518,541**	432,476
Equity			
Contributed equity - ARF1	6	**257,617**	202,179
Accumulated profit	7	**181,754**	161,929
Non-controlling interests - ARF2 and ARL	8	**79,170**	68,368
Total equity		**518,541**	432,476

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

Consolidated statement of changes in equity

				Consolidated
	Contributed equity	**Accumulated profit**	**Non-controlling interests - ARL & ARF2**	**Total equity**
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 July 2016	197,224	99,187	61,082	357,493
Profit for the half-year	-	55,186	4,414	59,600
Total comprehensive income for the period	**-**	**55,186**	**4,414**	**59,600**
Transactions with owners in their capacity as owners:				
Issue of securities under the DRP	2,882	-	431	3,313
Distributions to securityholders	-	(11,868)	(1,773)	(13,641)
Security-based benefits expense	-	-	270	270
Balance at 31 December 2016	**200,106**	**142,505**	**64,424**	**407,035**
Balance at 1 July 2017	202,179	161,929	68,368	432,476
Profit for the half-year	-	34,748	2,339	37,087
Total comprehensive income for the period	**-**	**34,748**	**2,339**	**37,087**
Transactions with owners in their capacity as owners:				
Issue of securities under the DRP	1,610	-	242	1,852
Distributions to securityholders	-	(14,923)	(2,230)	(17,153)
Issue of securities under the Institutional Placement	45,478	-	8,544	54,022
Issue of securities under the Security Purchase Plan	8,350	-	1,564	9,914
Security-based benefits expense	-	-	343	343
Balance at 31 December 2017	**257,617**	**181,754**	**79,170**	**518,541**

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

Consolidated statement of cash flows

	Consolidated	
	31 December 2017	31 December 2016
	$'000	$'000
Cash flows from operating activities		
Receipts in the course of operations	**23,529**	19,922
Payments in the course of operations	**(6,385)**	(5,153)
Interest received	**121**	73
Finance costs paid	**(2,089)**	(2,002)
Net cash inflow from operating activities	**15,176**	12,840
Cash flows from investing activities		
Proceeds from sale of investment properties	**3,987**	-
Payments for investment properties and capital expenditure	**(66,185)**	(28,971)
Net cash (outflow) from investing activities	**(62,198)**	(28,971)
Cash flows from financing activities		
Net proceeds from issue of securities	**63,924**	(15)
Distributions paid to securityholders	**(13,928)**	(9,914)
Capital receipts from lenders	**13,000**	24,617
Capital payments to lenders	**(16,030)**	(75)
Net cash inflow from financing activities	**46,966**	14,613
Net (decrease)/increase in cash and cash equivalents	**(56)**	(1,518)
Cash and cash equivalents at the beginning of the financial period	**9,082**	9,446
Cash and cash equivalents at the end of the financial period	**9,026**	7,928

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

Contents of the notes to the financial statements

1 Summary of significant accounting policies

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

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

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

(i) Going concern - Net working capital deficiency

At 31 December 2017, the Group had a net working capital deficiency of $1.3 million. This deficiency is due to working capital management within the Group, and the difference in the timing of the drawdowns from the Group's debt facility and the timing of capital expenditure on developments. As at the date of this report the Group has $61 million of unused debt facility which can be drawn to fund cashflow requirements.

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

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

(b) Principles of consolidation

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

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

The consolidated financial statements of the Group incorporate the assets and liabilities of the entities controlled by ARF1 at 31 December 2017, including those deemed to be controlled by ARF1 by identifying it as the parent of the Group, and the results of those controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full. Non-controlling interests in the results and equity are shown separately in the Statement of Comprehensive Income and Statement of Financial Position respectively. Non-controlling interests are those interests in ARF2 and ARL which are not held directly or indirectly by ARF1.

(c) Presentation of members interests in ARF2 and ARL

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

(d) New and amended standards adopted by the group

There are no new or amended standards adopted by the Group for the first time in their interim reporting period commencing 1 July 2017.

1 Summary of significant accounting policies (continued)

(e) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods. The Group has not early adopted these standards/interpretations. The Group's assessment of the impact of these new standards and interpretations is set out below:

Standard / Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	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 has assessed the effects of applying the new standard on the Group's financial statements and has determined that as of 1 January 2018, the impact is not expected to be material.	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 has assessed the effects of applying the new standard on the Group's financial statements and has determined that no impact is expected.	1 January 2018	30 June 2019
IFRS 16 Leases	In February 2016, the AASB issued AASB 16 Leases. The standard provides a single lessee accounting model, requiring lessees to recognise an asset (the right to use the leased item) and a financial liability to pay rentals. The only exemptions are where the lease term is 12 months or less, or the underlying asset has a low value. Lessor accounting is substantially unchanged under AASB 16. Management has assessed the effects of applying the new standard on the Group's financial statements and has determined that as of 1 January 2019, the impact is not expected to be material.	1 January 2019	30 June 2020

1 Summary of significant accounting policies (continued)

(e) New accounting standards and interpretations (continued)

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.

2 Property income

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

	Consolidated	
	31 December 2017	31 December 2016
	$'000	$'000
Property income	**20,701**	18,047
Other property income (recognised on a straight line basis)	**2,039**	(297)
Total property income	**22,740**	17,750

3 Investment properties

Independent valuations were performed over 42 Early Learning Centres ('ELC') as at 31 December 2017. The board of directors has reviewed these valuations and has determined they are appropriate to adopt during the financial period ending 31 December 2017. Director valuations were performed over investment properties not independently valued.

The key inputs into valuations are:

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

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

Investment properties have been classified as Level 2 in the fair value hierarchy.

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

(i) Key assumptions - ELCs

	31 December 2017	30 June 2017
Market rent per licenced place	**$1,500 to $5,000**	$1,500 to $3,900
Capitalisation rates	**5.0% to 8.5%**	5.5% to 8.5%
Passing yields	**4.5% to 10.25%**	4.5% to 10.25%

3 Investment properties (continued)

(ii) Key assumptions - Healthcare properties

	31 December 2017	30 June 2017
Capitalisation rates	**6.0% to 7.0%**	6.0% to 7.0%
Passing yields	**6.0% to 8.0%**	6.0% to 7.75%

(iii) Movements during the financial period

	Consolidated	
	31 December 2017	30 June 2017
	$'000	$'000
At fair value		
Opening balance	**591,712**	491,439
Property acquisitions and capital expenditure	**64,469**	39,971
Disposals	**(852)**	(6,622)
Revaluations	**19,213**	66,124
Other IFRS revaluation adjustments	**2,051**	800
Closing balance	**676,593**	591,712

The Group 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.

4 Interest bearing liabilities

	Consolidated	
	31 December 2017	30 June 2017
	$'000	$'000
Non-current		
Secured		
Syndicated facility	**169,000**	171,000
Unamortised transaction costs	**(1,103)**	(376)
Total non-current interest bearing liabilities	**167,897**	170,624

The Group has refinanced its syndicated debt facility, increasing the facility limit by $25 million to $230 million and extending the maturity dates. The Group now has an $80 million facility expiring 31 March 2022 and a $150 million facility expiring 31 March 2023 providing a remaining weighted average term of 4.9 years as at 31 December 2017.

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

The Group was compliant with all facility covenants throughout the period and at 31 December 2017.

5 Derivative financial instruments

	31 December 2017 $'000	30 June 2017 $'000
Non-current liabilities		
Interest rate swaps	**273**	1,031
	273	1,031

The Group has entered into interest rate swap contracts under which they receive interest at variable rates to reduce the exposure of interest bearing liabilities to changes in interest rates.

Swaps in place cover 75% (30 June 2017: 79%) of drawn debt. The weighted average fixed interest swap rate at 31 December 2017 was 2.42% (30 June 2017: 2.39%) and the weighted average term was 6.3 years (30 June 2017: 4.3 years).

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

6 Contributed equity

(a) Units

	31 December 2017 Securities '000	30 June 2017 Securities '000	31 December 2017 $'000	30 June 2017 $'000
Ordinary Stapled Securities				
Fully paid	**268,197**	234,843	**257,617**	202,179

Other contributed equity attributable to securityholders of the Group relating to ARF2 and ARL of $51.2 million is included within Non-controlling interests - ARF2 and ARL (30 June 2017: $40.4 million).

(b) Movement in ordinary stapled units

Date	Details	Number of securities '000	$'000
1 July 2016	Opening balance	231,966	197,224
	Issue of securities under the DRP (i)	2,877	4,955
30 June 2017	Closing balance	234,843	202,179
1 July 2017	Opening balance	**234,843**	**202,179**
	Issue of securities under the DRP (i)	**868**	**1,610**
3 August 2017	Issue of securities under the Institutional Placement (ii)	**27,094**	**45,478**
5 September 2017	Issue of securities under the Security Purchase Plan (iii)	**4,925**	**8,350**
	Vesting of security-based benefits to employees (iv)	**467**	**-**
31 December 2017	Closing balance	**268,197**	**257,617**

6 Contributed equity (continued)

(b) Movement in ordinary stapled units (continued)

(i) Distribution Re-investment Plan (DRP)

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

(ii) Institutional Placement

The Group completed a fully underwritten placement to institutional and professional investors in July 2017. $55 million was raised through the issue of 27,093,596 stapled securities at a price of $2.03 per stapled security. Settlement of the new stapled securities under the placement occurred 3 August 2017.

(iii) Security Purchase Plan (SPP)

In conjunction with the Institutional Placement, the Group offered a Security Purchase Plan (SPP) to eligible investors in August 2017. $10 million was raised through the issue of 4,925,032 stapled securities at a price of $2.03 per stapled security. Settlement of the new stapled securities under the SPP occurred 5 September 2017.

(iv) Security-based payments

In September 2017, 467,154 performance and recognition rights granted to employees in FY15 vested as a result of performance and service conditions being fulfilled.

7 Accumulated profit

Movement in accumulated profit was as follows:

	31 December 2017 $'000	30 June 2017 $'000
Opening accumulated profit	**161,929**	99,187
Net profit for the half-year/year attributable to ARF1	**34,748**	87,161
Distribution paid or payable attributable to ARF1	**(14,923)**	(24,419)
Closing accumulated profit	**181,754**	161,929

(i) Distributions paid or payable to securityholders

The following table details the distributions to securityholders during the financial period on a consolidated basis, including distributions declared by ARF2 (classified as a non-controlling interest) of $2.2 million (31 December 2016: $1.8 million).

	31 December 2017 $'000	31 December 2016 $'000	**31 December 2017 cps**	31 December 2016 cps
September quarter	**8,570**	6,807	**3.2000**	2.9250
December quarter	**8,583**	6,834	**3.2000**	2.9250
Total distributions to securityholders	**17,153**	13,641	**6.4000**	5.8500

8 Non-controlling interest

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

Movements in non-controlling interests were as follows:

	ARF2 30 June 2017	ARL 30 June 2017	Total 30 June 2017
Opening balance - 1 July 2016	46,954	14,128	61,082
Issue of securities under the DRP	744	-	744
Net profit for the period attributable to non-controlling interests	10,256	(626)	9,630
Distributions paid or payable attributable to non-controlling interests	(3,649)	-	(3,649)
Increase/(decrease) in reserves (i)	-	561	561
Closing balance - 30 June 2017	54,305	14,063	68,368

	ARF2 31 December 2017	ARL 31 December 2017	Total 31 December 2017
Opening balance - 1 July 2017	**54,305**	**14,063**	**68,368**
Issue of securities under the DRP	**242**	**-**	**242**
Issue of securities under the Institutional Placement	**6,787**	**1,757**	**8,544**
Issue of securities under the Security Purchase Plan	**1,242**	**322**	**1,564**
Vesting of security-based benefits to employees	**-**	**487**	**487**
Net profit for the period attributable to non-controlling interests	**2,481**	**(142)**	**2,339**
Distributions paid or payable attributable to non-controlling interests	**(2,230)**	**-**	**(2,230)**
Increase/(decrease) in reserves (i)	**-**	**(144)**	**(144)**
Closing balance - 31 December 2017	**62,827**	**16,343**	**79,170**

(i) Reserves

	31 December 2017 $'000	30 June 2017 $'000
Opening balance	**1,023**	462
Vesting of security-based benefits to employees	**(487)**	-
Security-based benefits expense	**343**	561
Closing balance	**879**	1,023

8 Non-controlling interest (continued)

(i) Reserves (continued)

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

9 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.

10 Fair value measurement of financial instruments

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

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

(a) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

AASB 13 requires disclosure of fair value measurements by level of fair value hierarchy. The fair value hierarchy has the following levels:

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

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

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

The tables below set out the Group's financial assets and financial liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2017 and 30 June 2017.

10 Fair value measurement of financial instruments (continued)

(a) Fair value hierarchy (continued)

Consolidated

31 December 2017

	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial liabilities				
Interest rate swaps	**-**	**273**	**-**	**273**
Total	**-**	**273**	**-**	**273**

Consolidated

30 June 2017

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial liabilities				
Interest rate swaps	-	1,031	-	1,031
Total	-	1,031	-	1,031

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2017.

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

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

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

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

11 Contingent assets and liabilities

There are no material contingent assets or liabilities as at 31 December 2017 and 30 June 2017.

12 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 31 December 2017 or on the results and cash flows of the Group for the half-year ended on that date.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 8 to 21 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the financial period ended on that date, and

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

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

David Ross
Chairman

Melbourne
22 February 2018

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Arena REIT No. 1 (ARF1) and its controlled entities (together the Group or Arena REIT), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the Director's declaration for Arena REIT. The consolidated entity comprises Arena REIT No. 1, Arena REIT No.2, Arena REIT Limited and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arena REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

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

PrcewaterhouseCoopers

Charles Christie
Partner

Melbourne
22 February 2018