

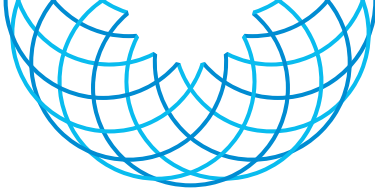
Better Communities. Together.

ARENA REIT

2023 ANNUAL REPORT



Arena



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Further information can be found online at:
www.arena.com.au

ABOUT THIS REPORT

The financial statements in this report cover Arena REIT (the 'Group') comprising Arena REIT Limited, Arena REIT No. 1, Arena REIT No. 2, and their controlled entities for the period 1 July 2022 to 30 June 2023. 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).



Arena REIT acknowledges the Traditional Custodians of the lands on which our business and assets operate, and recognises their ongoing connection to land, waters and community.



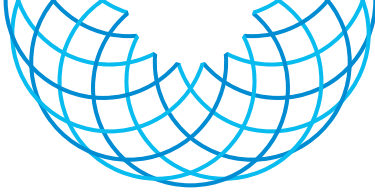
IMPORTANT NOTICE

This report has been prepared by Arena REIT (Arena) comprising Arena REIT Limited (ACN 602 365 186), Arena REIT Management Limited (ACN 600 069 761 AFSL No. 465754) as responsible entity of Arena REIT No.1 (ARSN 106 891 641) and Arena REIT No.2 (ARSN 101 067 878). The information contained in this report is current only as at the date of this report or as otherwise stated herein. This report may not be reproduced or distributed without Arena's prior written consent. The information contained in this report is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Arena has not considered the investment objectives, financial circumstances or particular needs of any particular recipient. You should consider your own financial situation, objectives and needs, conduct an independent investigation of, and if necessary obtain professional advice in relation to, this report. Past performance is not an indicator or guarantee of future performance.

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This report contains forward-looking statements including certain forecast financial information. The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "outlook", "upside", "likely", "intend", "should", "could", "may", "target", "plan", and other similar expressions are intended to identify forward-looking statements. The forward-looking statements are made only as at the date of this report and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of Arena and its directors. Such statements are not guarantees of future performance and actual results may differ materially from anticipated result, performance or achievements expressed or implied by the forward-looking statements. Other than as required by law, although they believe there is a reasonable basis for the forward-looking statements, neither Arena nor any other person (including any director, officer, or employee of Arena or any related body corporate) gives any representation, assurance or guarantee (express or implied) as to the accuracy or completeness of each forward-looking statement or that the occurrence of any event, result, performance or achievement will actually occur. You should not place undue reliance on any of the forward-looking statements.



FY23 HIGHLIGHTS

Arena REIT is an ASX200 listed group that develops, owns and manages social infrastructure property across Australia.

Our objective is to deliver an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

TOTAL ASSETS

\$1.6 billion

up 3% on 30 June 2022

MARKET CAPITALISATION

\$1.3 billion

as at 30 June 2023

STATUTORY NET PROFIT

\$74 million

down 78% on FY22

NET OPERATING PROFIT

\$60 million

up 6% on FY22

EARNINGS PER SECURITY (EPS)

17.1 cents

up 5% on FY22

DISTRIBUTIONS PER SECURITY (DPS)

16.8 cents

up 5% on FY22

PER ANNUM FIVE YEAR TOTAL ASX RETURN PERFORMANCE¹

17.2%

NET ASSET VALUE (NAV) PER SECURITY

\$3.42

up 1% on 30 June 2022





GEARING

21%

3.7 years weighted
average facility term

AVERAGE LIKE-FOR-LIKE RENTAL GROWTH

6.8%

REVALUATION UPLIFT

\$17 million

up 1% on prior year investment
property value

HEDGE COVER

88%

3.5 years weighted
average hedge term

WEIGHTED AVERAGE LEASE EXPIRY (WALE)

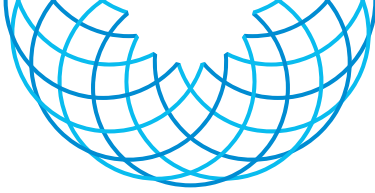
19.3 years

as at 30 June 2023

CAPITAL DEPLOYED

\$70 million

in FY23



PORTFOLIO SUMMARY

AS AT 30 JUNE 2023

Arena's portfolio of social infrastructure properties is leased to a diversified tenant base in the early learning and healthcare sectors.

TOTAL PROPERTIES

272

- ▶ 249 Early Learning Centres
- ▶ 9 Healthcare
- ▶ 14 ELC developments

TOTAL PORTFOLIO VALUE

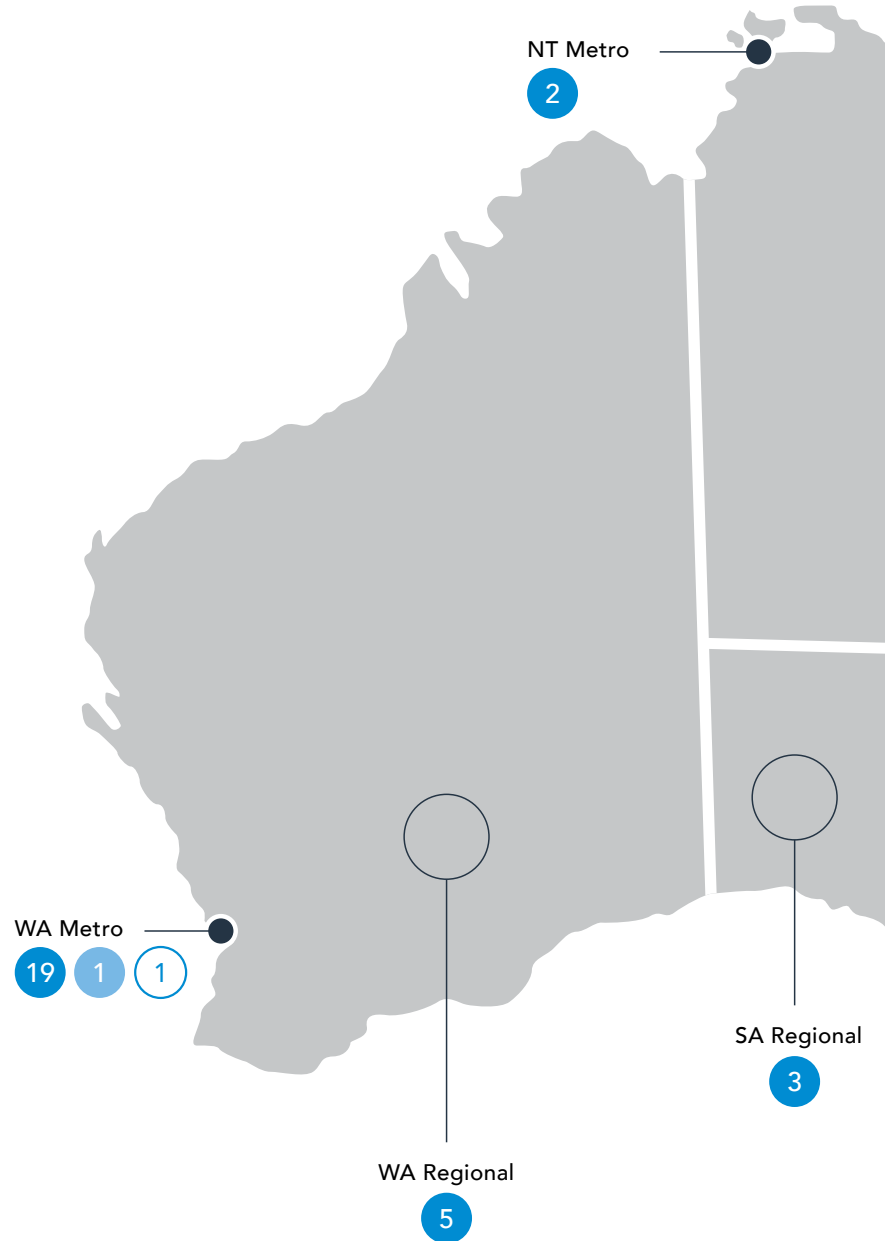
\$1.5 billion

- ▶ \$1.4b Early Learning Centres
- ▶ \$139m Healthcare

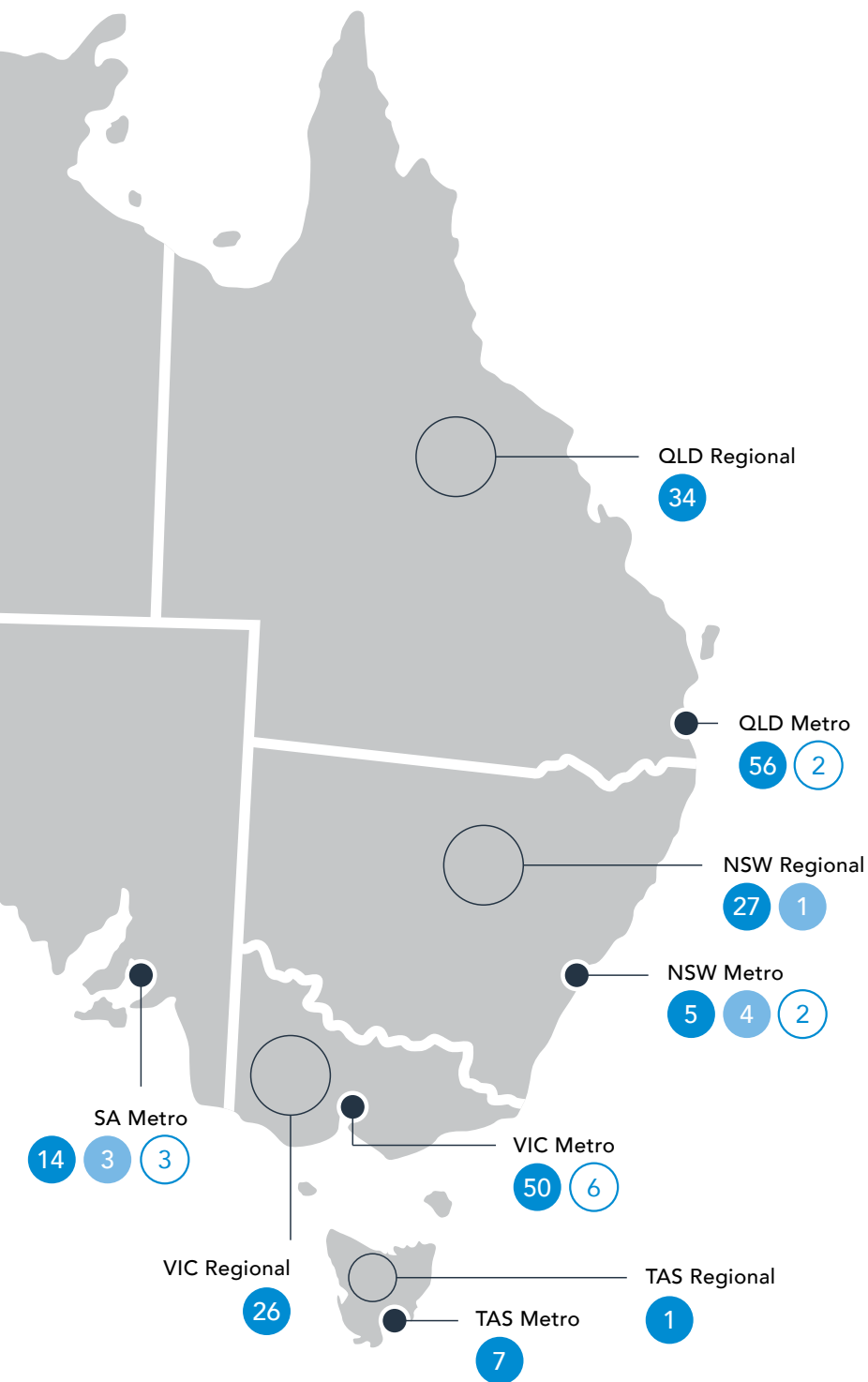
WALE

19.3 years

- ▶ 20.2 years Early Learning Centres
- ▶ 10.3 years Healthcare

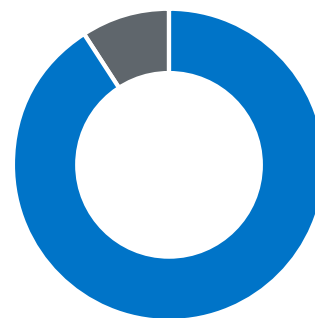


- Early Learning Centres (249 properties)
- Healthcare (9 properties)
- ELC development sites (14 properties)



Sector Diversification

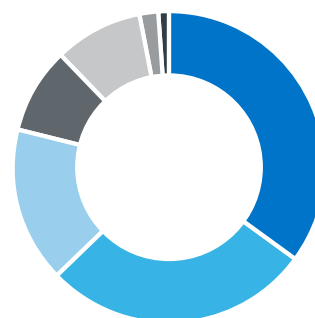
By value (%)



- Early Learning **91%**
- Healthcare **9%**

Geographic Diversification

By value (%)



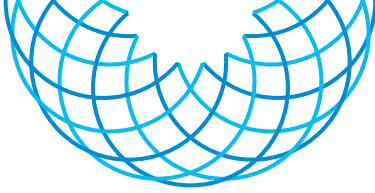
- QLD **35%**
- VIC **28%**
- NSW **16%**
- WA **9%**
- SA **9%**
- TAS **2%**
- NT **1%**

Tenant Diversification

By income (%)



- Goodstart **24%**
- Green Leaves **18%**
- Edge **11%**
- Affinity **10%**
- ForHealth **7%**
- G8 Education **5%**
- Aspire **4%**
- Petit **3%**
- Mayfield **2%**
- Other **16%**



CHAIR AND MANAGING DIRECTOR'S REPORT

Financial year 2023 was characterised by a rapidly changing external economic environment arising from inflationary pressures, rapid interest rate increases, cost and wages pressures and labour shortages.

In response to this new environment, the Arena team has maintained discipline across our capital, leasing and portfolio management strategies and successfully managed operating costs while delivering on our investment objective.

Notwithstanding a challenging economic backdrop, Arena is well positioned to patiently explore and capitalise on new opportunities consistent with our investment objective.



Arena has produced earnings and distribution growth, successfully delivered acquisitions and development completions, replenished the development pipeline, maintained the portfolio's long WALE and made material progress on our sustainability objectives during the reporting period.

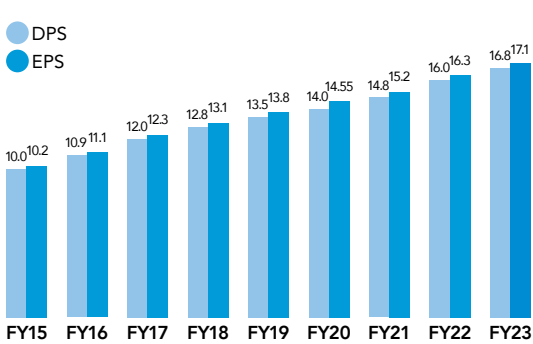
These positive outcomes are a result of the quality of Arena's property portfolio, the proactive approach of Arena's management team and the strong macroeconomic themes that support investment in social infrastructure property. It is also an endorsement of Arena's disciplined strategy and ability to deliver on our investment objective.

Arena has delivered a three-year ASX total compound return of 25% per annum and five-year ASX total compound return of 17.2% per annum to 30 June 2023.¹

FINANCIAL RESULTS

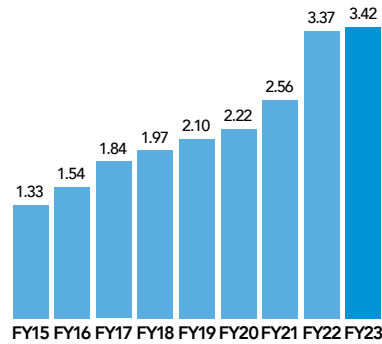
Increase in property income supporting earnings and distribution growth

Arena's net operating profit increased by 6% to \$60 million in financial year 2023 (FY23). Key contributors to higher operating income included the acquisition of operating early learning centre (ELC) properties and development projects completed during financial year 2022 (FY22) and FY23 and growth in contracted annual and market rent reviews. The result represents EPS of 17.1 cents, an increase of 5% over the prior year. Arena has paid a full-year distribution of 16.8 cents per security, an increase of 5% on the prior year. Statutory net profit for the year was \$74 million, a decrease of 78% on the prior year primarily due to a lower revaluation gain on investment properties and derivatives.



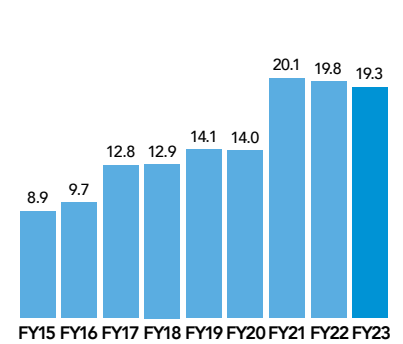
Earnings & distributions per security (cents)

3 year CAGR EPS 5.5% DPS 6.3%
5 year CAGR EPS 5.5% DPS 5.6%



NAV per security (\$)

3 year CAGR 15.5%
5 year CAGR 11.7%



Portfolio WALE (years)

1. UBS, UBS Australian REIT month in review, June 2023; ASX total return includes security price growth and reinvestment of distributions, Index is S&P ASX200 (GICS) AREIT accumulation index.

“Arena’s investment proposition and partnership approach are integral to building better communities, together. We remain well positioned to patiently deploy capital into quality assets that support Arena’s investment objective - to generate an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.”

Arena’s total assets increased by 3% to \$1.57 billion as a result of acquisitions, development capital expenditure and positive portfolio revaluation. The valuation uplift contributed to a 1% increase in NAV per security to \$3.42 at 30 June 2023.

PORTFOLIO OVERVIEW

Investment proposition and partnership approach drives sustainable and commercial outcomes

Sustainability is integral to Arena’s investment approach and best positions Arena to achieve positive long term commercial and community outcomes.

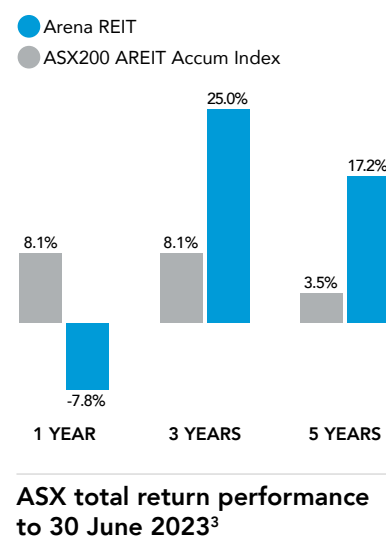
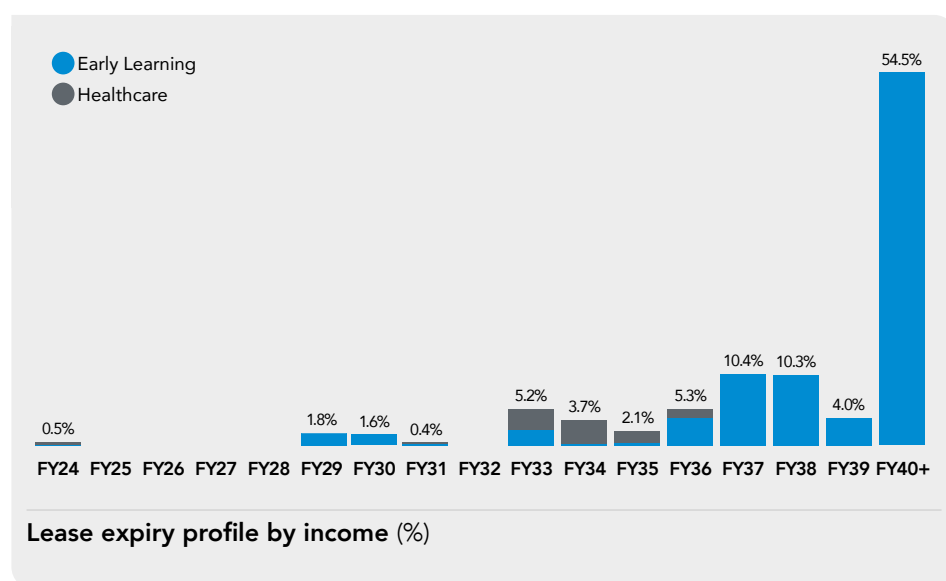
Arena’s portfolio facilitates access to essential community services with positive social impact:

- ▶ ELCs provide early childhood education and care which improve the lifelong learning prospects of Australian children and allows parents and carers the opportunity to remain in, join or re-join the workforce.
- ▶ Medical centres provide local, community-based primary health care services.
- ▶ Specialist disability accommodation is designed to provide a better quality of life for residents with high physical support needs.

Sustainability outcomes delivered during FY23

- ▶ Zero organisational scope 1 and 2 emissions.
- ▶ 5.5-star rating for organisational NABERS energy co-assessment.
- ▶ Certified carbon neutral by Climate Active for business operations in 2021-2022.
- ▶ Achieved gender balance for the Arena board using the 40:40:20 model.
- ▶ Ongoing active collaboration with tenant partners on sustainability initiatives.
- ▶ Solar renewable energy systems installed on 83% of Arena’s property portfolio.
- ▶ 13% reduction in emissions intensity of Arena’s assets under management.²
- ▶ Measured inventory of Arena’s FY22 (year one) embodied emissions.
- ▶ Completed inaugural Physical Climate Risk Assessment.
- ▶ Completed first year of Arena’s Modern Slavery roadmap.

Please refer to Arena’s FY23 Sustainability Report for more detailed information.



2. For FY22 (Scope 3, Category 15) by indoor floor area measured in kgCO₂e/m² in line with supplemental guidance for the financial sector by the TCFD as compared with equivalent restated FY21 baseline.
 3. UBS, UBS Australian REIT month in review, June 2023; ASX total return includes security price growth and reinvestment of distributions, Index is S&P ASX200 (GICS) AREIT accumulation index.

CHAIR AND MANAGING DIRECTOR'S REPORT

CONTINUED

Average like-for-like rent review increase of 6.8%

Annual rent reviews completed during FY23 resulted in an average like-for-like rent increase of 6.8%. Approximately 95% of financial year 2024, 2025, 2026 and 2027 rent reviews are contracted at CPI, the higher of CPI or an 'agreed fixed amount', or market rent reviews.

Long portfolio WALE maintained at 19.3 years

The portfolio WALE is 19.3 years following the ELC acquisitions and developments completed during FY23.

Acquisitions and development project completions in FY23

Two operating ELC properties were acquired for \$7.8 million at a net initial yield on total cost of 6.0% with an initial average lease term of 25 years and ten ELC development projects were completed for \$65 million at a net initial yield on cost of 5.8%, each with an initial average lease term of 20 years. Nine new ELC development projects were acquired.

Asset recycling underpins ongoing quality of portfolio

Two healthcare properties at Caboolture, QLD and Bondi, NSW were divested at an average premium of 2.4% to 30 June 2022 book value.

Portfolio composition

At 30 June 2023, Arena's property portfolio comprised 263 ELC properties and development sites (91% of portfolio by value) and 9 healthcare properties (9% of portfolio by value).

Portfolio valuation uplift of \$17 million

99 properties were independently valued throughout FY23 with the balance of the portfolio subject to directors' valuations. A valuation uplift of \$17 million was recorded, an increase of 1% from FY22.

The portfolio's weighted average passing yield widened by 25 basis points to 5.16%. The weighted average passing yield on the ELC portfolio widened by 23 basis points and the healthcare portfolio widened by 35 basis points.

Development pipeline of \$112 million⁴

The development pipeline now comprises 16 ELC projects with a forecast total cost of \$112 million; \$66 million of forecast capital expenditure remains outstanding. The weighted average net initial yield on forecast total cost on completion of the development pipeline is 5.4%.

CAPITAL MANAGEMENT

Increase in borrowing facility and extension of facility tranche

During FY23 Arena increased its borrowing facility by \$70 million to \$500 million and extended a \$150 million facility tranche from 31 March 2024 to 31 March 2028. As at 30 June 2023 the weighted average remaining facility term was 3.7 years with no debt expiry before 31 March 2026.

Arena's weighted average cost of debt was 3.95% as at 30 June 2023 compared with 2.9% as at 30 June 2022. Contributors to this increase were floating rate +44bps,

PORTFOLIO OVERVIEW

| | Number of assets | 30 June 2023 valuation | Net valuation movement versus 30 June 2022 | | 30 June 2023 passing yield | Change in passing yield versus 30 June 2022 |
|------------------------|------------------|------------------------|--|-------------|----------------------------|---|
| | No. | \$m | \$m | % | % | bps |
| ELC portfolio | 263 | 1,377 | 21 | +1.6 | 5.13 | +23 |
| Healthcare portfolio | 9 | 139 | -4 | -2.1 | 5.37 | +35 |
| Total portfolio | 272 | 1,516 | 17 | +1.2 | 5.16 | +25 |

ACQUISITIONS AND DEVELOPMENT COMPLETIONS

| | Number of properties | Total cost | Initial yield on total cost | Initial weighted average lease term |
|-------------------------------|----------------------|-------------|-----------------------------|-------------------------------------|
| | No. | \$m | % | bps |
| Operating ELC acquisitions | 2 | 7.8 | 6.0 | 25 |
| ELC development completions | 10 | 65.1 | 5.8 | 20 |
| Total/weighted average | 12 | 72.9 | 5.8 | 20.5 |



hedge swaps +31bps and facility expansion and term extension +30bps. As at 30 June 2023, 88% of borrowings were hedged for a weighted average term of 3.5 years at a weighted average rate of 2.03%.

Sustainable finance

An inaugural Sustainability-Linked Loan (SLL) was issued over Arena's existing debt facility of \$500 million during FY23. Arena's Sustainable Finance Framework and SLL are aligned to the Sustainability-Linked Loan Principles.

Under the SLL, Arena is incentivised to accelerate our existing sustainability program, with key performance indicators and associated sustainability performance targets based on the following material sustainability areas:

- ▶ Maintaining organisational carbon neutrality, delivering a detailed emissions reduction plan for operations and assets under management and reducing scope 1 and 2 greenhouse gas emissions from operations and assets under management;
- ▶ Further increasing the rollout of solar renewable energy systems on Arena's property portfolio; and
- ▶ Issuing our inaugural and ongoing annual voluntary Modern Slavery Statement and refining Arena's Modern Slavery response in line with our roadmap.

Capacity to fund new investment opportunities

At 30 June 2023, Arena's gearing⁵ was 21%, an increase from 20.2% as at 30 June 2022 with undrawn debt capacity of \$158 million to fund the balance of the development pipeline of \$66 million, and future growth opportunities. Arena raised \$13 million during FY23 via the DRP, which remains open.

OUTLOOK

ELC sector update

Strong macroeconomic drivers continue to support the Australian ELC sector. The rising female workforce participation rate continues to drive demand for ELC services and long day care participation rates over the medium to long term.^{6,7}

From July 2023 Australian families benefit from the following improved affordability measures.⁸

- ▶ Increasing the maximum Childcare Subsidy (CCS) rate to 90% for the first child in care;
- ▶ Retaining the increased CCS rate at a maximum of 95% for subsequent children in care; and
- ▶ Increasing the CCS for every family earning less than \$530,000 in annual household income with one child in care.

4. Includes two ELC development projects which were conditionally contracted at 30 June 2023.

5. Gearing calculated as ratio of net borrowings over total assets less cash.

6. ABS Labour Force status by Relationship in household, Sex, State and Territory.

7. Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2023.

8. Labor's Plan for Cheaper Child Care | Policies | Australian Labor Party (alp.org.au)

CHAIR AND MANAGING DIRECTOR'S REPORT

CONTINUED

“Arena has maintained its capital management discipline through the period and continues to operate well within its banking covenants. Our balance sheet gearing and expanded debt facilities fully fund the development pipeline with capacity to deploy capital into further growth opportunities.”

These measures have been designed to improve lifelong learning prospects of Australian children, increase workforce participation, improve gender equality, including women's financial security and stimulate economic activity over the medium to long term.⁹

Arena's healthcare portfolio continues to perform well

Strong structural macro-economic drivers continue to support Australian healthcare accommodation, including a growing and ageing population and increased prevalence of chronic health conditions. Strong occupancy has been maintained across the specialist disability accommodation portfolio.

The Arena team

Arena continues to differentiate its brand in the marketplace through a partnership approach, working collaboratively with our tenant partners and other stakeholders.

Arena's management team has specialist asset management and development expertise and a strong track record that includes the successful delivery of 70 development projects over the past eleven years at a total cost of \$363 million.

To fully embed sustainability across Arena's business and further strengthen the link between stakeholder outcomes and performance-based remuneration, Arena refined its key strategies and key performance drivers (KPD's) during FY23.

Identifying and defining our KPD's, allows the Arena team to focus on the areas which contribute most to the success of our business and broader stakeholder outcomes, and provides a clear link between Arena's objective, strategies, and pay for performance based outcomes; full details are outlined in the Remuneration Report.

Arena's FY23 independently benchmarked team alignment and engagement survey achieved top quartile ranking in employee engagement and top decile ranking for alignment.

The Arena Board

Arena welcomed Ms Helen Thornton as an independent non-executive director during the period. Helen's depth of experience across audit, finance, governance, property and risk management complement the Board's existing mix of skills and experience.

As foreshadowed at Arena's 2022 Annual General Meeting, Dr Simon Parsons retired as a director of Arena during the period. On behalf of the Arena Board, we would like to thank Simon for his substantial contribution to Arena since its ASX listing. Simon has been a valuable member of the Board and its committees, retiring after 11 years of service.

Following board changes during FY23, the Arena REIT Limited Board achieved gender balance using the 40:40:20 model.

Better Communities. Together.

Arena remains well positioned to navigate ongoing and emerging economic challenges and is focused on being ready for new growth opportunities as they arise, executing on our well-defined strategy and investment objective of delivering an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term, to create long term value for our stakeholders and deliver on our purpose of Better Communities. Together.

On behalf of the Board, we would like to thank our investors, tenant and business partners for their ongoing support, and the Arena team for their ongoing commitment and contribution to Arena's performance.

We encourage you to join us and look forward to welcoming you to our hybrid Annual General Meeting being held on 23 November 2023.

Yours sincerely,



David Ross
Chair



Rob de Vos
Managing Director



SUSTAINABILITY

Sustainability is integral to Arena and best positions us to achieve positive long-term commercial and community outcomes.

MATERIAL ISSUES

An independent external assessment of Arena's material issues guided the development of Arena's Sustainability Framework, which outlines our approach to key sustainability issues, including:

- ▶ The sustainability risks and opportunities that are most critical to Arena;
- ▶ Topics large investors and ESG rating agencies consider material to Arena;
- ▶ The Global Reporting Initiative Standards topic standards considered most material to Arena by peers and investors;
- ▶ The issues identified by the Sustainability Accounting Standards Board (SASB) framework most relevant to the Real Estate industry sub-sector;
- ▶ How Arena contributes to the United Nations Sustainable Development Goals (UN SDGs);
- ▶ The recommendations of the Task Force for Climate-related Financial Disclosures (TCFD); and
- ▶ The *Modern Slavery Act 2018* (Cth).











SUSTAINABILITY

CONTINUED

ARENA'S SUSTAINABILITY FRAMEWORK

Arena has separately issued its 2023 Sustainability Report which can be downloaded from Arena's website at www.arena.com.au/sustainability. This report provides detail on our commitment to strategies that address sustainability challenges faced by Arena and Arena's stakeholders and identifies opportunities to progress positive change.

| ARENA'S SUSTAINABILITY FRAMEWORK | | | | | | | |
|--|--|---|--|--|---|---|---|
| PARTNERSHIPS FOR CHANGE | | | | | | | |
| Due to the nature of Arena's triple net leases, tenant partners maintain operational control of our properties, accordingly our overarching approach to sustainability is 'Partnerships for change'. Arena is committed to collaborative business partnerships and strives to be an 'accommodation partner of choice'. | | | | | | | |
| | ENVIRONMENT | | SOCIAL | | | GOVERNANCE | |
| KEY ISSUES | Climate resilience | Resource efficiency | Our team | Our tenant partners | Our communities | Responsible governance | Supply chain sustainability |
| APPROACH | We are committed to identifying and managing climate change risks and opportunities and maximising our resilience in the transition to a low carbon economy. | We are committed to investing in renewable energy and improving the efficiency of our use of natural resources. | We are committed to creating a working environment where our team members can work efficiently, feel valued and appreciated and engage and collaborate to deliver beneficial and sustainable outcomes. | We work with our tenant partners to invest the capital necessary to provide efficient, flexible and well-located accommodation at sustainable rents, allowing them to focus on their core purpose to deliver essential services to communities throughout Australia. | Our social infrastructure properties facilitate access to services which provide material benefits, both social and financial, to local communities and society more generally. | We are committed to the highest level of integrity and ethical standards, complying with all applicable laws and regulations and effective, accountable and transparent risk management practices, policies and procedures. | We are committed to strengthening the management of our modern slavery risks. |
| |  |  |  |  |  |  |   |



In compliance with ASX Listing Rule 4.10.3, Arena has separately issued and published on its website, its 2023 Corporate Governance Statement which discloses the extent to which Arena has followed the recommendations for good corporate governance set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 4th Edition) during the reporting period.

View Arena's key policies and the Corporate Governance Statement for the 2023 Financial Year at: www.arena.com.au/about-us/governance.

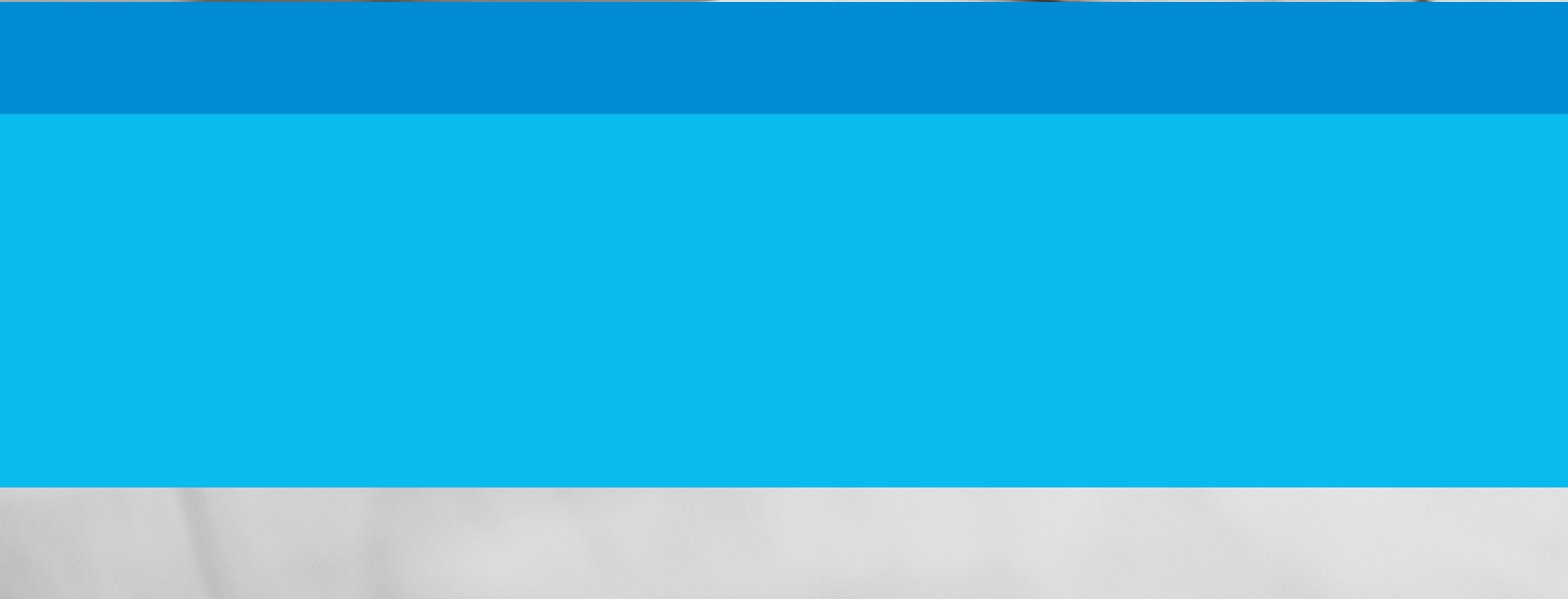
OUR PERFORMANCE HIGHLIGHTS

We have continued to make material progress on our goals during the reporting period and have detailed additional goals for ongoing action and future reporting.

OUR FY23 PERFORMANCE

| | KEY ISSUE | TARGET | TRACKING | RECENT ACHIEVEMENTS |
|--------------------|-----------------------------|--|---|---|
| Environment | Climate resilience | <ul style="list-style-type: none"> ▶ Develop a detailed transition plan including an emissions reduction roadmap for our operations and asset portfolio by FY25 ▶ Align reporting with recommendations of the TCFD by FY25 | <p>ON TRACK</p> <p>ON TRACK</p> | <ul style="list-style-type: none"> ▶ 13% reduction in emissions intensity of Arena's assets under management¹ ▶ Measured inventory of Arena's FY22 (year one) embodied emissions ▶ Completed inaugural Physical Climate Risk Assessment ▶ Continued implementing climate risk-related considerations and progressing our TCFD pathway |
| | | Resource efficiency | <ul style="list-style-type: none"> ▶ Maintain organisational carbon neutrality Climate Active certification ▶ Install solar renewable energy systems on 90% of Arena's property portfolio by FY27 | <p>DELIVERED</p> <p>ON TRACK</p> |
| Social | Our team | <ul style="list-style-type: none"> ▶ Create a working environment where our team members can work efficiently, feel valued and appreciated and engage and collaborate to deliver beneficial and sustainable outcomes | DELIVERED | <ul style="list-style-type: none"> ▶ Achieved gender balance for the ARL Board using the 40:40:20 model ▶ Independently benchmarked team alignment and engagement survey achieved top quartile ranking in employee engagement and top decile ranking for alignment |
| | Our tenant partners | <ul style="list-style-type: none"> ▶ Continue to collaborate with tenant partners on appropriately identified ESG/ Sustainability initiatives and report progress | DELIVERED | <ul style="list-style-type: none"> ▶ Shared our inaugural voluntary Modern Slavery Statement and communicated our commitment to engaging and collaborating to influence positive change and drive mutually beneficial outcomes ▶ Created bespoke solar decals for installation at ELC's to assist to visually educate the children and families attending their centres about solar energy installation and use |
| | Our communities | <ul style="list-style-type: none"> ▶ Our social infrastructure properties facilitate access to services which provide material benefits, both social and financial, to local communities and society more generally | ON TRACK | <ul style="list-style-type: none"> ▶ Renewed community partnership with RizeUp – a grass roots community organisation facilitating a pathway to safety and independence for women and children impacted by domestic and family violence |
| Governance | Responsible governance | <ul style="list-style-type: none"> ▶ Continue to review and refine company policies and procedures for managing ESG risks | DELIVERED | <ul style="list-style-type: none"> ▶ ISS QualityScore Governance rating improved to 1/10, the highest possible rating ▶ FTSE Russell ESG Governance Score improved to 5/5, the highest possible rating |
| | Supply chain sustainability | <ul style="list-style-type: none"> ▶ Continue to build on our Modern Slavery response in line with our roadmap | ON TRACK | <ul style="list-style-type: none"> ▶ Delivered inaugural voluntary Modern Slavery Statement ▶ Completed year one of our three year Modern Slavery roadmap |

1. For FY22 (Scope 3, Category 15) by indoor floor area measured in kgCO₂e/m² in line with supplemental guidance for the financial sector by the TCFD as compared with equivalent restated FY21 baseline.



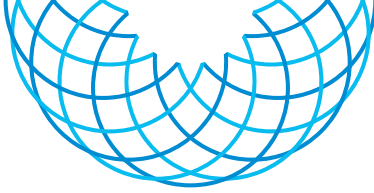


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ARENA REIT

2023 FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2023



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ABOUT THIS REPORT

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

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

Level 32, 8 Exhibition Street
Melbourne VIC 3000



DIRECTORS' REPORT

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 2023. The financial report covers ARL, Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2'), and their controlled entities ('Arena REIT' or 'Group').

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

DIRECTORS

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

- ▶ **David Ross** (Chair) (Independent, non-executive)
- ▶ **Rosemary Hartnett** (Independent, non-executive)
- ▶ **Simon Parsons** (Independent, non-executive) (retired 15 June 2023)
- ▶ **Helen Thornton** (Independent, non-executive) (commenced 15 December 2022)
- ▶ **Dennis Wildenburg** (Independent, non-executive)
- ▶ **Rob de Vos** (Executive)

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

- ▶ **David Ross** (Chair) (Independent, non-executive)
- ▶ **Rosemary Hartnett** (Independent, non-executive)
- ▶ **Simon Parsons** (Independent, non-executive) (retired 15 June 2023)
- ▶ **Helen Thornton** (Independent, non-executive) (commenced 15 December 2022)
- ▶ **Dennis Wildenburg** (Independent, non-executive)
- ▶ **Rob de Vos** (Executive)
- ▶ **Gareth Winter** (Executive)

PRINCIPAL ACTIVITIES

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

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

DISTRIBUTIONS TO SECURITYHOLDERS

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

| | 2023 | 2022 | 2023 | 2022 |
|--|--------|--------|-------|-------|
| | \$'000 | \$'000 | cps | cps |
| September quarter | 14,607 | 13,629 | 4.20 | 3.95 |
| December quarter | 14,646 | 13,651 | 4.20 | 3.95 |
| March quarter | 14,685 | 14,017 | 4.20 | 4.05 |
| June quarter | 14,730 | 14,040 | 4.20 | 4.05 |
| Total distributions to securityholders | 58,668 | 55,337 | 16.80 | 16.00 |

DIRECTORS' REPORT

CONTINUED

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 services;
- ▶ Healthcare - including medical centres, diagnostic facilities, hospitals, aged care and associated facilities;
- ▶ Education - including schools, colleges and universities and associated facilities.

KEY FINANCIAL METRICS

| | 30 June 2023 | 30 June 2022 | Change |
|---|-----------------|-----------------|----------|
| Net profit (statutory) | \$74 million | \$334 million | - 78% |
| Net operating profit (distributable income) | \$60 million | \$56 million | + 6% |
| Distributable income per security | 17.10 cents | 16.30 cents | + 4.9% |
| Distributions per security | 16.80 cents | 16.00 cents | + 5.0% |
| Total assets | \$1,568 million | \$1,519 million | + 3% |
| Investment properties | \$1,516 million | \$1,462 million | + 4% |
| Borrowings | \$342 million | \$324 million | + 6% |
| Net assets | \$1,199 million | \$1,169 million | + 3% |
| NAV per security | \$3.42 | \$3.37 | + 1% |
| Gearing * | 21.0% | 20.2% | + 80 bps |

* Gearing calculated as Net Borrowings / Total assets less Cash.

FY23 HIGHLIGHTS

- ▶ Net statutory profit was \$74 million, down 78% on the prior year. This is primarily due to the lower investment property revaluation gain compared to the prior year, and a lower revaluation gain on derivatives;
- ▶ Net operating profit was \$60 million, up 6% on the previous year, primarily driven by the increase in rental income arising from periodic rent reviews, lease commencements on completion of ELC developments and new acquisitions;
- ▶ COVID-19 rent relief arrangements have previously been reached with all tenants where appropriate. All tenants were in compliance with rent relief arrangements including the collection of deferred rent;
- ▶ Distributions for the year were 16.8 cents per security, up 5% on the prior year;
- ▶ NAV per security at 30 June 2023 was \$3.42, an increase of 1% on 30 June 2022. This was primarily due to a net increase in the revaluation of investment properties (including straight-lining of rent) of \$17 million, property acquisitions and development capital expenditure, as well as proceeds from the distribution reinvestment plan;
- ▶ Gearing was 21.0% at 30 June 2023, up from 20.2% at 30 June 2022;
- ▶ The property portfolio increased with the addition of nine Early Learning Centre ('ELC') development sites and two operational ELCs. During the year, 10 ELC developments reached practical completion;
- ▶ Two medical centres were sold during the year with sale proceeds of \$33 million.

FINANCIAL RESULTS

| | 30 June 2023 | 30 June 2022 |
|---|---------------|----------------|
| | \$'000 | \$'000 |
| Property income | 74,147 | 66,585 |
| Other income | 594 | 437 |
| Total operating income | 74,741 | 67,022 |
| Property expenses | (507) | (576) |
| Operating expenses | (4,720) | (4,899) |
| Finance costs | (9,862) | (5,220) |
| Net operating profit (distributable income) * | 59,652 | 56,327 |
| Non-distributable items: | | |
| Investment property revaluation and straight-lining of rent | 16,997 | 254,486 |
| Change in fair value of derivatives | 527 | 24,478 |
| Profit/(loss) on sale of investment properties | (47) | 1,023 |
| Transaction costs | (745) | (541) |
| Amortisation of equity-based remuneration (non-cash) | (1,557) | (1,135) |
| Other | (588) | (350) |
| Statutory net profit | 74,239 | 334,288 |

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

FINANCIAL RESULTS SUMMARY

| | 30 June 2023 | 30 June 2022 |
|---|--------------|--------------|
| Net operating profit (distributable income) (\$'000) | 59,652 | 56,327 |
| Weighted average number of ordinary securities ('000) | 348,771 | 345,469 |
| Distributable income per security (cents) | 17.10 | 16.30 |

- ▶ 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 year is primarily due to:
 - Ongoing annual rent increases and market rent reviews on the Group's property portfolio;
 - Commencement of rental income from ELC developments completed during the year;
 - Commencement of rental income following the acquisition of two operational ELCs during the year;
 - The full year effect of acquisitions and developments completed during FY22;
 - Partially offset by increase in financing costs.
- ▶ Non-distributable items decreased during the year primarily due to a lower revaluation gain on investment properties and derivatives compared to the prior year.

INVESTMENT PROPERTY PORTFOLIO

Key Property Metrics

| | 30 June 2023 | 30 June 2022 |
|--|-----------------|-----------------|
| Total value of investment properties | \$1,516 million | \$1,462 million |
| Number of properties under lease | 258 | 248 |
| Development sites | 14 | 15 |
| Properties available for lease or sale | - | - |
| Total properties in portfolio | 272 | 263 |
| Portfolio occupancy | 100% | 100% |
| Weighted average lease expiry (WALE) | 19.3 years | 19.8 years |

- ▶ The increase in the value of investment properties is primarily due to the addition of:
 - Property acquisition, development and capital expenditure of \$70 million; and
 - A net revaluation increment to the portfolio of \$17 million for the year, inclusive of straight-lining of rent accrual.
- ▶ Offset by the following investment property disposals during the year:
 - Two medical centres were sold during the year with sale proceeds of \$33 million.

CAPITAL MANAGEMENT

Equity

- ▶ During the year, 3.5 million securities were issued at an average price of \$3.76 to raise \$13.3 million of equity pursuant to the Distribution Re-investment Plan (DRP).

Bank facilities & gearing

- ▶ The Group refinanced its syndicated debt facility in December 2022, increasing the facility limit by \$70 million to \$500 million, extending the maturity dates and adding a Sustainability Linked Loan (SLL) overlay. The SLL has annual Sustainability Performance Targets (SPTs) which may result in an adjustment to the margin paid on the drawn debt balance;
- ▶ The Group has a \$200 million facility expiring 31 March 2026, a \$150 million facility expiring 31 March 2027 and a \$150 million facility expiring 31 March 2028, providing a remaining weighted average term of 3.7 years as at 30 June 2023;
- ▶ The balance drawn increased by \$18 million to fund acquisitions and development capital expenditure, offset by proceeds from asset disposals;
- ▶ Gearing was 21.0% at 30 June 2023 (30 June 2022: 20.2%);
- ▶ The Group was fully compliant with all bank facility covenants throughout FY23 and as at 30 June 2023. At 30 June 2023 the Loan to Valuation Ratio was 24.6% (Covenant: 50%) and the Interest Cover Ratio was 5.4 times (Covenant: 2.0 times).

Interest rate management

- ▶ 88% of borrowings are hedged for a weighted average term of 3.5 years (2022: 77% for 4.3 years). The average swap fixed rate is 2.03% (2022: 1.68%).

FY24 OUTLOOK

The Group has provided FY24 distribution guidance of 17.4 cents per security, which represents an increase of 3.6% on FY23.

FY24 distribution guidance is estimated on a status quo basis, assuming no new acquisitions or disposals and no material change in current market or operating conditions.

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 material events have occurred since 30 June 2023 that have affected, or may materially 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.

DIRECTORS' REPORT

CONTINUED

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.

Macroeconomic risk

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

The Group's development activity may be impacted by supply chain disruption, accelerated by COVID-19, geopolitical tensions, and the impact of cost-escalation and labour shortages in the construction industry.

Concentration risk

The Group's property portfolio is presently 91% invested in ELCs and ELC development sites and 9% in healthcare assets. Adverse events to the early learning and/or healthcare property sectors may result in general deterioration of tenants' ability to meet their lease obligations and the future growth prospects of the portfolio.

As at 30 June 2023, 63% of the portfolio by income (excluding developments) is leased to the largest four tenants (Goodstart Early Learning 24%, Green Leaves Early Learning 18%, Edge Early Learning 11%, and Affinity Education 10%). Any material deterioration in the operating performance of the Group's tenants may result in them not meeting their lease obligations which could reduce the Group's income and portfolio value if a suitable replacement cannot be found.

Tenant risk

The Group relies on tenants to generate its revenue. Tenants may be not-for-profit companies, private entities or listed public companies. If a tenant is affected by financial difficulties they may default on their rental or other contractual obligations which may result in loss of rental income and loss in value of the Group's properties.

Typically, tenants are required to provide an unconditional and irrevocable bank guarantee, which must not expire until at least six months after the ultimate expiry date of the lease, as security for their performance under the lease. Refer to note 8(d) for further details on tenancy risk for the portfolio.

Climate change risk

Extreme weather and other climate change related events have the potential to damage the Group's investment properties and disrupt tenant operations. Such events may increase tenant costs for maintenance, the cost, deductibles or availability of insurance, the ability to re-lease investment properties in the future and the rent levels for which they can be leased, thereby affecting future investment property valuations and rental cash flows.

The precise nature of these risks is uncertain as it depends on complex factors such as policy change, technology development, market forces, and the links between these factors and climatic conditions. To help mitigate the risk of localised valuation impacts on the Group, the investment property portfolio is geographically diversified. Active asset management of the portfolio can also assist with mitigating this risk.

Changes to existing regulatory regimes or the introduction of new regulatory regimes (including environmental or climate change related regulation) may also increase the cost of compliance, reporting and maintenance of assets.

Government policy risk and change in law

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

Property valuations

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

Cyber security

The Group leverages IT systems, networks and data to operate efficiently. Managing potential IT system failures and cybersecurity breaches is an area of focus for the Group to ensure it manages the risk of loss of sensitive information, operational disruption, reputational damage, fines and penalties.

MATERIAL BUSINESS RISKS CONTINUED

Cyber security *continued*

The following measures are in place to help protect the business and employees from cybersecurity related threats:

- ▶ providing a digitally safe working environment, both in the office and for remote working;
- ▶ protecting systems, networks and end-point devices;
- ▶ mandatory training for all employees to identify and manage potential threats;
- ▶ vulnerability testing and security event monitoring to identify and respond to threats;
- ▶ embedding policies to safely control, access and manage data and privacy, for both employees and third parties; and
- ▶ simulated cyber attacks and recovery exercises to enhance resilience and identify potential improvement opportunities.

Capital Management

Capital market volatility may impact our ability to transact and access suitable capital. The Group manages this risk by:

- ▶ acquiring and developing new assets on capital efficient terms;
- ▶ retaining a strong balance sheet and relatively low gearing;
- ▶ actively managing debt expiries;
- ▶ maintaining a disciplined and prudent approach to capital management and hedging;
- ▶ maintaining liquidity in excess of funding requirements; and
- ▶ engaging with debt and equity investors to regularly update them about the business.

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 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.

INFORMATION ON DIRECTORS

The directors during the financial year were:

David Ross, Independent Non-Executive Chair

David has over 35 years' ASX listed company and corporate experience in the property and property funds management industries in Australia and overseas, including Global and US Chief Executive Officer Real Estate Investments and Chief Executive Officer Asia Pacific for Lend Lease, Chief Executive Officer for General Property Trust and Chief Operating Officer for Babcock and Brown. He is currently an independent non-executive Director at Charter Hall Group and was formerly a non-executive Director of Sydney Swans Foundation Limited.

David holds a Bachelor of Commerce, an Associate Diploma in Valuation and is a fellow of the Australian Institute of Company Directors (FAICD).

Other current directorships: Charter Hall Group.

Former directorships in last 3 years: None.

Rosemary Hartnett, Independent Non-Executive Director

Rosemary has over 30 years' experience in the Australian property sector and extensive senior management experience in property finance. She is the Chair and an independent director of ISPT Pty Ltd (ISPT) and a director of Fanplayr Inc. Her former roles include senior property finance executive and a fund manager for trading and investment banks, including Macquarie Bank, ANZ and NAB.

Rosemary holds a Bachelor of Business in Property (Valuations) and is a member of the Australian Institute of Company Directors (MAICD). She was previously an independent director of Aconex and Wallara Australia, director of International Property Funds Management Pty Ltd (IPFM) and Chief Executive Officer of Housing Choices Australia, one of the country's leading registered housing associations.

Other current directorships: ISPT Pty Ltd; Fanplayr Inc.

Former directorships in last 3 years: International Property Funds Management Pty Ltd (IPFM).

DIRECTORS' REPORT

CONTINUED

INFORMATION ON DIRECTORS CONTINUED

Dr Simon Parsons, Independent Non-Executive Director

Simon resigned from the ARL and ARML Boards on 15 June 2023. He has over 35 years' experience in the commercial property industry including former senior positions and directorships with a range of leading property-focused companies including Parsons Hill Stenhouse, Property Investment Research, Colliers International and Jones Lang Wootton (now Jones Lang LaSalle).

Simon holds a Master of Science (Real Estate), a Master of Social Science (Environment & Planning), and a PhD in land use planning, public policy and land economics. He is a Fellow of the Australian Institute of Company Directors (FAICD).

Other current directorships: None.

Former directorships in last 3 years: None.

Helen Thornton, Independent Non-Executive Director

Helen was appointed to the ARL and ARML Boards on 15 December 2022. She has over 30 years' experience across a wide range of industries including healthcare, insurance, financial services, manufacturing, mining, property and utilities, in both public and private corporations, and government statutory authorities. Helen has extensive financial, risk management, audit and governance expertise holding executive senior leadership roles at Deloitte, KPMG, BHP and BlueScope Steel.

Helen holds a Bachelor of Economics from Monash University and is a member of Chartered Accountants Australia and New Zealand (CA ANZ) and the Australian Institute of Company Directors (GAICD).

Other current directorships: Ansvar Insurance; ISPT Pty Ltd; McPherson's Limited; Yarra Valley Water; Treasury Corporation of Victoria.

Former directorships in last 3 years: None.

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

Dennis has over 35 years' experience in the financial services, funds management and property industries.

His former roles include Director of MLC Funds Management Limited, member of the Lend Lease Group board that managed GPT and an Associate Director of Hill Samuel Australia Limited (now Macquarie Group Limited).

Dennis is a member of Chartered Accountants Australia and New Zealand (CA ANZ), a Fellow of the Australian Institute of Company Directors (FAICD) and has served on the Board of Property Funds Australia and the Investment Committee of the Mirvac PFA Diversified Property Trust.

Other current directorships: None.

Former directorships in last 3 years: Investa Wholesale Funds Management Limited; ICPF Holdings Limited.

Rob de Vos, Executive Director

Rob is Managing Director of Arena and has over 20 years' experience in the real estate and property funds management industry including acquisitions, developments, funds management, portfolio management and strategy, with expertise across both traditional and specialised property assets. Rob's experience in social infrastructure property investment spans over 15 years, and he is recognised as a market leader in the development and management of high performing specialised property investment funds.

Prior to joining Arena, Rob held senior roles with Jones Lang LaSalle, Becton Property Group and Ceramic Funds Management.

Rob is a licensed real estate agent (VIC) and holds a Diploma of Financial Markets and a Diploma of Property Operations.

Other current directorships: None.

Former directorships in last 3 years: None.

INFORMATION ON DIRECTORS CONTINUED

Gareth Winter, Executive Director and Company Secretary

Gareth is Chief Financial Officer of Arena and Executive Director of Arena REIT Management Limited. He was formerly a partner at PricewaterhouseCoopers and has over 25 years' professional experience.

Throughout his career Gareth 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 holds a Bachelor of Commerce and is a member of Chartered Accountants Australia and New Zealand (CA ANZ).

Other current directorships: None.

Former directorships in last 3 years: None.



Left to Right: Gareth Winter, Dennis Wildenburg, Helen Thornton, Rob de Vos, Rosemary Hartnett, David Ross.

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 2023, and the number of meetings attended by each director were:

| | ARL Board | | ARML Board | | Audit Committee | | Nomination Committee | | Culture & Remuneration Committee | |
|-------------------|-----------|----|------------|----|-----------------|----|----------------------|---|----------------------------------|---|
| | A | B | A | B | A | B | A | B | A | B |
| David Ross | 12 | 12 | 14 | 14 | 10 | 10 | 6 | 6 | 6 | 6 |
| Rosemary Hartnett | 12 | 11 | 14 | 13 | 10 | 9 | 6 | 6 | 6 | 6 |
| Simon Parsons | 12 | 12 | 14 | 14 | 10 | 10 | 6 | 6 | 6 | 6 |
| Helen Thornton | 6 | 6 | 6 | 6 | 5 | 5 | - | - | 3 | 3 |
| Dennis Wildenburg | 12 | 12 | 14 | 14 | 10 | 10 | 6 | 6 | 6 | 6 |
| Rob de Vos | 12 | 12 | 14 | 14 | * | * | * | * | * | * |
| Gareth Winter | * | * | 14 | 14 | * | * | * | * | * | * |

A - Number of meetings held during the time the director held office or was a member of the committee during the year.

B - Number of meetings attended.

* = Not a member of the relevant board/committee.

REMUNERATION REPORT

Introduction from the Chair of the Culture and Remuneration Committee

Dear Securityholder,

On behalf of the Culture and Remuneration Committee (Committee) and the Board, I am pleased to present the Remuneration Report for the financial year ended 30 June 2023. The Report sets out our remuneration strategy and outcomes for Key Management Personnel (KMP) comprising the Executive KMP and the independent non-executive directors (NED) and has been prepared and audited in accordance with the requirements of the Corporations Act and Regulations.

FY23 has been characterised by a rapidly changing economic environment arising from inflationary pressures, rapid interest rate increases, wages pressures and labour shortages.

In response to this new environment, the Arena team has maintained discipline across our capital, leasing and portfolio management strategies while delivering on our investment objective. Progress has also been made in respect of our sustainability programs and new investments continue to contribute to distribution and earnings growth.

FY23 Highlights

- ▶ 5% growth in distributable income per security (DIS) and 5% growth in distributions per security;
- ▶ 3 Year Total Securityholder Return of 82% ranked 1st in Arena's ASX300 AREITs FY21 LTI comparator group;
- ▶ High level of team retention, alignment and engagement;
- ▶ Continued advancement in our key future sustainability goals including:
 - Maintain organisational carbon neutrality Climate Active certification.
 - Develop a detailed transition plan including an emissions reduction roadmap for our operations and asset portfolio by FY25.
 - Align reporting with recommendations of TCFD by FY25.
 - Build on our Modern Slavery response in line with our roadmap.

Remuneration Framework and performance

Arena's key remuneration objectives are to attract, incentivise and retain talent by providing market competitive rewards with incentive opportunity designed to align remuneration with performance and strategy and to guide the behaviour and actions of Executive KMP.

Accordingly, it is Arena's practice to set fixed remuneration at or near the median of comparable roles and total target remuneration, including at risk performance based short term and long term incentives, around the 75th percentile of comparable roles. The Committee periodically engages an external party with appropriate expertise to independently review and benchmark Arena's remuneration and framework for alignment with stakeholder expectations, contemporary market practice and comparable organisations.

There were no changes to the remuneration framework in FY23. Following Arena's entry into the ASX200 AREIT Index in FY22, the Relative TSR comparative group for the FY23 LTI grant was changed to the members of the ASX200 AREIT index on 1 July 2022 (previously the ASX300 AREITs).

FY23 Remuneration Outcomes

Remuneration outcomes in FY23 reflect Arena's growth in DIS and distributions per security and notwithstanding highly challenging economic conditions, our ongoing investment, capital, leasing and portfolio management discipline and the advancement of our operational and sustainability programs.

Executive KMP were awarded 75% of their target Short Term Incentive (STI) which reflects:

- ▶ the delivery of 5% target distribution per security growth in FY23; and
- ▶ performance in respect of FY23 non-financial objectives demonstrated through operational outcomes and advancement of Arena's sustainability program.

The FY23 STI scorecard is set out on pages 35-37.

The FY21 Long Term Incentive (LTI) was tested as at 30 June 2023 and fully vested as:

- ▶ Arena's FY23 DIS of 17.1 cents per security (representing a 5.6% compound annual growth rate (CAGR) over the three year performance period) exceeded the high hurdle of 16.9 cents per security (target of 5.1% CAGR); and
- ▶ Arena's TSR of 82% (equivalent to a 22% CAGR) for the three year period ended 30 June 2023 ranked 1st (the 100th percentile) amongst the comparator group that comprised 29 A-REITs (including Arena) in the ASX300 REIT index at 1 July 2020.

REMUNERATION REPORT CONTINUED

Approach to FY24 Remuneration and Framework

The Committee monitors market conditions to ensure remuneration remains aligned with Arena's investment objective, strategies and performance outcomes. There are no changes to the remuneration framework proposed in FY24.

To further strengthen the link between stakeholder outcomes and KMP performance-based remuneration, Arena has refined its key strategies and key performance drivers (KPD's) which are detailed on page 31.

Identifying and defining our KPD's allows Arena's KMP to focus on the areas which contribute most to the success of our business and broader stakeholder outcomes, and provides a clear link between Arena's objective, strategies, and pay for performance based outcomes.

In reviewing our KPD's and setting our strategic business objectives for FY24 we are mindful of a new economic and investment environment, characterised by heightened inflation, reduced liquidity in investment markets and the likelihood of on-going volatility.

Notwithstanding this challenging backdrop, it is our view that Arena is well positioned to explore and capitalise on new opportunities consistent with our investment objective.

Our focus in FY24 is being ready for new growth opportunities as they arise, executing on our well-defined strategy and delivering on our purpose of *Better Communities. Together.*

Minimum Securityholding Requirement

The Committee recognises that it is important for KMP to be aligned with securityholders, not just through the remuneration framework, but also by maintaining a minimum securityholding interest.

In recognition of this, Arena's minimum securityholding requirement (MSHR) for Executive KMP is set at 100% of their fixed annual remuneration (to be accumulated over a maximum period of four years). The MSHR for non-executive directors is set at 100% of the base Board Fee (to be accumulated over a maximum period of three years).

All KMP are compliant with our MSHR policy.

Looking forward, the Committee is focused on the development and engagement of our team and maintaining remuneration structures that clearly link and equitably reward and incentivise the achievement of performance based outcomes and behaviours that reflect our purpose, values and stakeholder expectations. We welcome your feedback in respect of this Report.



Rosemary Hartnett
Chair, Culture and Remuneration Committee

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

Governance

| | |
|---|--|
| Who are the members of the Committee? | The Committee is comprised of the independent directors and is chaired by Ms Rosemary Hartnett. |
| What does the Committee do? | Advises the Board on remuneration policy and practices, sets and monitors standards of business behaviour and culture and has oversight of team development and wellness, succession planning and conflict management. The Committee also appoints remuneration advisers to review and advise on aspects of a remuneration policy and associated frameworks. |
| Who is included in the remuneration report? | <p>The independent non-executive directors (NED):</p> <ul style="list-style-type: none">▶ Mr David Ross (Chair);▶ Ms Rosemary Hartnett;▶ Mr Simon Parsons (retired 15 June 2023);▶ Ms Helen Thornton (appointed 15 December 2022); and▶ Mr Dennis Wildenburg <p>The Executive KMP:</p> <ul style="list-style-type: none">▶ Mr Rob de Vos – Managing Director and Chief Executive Officer (CEO); and▶ Mr Gareth Winter – Executive Director and Chief Financial Officer (CFO). |

Key Committee Decisions and remuneration outcomes in FY23

| | |
|---|---|
| Executive KMP | <p>Executive KMP received a 3.5% increase in fixed and total target remuneration.</p> <p>There was no change in remuneration mix for FY23 with 59% of CEO and 56% of CFO target remuneration comprising at risk remuneration subject to short term and long term performance hurdles.</p> |
| Short Term Incentive (STI) | <p>There were no changes to the structure of the STI in FY23.</p> <ul style="list-style-type: none">▶ Executive KMP were awarded 75% of their FY23 STI opportunity based on the assessment of financial targets and performance in respect of non-financial objectives throughout FY23 as set out on pages 35-37 of this report.▶ 50% of an STI award to Executive KMP is deferred for 12 months with payment delivered in equity. The FY22 Deferred STI has fully vested. |
| Long Term Incentive (LTI) | <p>There were no changes to the structure of the LTI in FY23.</p> <p>Following Arena's entry into the ASX200 AREIT Index in FY22, the Committee determined the comparator group for the Relative TSR measure in the FY23 LTI grant was the members of the ASX200 AREIT Index as at 1 July 2022 (previously the ASX300 AREITs).</p> <p>The testing of hurdles and other conditions in relation to the FY21 LTI Grant occurred as at 30 June 2023. The FY21 LTI Grant fully vested:</p> <ul style="list-style-type: none">▶ Arena's FY23 DIS of 17.1 cents per security (representing CAGR of 5.6%) exceeding the upper performance hurdle range of 16.9 cents per security (target 5.1% CAGR); and▶ Arena's three year Total Securityholder Return (TSR) of 82% (equivalent to a 22% CAGR) ranked 1st (the 100th percentile) of the comparator group comprising the members of the ASX300 A-REIT Index over the performance period. |
| Non-Executive Director (NED) Board Fees | <p>Board fees are set at a level to attract and retain suitably qualified and experienced Directors having regard to appropriate benchmarks for comparable listed entities, the size and complexity of operations, responsibilities and time commitments.</p> <p>Board and Committee fees were increased by an average of 4.6% in FY23.</p> |
| Minimum Security Holding Requirement | All KMP are compliant with Arena's MSHR policy. |

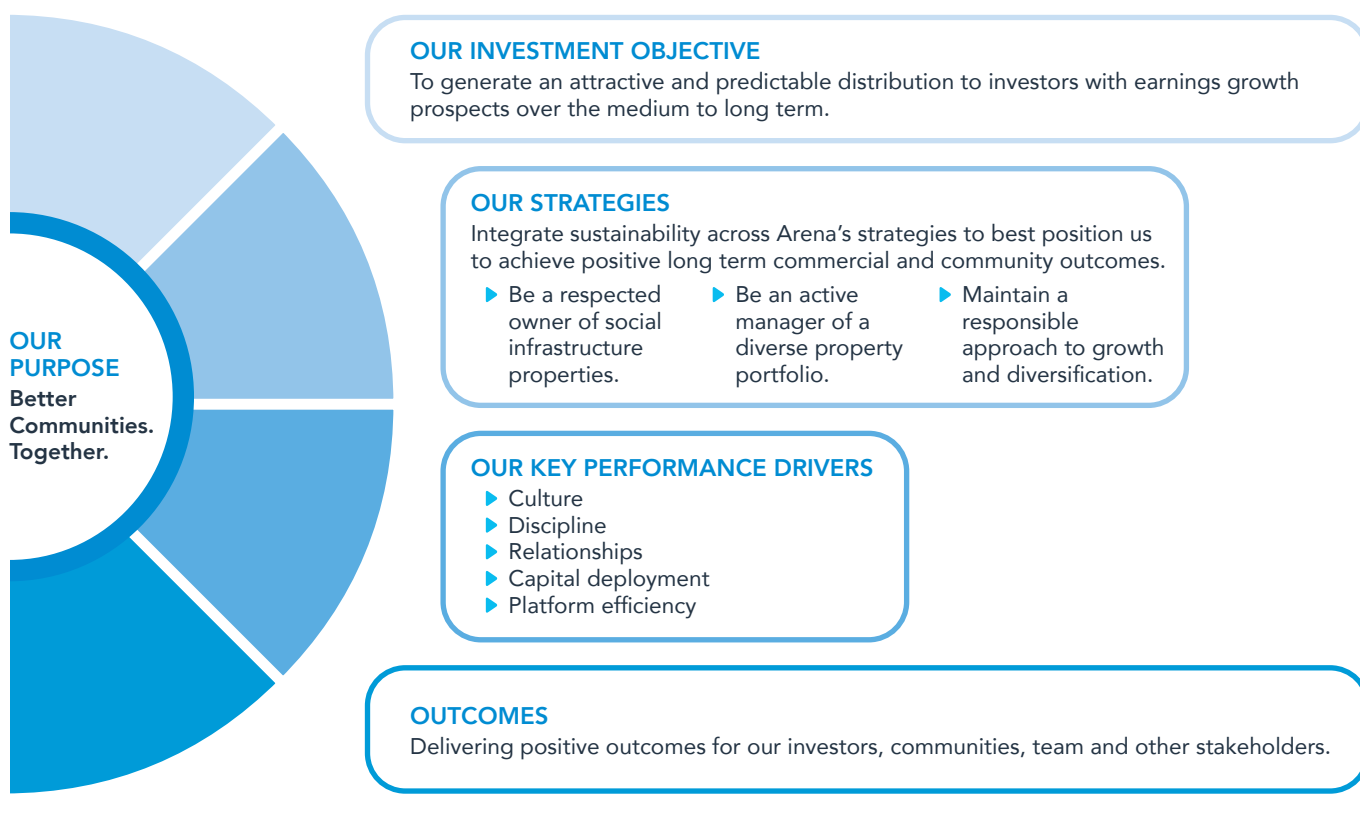
REMUNERATION REPORT CONTINUED

Key Decisions in respect to FY24 Remuneration Framework

Short Term Incentive (STI) There are no changes to the structure of the STI in FY24.

Long Term Incentive (LTI) There are no changes to the structure of the LTI in FY24.

ARENA'S PROPOSITION



Executive KMP Pay for Performance Outcomes

LINKING ARENA'S STRATEGY & OBJECTIVES TO REMUNERATION

| PURPOSE | STRATEGIES | KEY PERFORMANCE DRIVERS | OUTCOMES | PAY FOR PERFORMANCE |
|-------------------------------|---|---|--------------------------|---------------------|
| Better Communities. Together. | <ul style="list-style-type: none"> ▶ Sustainability ▶ Respected owner ▶ Active manager ▶ Responsible growth | <ul style="list-style-type: none"> ▶ Culture ▶ Discipline ▶ Relationships ▶ Capital deployment ▶ Platform efficiency | Financial objectives | LTI 100% |
| | | | | STI 50% |
| | | | Non-financial objectives | STI 50% |

REMUNERATION REPORT CONTINUED

Executive KMP Remuneration Framework

| | | |
|--|---|---|
| Our Purpose: Better Communities. Together. | | |
| Our Investment Objective | | |
| Generate an attractive and predictable distribution for securityholders with earnings growth prospects over the medium to long term through developing, owning and managing social infrastructure property that meet Arena's preferred property characteristics | | |
| Executive KMP Remuneration Framework Objectives | | |
| Attract, retain and incentivise Executive KMP | Align remuneration to performance and the successful execution of strategy | |
| Remuneration Principles | | |
| <ul style="list-style-type: none"> ▶ Market competitive rewards to attract and retain high calibre talent capable of executing strategy. ▶ Total remuneration opportunity to include a significant proportion of at risk performance based pay. ▶ Guide the behaviour and actions of Executive KMP in-line with our purpose, values and stakeholder expectations. | <ul style="list-style-type: none"> ▶ Generate market competitive returns for securityholders. ▶ Assess incentives against financial and non-financial measures aligned with strategy and values. ▶ Deliver a meaningful component of Executive KMP remuneration in the form of equity subject to performance hurdles to align Executive KMP with outcomes in the best interests of securityholders over the medium to long term. | |
| Remuneration Components | | |
| Fixed Remuneration | STI (variable at risk) | LTI (variable at risk) |
| <ul style="list-style-type: none"> ▶ Base level of annual remuneration. ▶ Generally set around the median of comparable organisations with reference to complexity of the role and the skills and experience necessary for success in the role. ▶ Reviewed annually. ▶ Independently benchmarked on a periodic basis against comparable organisations. | <ul style="list-style-type: none"> ▶ Performance based remuneration focused on achieving predetermined strategic business objectives outlined in Arena's business plan including delivery of distributions to securityholders. ▶ Opportunity based on a percentage of total remuneration. ▶ Payable 50% in cash and 50% in equity with vesting of equity component deferred for 12 months. | <ul style="list-style-type: none"> ▶ Performance based remuneration aligned directly with securityholder returns. ▶ Opportunity based on a percentage of total remuneration. ▶ Three year performance period. ▶ Payable in equity to align Executive KMP and securityholders. ▶ LTI participation is offered to all Executive KMP (and Arena staff) to align their interests with securityholders. ▶ Allocated using a face value method. |

REMUNERATION REPORT CONTINUED

Executive KMP Remuneration Framework *continued*

| Remuneration Components | | |
|---|---|---|
| <p>What are the STI and LTI performance hurdles?</p> | <ul style="list-style-type: none"> ▶ Financial performance measures (50% weighting) based on Distribution and DIS targets. ▶ Non-financial objectives (50% weighting) based on achieving pre-determined strategic business objectives related to Arena's KPD's including culture, discipline, relationships and capital deployment. | <ul style="list-style-type: none"> ▶ Vesting determined by performance against a DIS target range (50% weighting) and Relative TSR ranking (50% weighting) against the members of the ASX200 AREIT Index. ▶ DIS targets are set at 3-5% CAGR as representing through-the-cycle growth expectations and competitive stretch targets. |
| <p>Why are these performance hurdles used and the link to Performance?</p> | <ul style="list-style-type: none"> ▶ Aligns Executive KMP with immediate strategic objectives and the sound management of financial and non-financial business priorities required to deliver the annual business plan. ▶ Aligns with securityholder expectations of earnings growth targets and directly linked to core elements of Arena's investment objectives. | <ul style="list-style-type: none"> ▶ DIS is a key driver of securityholder returns with sustained growth in earnings over the medium to long term a key value driver for securityholder wealth. ▶ The DIS target range of 3-5% CAGR is consistent with core elements of Arena's investment objective to deliver securityholders with attractive and predictable distributions with earnings growth prospects over the medium to long term. A DIS CAGR within the target range of 3-5% is expected to be competitive through the cycle compared to Arena's peers in the ASX200 A-REIT index. For example, the average and median DIS CAGR for the ASX200 AREITs for the three and five year periods to 30 June 2022 was below a 3% CAGR and a 5% CAGR represented top quartile performance over these same three and five year periods. Consistency of the target range over time provides predictability in DIS and an appropriate balance between sustainable securityholder returns and risk. Achieving the target, in conjunction with disciplined capital, lease and portfolio management, requires the ongoing efficient and effective deployment of capital including the delivery of Arena's development opportunities. ▶ Relative TSR aligns Executive KMP with overall securityholder returns and reduces the effect of economic cycles by measuring performance relative to peers. |
| <p>Can the Board cancel or vary incentives?</p> | <p>The Board has full discretion to reduce, cancel or increase STI and LTI incentives, including if information in respect of past awards arises that would otherwise have meant an award would not have been made.</p> | |

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

Executive KMP FY23 Target Remuneration and Remuneration Mix

Executive KMP received a 3.5% increase in fixed and total target remuneration in FY23. There was no change in remuneration mix in FY23.

| Executive KMP | FY23 Target Remuneration | | | | Proportion of at Risk Performance Based Remuneration | | | |
|---------------|--------------------------|------------------|-----------|-------------|--|------|--------------|-----|
| | Fixed ¹ | STI ² | LTI | Total | Fixed | Cash | Equity | |
| | | | | | | STI | Deferred STI | LTI |
| Rob de Vos | \$724,500 | \$465,750 | \$569,250 | \$1,759,500 | 41% | 13% | 13% | 33% |
| Gareth Winter | \$457,500 | \$228,750 | \$357,422 | \$1,043,672 | 44% | 11% | 11% | 34% |

1. Fixed remuneration set by the Board as inclusive of the prescribed Superannuation Guarantee contribution.

2. 50% of an STI award is deferred for 12 months and payable in Arena stapled securities.

Executive KMP Employment Agreements

| | |
|--|---|
| Contract duration | Ongoing. |
| Termination by the Executive KMP | CEO: 9 month notice period. CFO: 6 month notice period. Unvested STI or LTI entitlements lapse unless the Board determines otherwise. |
| Termination by Arena REIT without cause, mutually agreed resignation, retirement or other circumstance | Notice period (as above) applies or equivalent payment in lieu of notice based on TFR. The Board has discretion to determine awards which may remain on foot and may also pro rata awards for time and performance. The Board may lapse an award in full and also allow accelerated vesting in special circumstances subject to termination benefit rules. |
| Termination by Arena REIT for cause | No notice period or termination payment unless the board determines otherwise. Unvested STI or LTI entitlements lapse unless the Board determines otherwise. |
| Post-employment restraints | Restrained from soliciting suppliers, customers and staff for the term of the relevant notice period post-employment. |

Performance & Variable Remuneration Outcomes

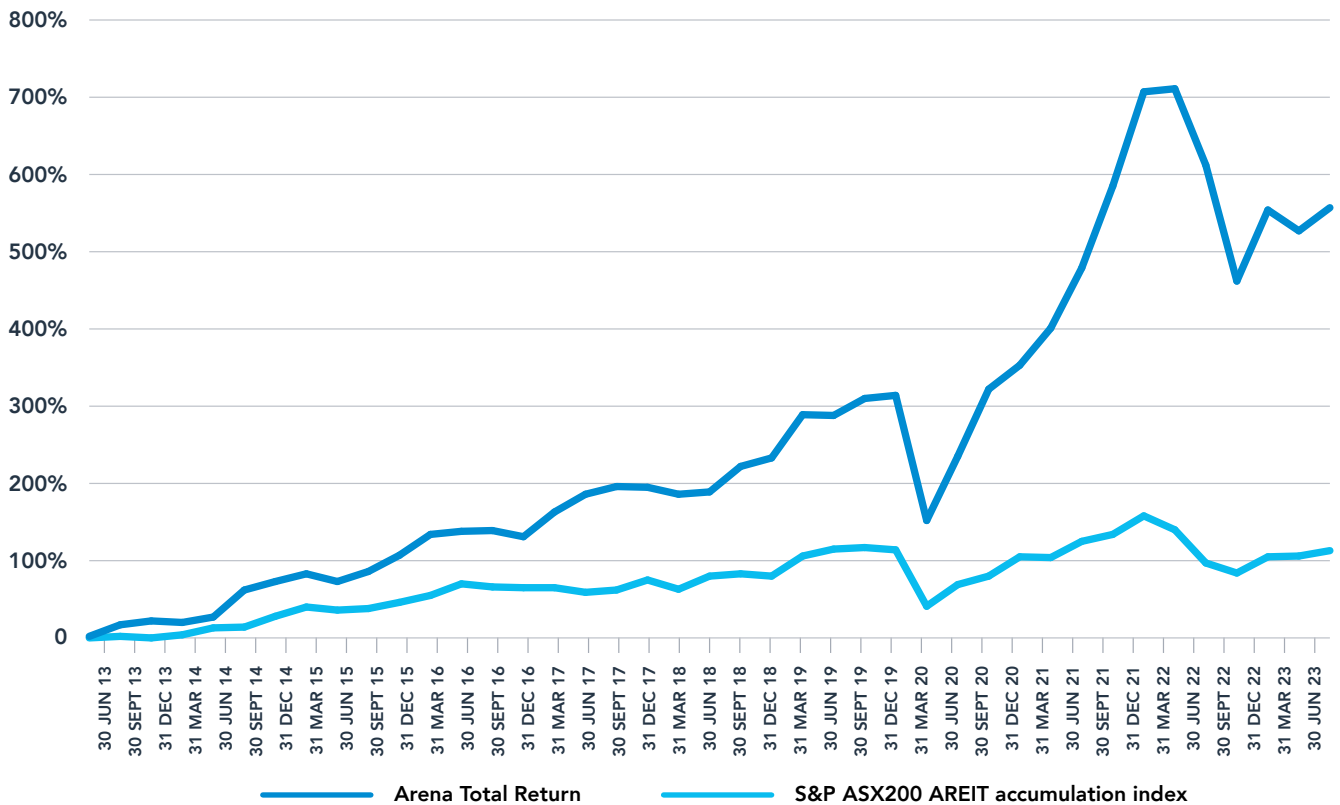
The table below summarises Arena's performance in key areas over the past 5 years.

| 5 Year Financial Performance Indicators | | | | | | |
|---|-----------|--------|---------|--------|---------|--------|
| Metric | | FY23 | FY22 | FY21 | FY20 | FY19 |
| Net Profit (Statutory) | \$million | 74.2 | 334.3 | 165.4 | 76.6 | 59.3 |
| Distributable Income | \$million | 59.7 | 56.3 | 51.9 | 43.8 | 37.7 |
| Distributable Income per Security | cents | 17.1 | 16.3 | 15.2 | 14.55 | 13.8 |
| Distributions per Security | cents | 16.8 | 16.0 | 14.8 | 14.0 | 13.5 |
| Net Asset Value per Security | | \$3.42 | \$3.37 | \$2.56 | \$2.22 | \$2.10 |
| Security Price at 30 June | | \$3.76 | \$4.27 | \$3.60 | \$2.19 | \$2.74 |
| Gearing | | 21.0% | 20.2% | 19.9% | 14.8% | 22.1% |
| Annual Total Shareholder Return (TSR) | | (7.8%) | 22.8% | 72.4% | (15.6%) | 34.3% |
| Annual TSR of ASX-300 A-REIT Index | | 7.5% | (11.2%) | 33.9% | (20.7%) | 11.4% |

REMUNERATION REPORT CONTINUED

Arena listed on the ASX in June 2013. Relative securityholder return over the 10 years since listing compared to the ASX200 A-REIT index is set out in the chart below.

Arena REIT versus S&P ASX200 AREIT Total Return



FY23 STI Scorecard Performance and Outcomes

The Board set the Executive KMP target financial performance hurdles and non-financial objectives required to deliver strategic priorities that create long term value for securityholders. The Committee's assessment of the Executive KMP's FY23 performance is set out in the scorecard below.

Financial Objectives (50%)

| Category | Measurement | Weighting | Rating | Comments |
|--------------------------|--|-----------|--------|--|
| Distributions & Earnings | FY23 distribution target of at least 16.8 cents per security (5% growth) | 25% | T | Actual FY23 distribution of 16.8 cents per security (5% growth) |
| | FY23 DIS target of at least 17.25 cents (6% growth) | 12.5% | B | Actual FY23 DIS of 17.1 cents (5% growth) |
| | Expected FY24 DIS supporting FY24 distribution guidance of at least 17.65 cents per security (5% growth on FY23 distribution target) | 12.5% | B | Actual FY24 distribution guidance of 17.4 cents (3.6% growth on FY23 distribution target). |

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

FY23 STI Scorecard Performance and Outcomes *continued*

| Non-Financial Objectives (50%) | | | | |
|--------------------------------|-------------------------------|-----------|--------|--|
| Key Performance Driver | Strategic Business Objectives | Weighting | Rating | Comments |
| Culture | Culture & Values | 12.5% | T | <ul style="list-style-type: none"> ▶ No safety or injury incidents. ▶ Independent team alignment and engagement survey benchmarked with top quartile ranking in employee engagement and top decile ranking for alignment. ▶ Third Sustainability Report published disclosing Arena's ESG advancements. ▶ Certified carbon neutral by Climate Active for business operations. ▶ ISS QualityScore Governance rating improved to 1/10, the highest possible rating. ▶ FTSE Russell ESG Governance Score improved to 5/5, the highest possible rating. ▶ Delivered inaugural voluntary Modern Slavery Statement. ▶ Completed Physical Climate Risk Assessment. ▶ Development and succession program in place and set as a KPI for Executive KMP. ▶ Implementation of program of cyber risk enhancements. |
| | Governance | | | |
| | Sustainability | | | |
| | Team performance | | | |
| | Development & Succession | | | |
| Discipline | Capital Management | 12.5% | T | <ul style="list-style-type: none"> ▶ Business funding, hedging, liquidity and gearing maintained within approved parameters and development pipeline fully funded. ▶ Inaugural Sustainability Linked Loan introduced with measurable sustainability targets relevant to Arena's operations. ▶ Stability of 19.3 year WALE maintained. ▶ 99.7% tenant occupancy. |
| | Lease Management | | | |
| | Portfolio Management | | | |
| Relationships | Capital Markets | 12.5% | T | <ul style="list-style-type: none"> ▶ Positive tenant engagement survey rating. ▶ Positive capital market engagement. Placed top four or higher ranking for Best Investor Relations by a Company in the ASX Mid-Cap 100 at the annual AIRA awards for third consecutive year. |
| | Stakeholder Management | | | |
| | Tenant Partners | | | |
| Capital Deployment | Developments and Origination | 12.5% | T | <ul style="list-style-type: none"> ▶ 10 ELC development projects reached practical completion with a value of \$65 million and average net yield of 5.8%. ▶ 2 ELCs acquired with a value of \$8 million at an average net yield of 6.0%. ▶ 9 ELC projects added to the development pipeline. |

Key: E = Exceeded Target T = On-Target B = Below Target

REMUNERATION REPORT CONTINUED

FY23 STI Scorecard Performance and Outcomes *continued*

The Committee reviewed the scorecard of Arena's performance throughout FY23, in the context of a rapidly changing economic environment and determined that the outcome is consistent with the objectives of the STI plan.

Reduced transaction volumes and general uncertainty in the property investment markets in which Arena operates reflected a market in transition with respect to inflation and the rapid increase in interest rates during FY23. Arena's ongoing discipline in capital deployment and capital management was expected to contribute to a financial outcome in FY23 that would deliver 5% growth in distributions per security. However, the rapid increase in interest rates and high inflation throughout FY23 significantly reduced the opportunity to prudently deploy capital into new investment at yields sufficiently accretive to earnings. This resulted in outcomes below financial targets in respect of FY23 DIS and FY24 distribution guidance. The effect of the significant increase in interest rates during FY23 was materially mitigated by management's disciplined approach to capital management and interest rate hedging.

Based on their assessment of the STI scorecard, the Committee awarded the Executive KMP 50% of the financial component and 100% of the non-financial objectives component resulting in an overall award of 75% of their STI opportunity. The Committee also consulted with Arena's Audit Committee and confirmed that there were no adverse risk management, behavioural or financial matters relevant to the assessment of Executive KMP performance.

The STI awards for Executive KMP based on FY23 performance outcomes is set out below.

Executive KMP FY23 STI Awards

| Executive KMP | STI Award | Award as a % of STI Opportunity ¹ | Cash Component | Deferred STI Component ² | Deferred STI Rights Granted ^{3,4,5} |
|---------------|-----------|--|----------------|-------------------------------------|--|
| | \$ | % | \$ | \$ | No. |
| Rob de Vos | \$349,312 | 75% | \$174,656 | \$174,656 | 46,497 |
| Gareth Winter | \$171,564 | 75% | \$85,782 | \$85,782 | 22,837 |

1. Any STI Opportunity not awarded is forfeited.

2. 50% of an STI Award is deferred for 12 months and vesting is subject to service over the deferral period.

3. Deferred STI Rights convert into Arena Stapled Securities. The allocation of rights uses a face value method by dividing the value of the Deferred STI award by the 15 day VWAP (ex-distribution) of Arena Stapled Securities immediately prior to the end of the relevant financial year (FY23: \$3.7563).

4. Rights granted to the Executive KMP are subject to approval by securityholders at Arena's 2023 AGM.

5. Deferred STI Rights do not receive cash distributions. However, additional rights will be granted equivalent to distributions declared on Arena Stapled Securities during the 12 month deferral period.

LTI Performance Measures and Assessment

Distributable Income per Security and Relative TSR were established as performance measures in 2014 at the commencement of Arena's LTI Plan. The Committee considers that these measures remain appropriate and are:

- ▶ aligned with Arena's objective and strategy;
- ▶ metrics that align the Executive KMP with securityholders and drive long term sustainable performance and returns; and
- ▶ consistent with our purpose, values and stakeholder expectations of Executive KMP behaviour.

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

LTI Performance Measures and Assessment *continued*

| LTI Year | Performance Measurement Period | LTI Performance Measure ⁴ | Performance Hurdle | Result | Vesting Outcome ^{5,6} | |
|----------|--------------------------------|--------------------------------------|---|---|--------------------------------|------|
| FY21 | FY21-FY23 | Relative TSR ¹ | 50% of rights vest at the 50th percentile; with pro rata vesting until 100% vesting at the 75th percentile. | Arena's TSR of 82% (equivalent to a 22% CAGR) ranked 1st (the 100th percentile) of the comparator group over the three year performance period. | 100% | |
| | FY23 | DIS ^{2,3} | Target range of 15.9 cents to 16.9 cents. | Target range exceeded. Actual DIS of 17.1 cents (equivalent to 5.6% CAGR over the three year performance period). | 100% | |
| | | | | | Overall Vesting ⁴ | 100% |
| FY22 | FY22-FY24 | Relative TSR ¹ | 50% of rights vest at the 50th percentile; with pro rata vesting until 100% vesting at the 75th percentile. | | N/A | |
| | FY24 | DIS ^{2,3} | Target range of 16.6 cents to 17.6 cents. | | | |
| FY23 | FY23-FY25 | Relative TSR ¹ | 50% of rights vest at the 50th percentile; with pro rata vesting until 100% vesting at the 75th percentile. | | N/A | |
| | FY25 | DIS ^{2,3} | Target range of 17.8 cents to 18.85 cents. | | | |

1. Relative TSR rank versus a comparator group comprising the members of the ASX300 A-REIT Index (FY21 – FY22 Grants) or the ASX200 A-REIT Index (FY23 Grant) at the commencement of each three year performance period (assuming reinvestment of distributions). Relative TSR performance rank reduces the effect of market cycles as it measures Arena's performance relative to its peers.

2. DIS is a key performance indicator referenced by the Board in preparing business plans, measuring Arena's performance and creating value for securityholders. DIS is determined by the Board in accordance with Arena's Dividend and Distribution Policy.

3. The DIS target range is set at DIS growth of 3% to 5% CAGR over the three year performance period. The target range is considered appropriate by the Board as it is consistent with core elements of Arena's investment objective to deliver securityholders with attractive and predictable distributions with earnings growth prospects over the medium to long term. A DIS CAGR within the target range of 3-5% is expected to be competitive through the cycle compared to Arena's peers in the ASX200 A-REIT index. For example, the average and median DIS CAGR for the ASX200 AREITS for the three and five year periods to 30 June 2022 was below a 3% CAGR with a 5% CAGR representing top quartile performance over the same three and five year periods. Consistency of the target range over time provides predictability in DIS and an appropriate balance between sustainable securityholder returns and risk. The DIS performance hurdle is assessed in the final year of a three year performance period.

4. A 50% weighting is attributed to each performance measure.

5. 50% vesting at the threshold of the target range plus progressive pro-rata vesting between 50% and 100% (ie on a straight-line basis) with 100% vesting at or above the upper target. Any LTI opportunity not awarded is forfeited.

6. The Board retains full discretion in respect of the LTI award including adjusting the conditions and / or performance outcomes 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 items.

REMUNERATION REPORT CONTINUED

Executive KMP Remuneration Summary - Actual Amounts Received (Non-IFRS Information)¹

| Executive KMP | | Short Term Benefits | | | Equity Based Payments ³ | | Total |
|---------------|------|---------------------------|-----------------------|-----------|------------------------------------|------------------------|-------------|
| | | Fixed Salary ² | Non Monetary Benefits | Cash STI | Deferred STI Rights | LTI Performance Rights | |
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Rob de Vos | FY23 | \$724,500 | \$18,127 | \$219,375 | \$160,993 | \$552,398 | \$1,675,393 |
| | FY22 | \$700,000 | \$17,438 | \$158,334 | \$293,732 | \$598,069 | \$1,767,573 |
| Gareth Winter | FY23 | \$457,500 | \$15,850 | \$107,738 | \$102,634 | \$422,587 | \$1,106,309 |
| | FY22 | \$442,000 | \$15,244 | \$100,938 | \$187,254 | \$602,531 | \$1,347,967 |

1. Voluntary disclosure of actual remuneration received by Executive KMP in accordance with contemporary market practice. The information does not align to Australian Accounting Standards.
2. Salaries are set by the Board as inclusive of the prescribed Superannuation Guarantee contribution for the relevant financial year.
3. The value of vested equity based payments is based on the ASX closing price of an Arena Stapled Security on the date of issue of a stapled security following exercise of vested rights. This may be higher or lower than the value at the time of a grant of equity based remuneration which contributes to variation between target and actual remuneration.

Executive KMP Remuneration measured in accordance with accounting standards (IFRS/statutory)

| Executive KMP | | Short Term Benefits | | | Equity Based Payments | | Other | Total |
|---------------|------|---------------------------|-----------------------|-----------|-----------------------|-------------------------------------|---------------------------------|-------------|
| | | Fixed Salary ¹ | Non Monetary Benefits | Cash STI | Deferred STI Rights | LTI Performance Rights ² | Leave Entitlements ³ | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | |
| Rob de Vos | FY23 | \$724,500 | \$18,127 | \$174,656 | \$197,016 | \$441,624 | \$22,717 | \$1,578,640 |
| | FY22 | \$700,000 | \$17,438 | \$219,375 | \$188,854 | \$424,674 | \$84,934 | \$1,635,275 |
| Gareth Winter | FY23 | \$457,500 | \$15,850 | \$85,782 | \$96,760 | \$295,100 | \$12,363 | \$963,355 |
| | FY22 | \$442,000 | \$15,244 | \$107,738 | \$104,338 | \$297,993 | \$33,861 | \$1,001,174 |

1. Salary is fixed remuneration and is set by the Board as inclusive of the prescribed Superannuation Guarantee contribution for the relevant financial year.
2. FY22 value of LTI Performance Rights has been adjusted to reflect fair value on the date each respective grant was approved by securityholders at each AGM.
3. Change in value of accrued annual and long service leave entitlements during the period.

Executive KMP Statutory Remuneration Mix¹

The relative proportion of variable and at risk remuneration based on the IFRS/Statutory remuneration set out in the table above.

| Executive KMP | Fixed Salary | STI | LTI |
|---------------|--------------|-----|-----|
| | % | % | % |
| Rob de Vos | 47% | 24% | 29% |
| Gareth Winter | 49% | 20% | 31% |

1. Variation between target remuneration opportunity mix and actual remuneration mix is a result of the forfeiture or nonvesting of opportunities and timing differences between granting equity based remuneration and the amortisation of equity based remuneration over the relevant performance and service period.

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

Executive KMP Interests in Securities

| ORDINARY STAPLED SECURITIES | | | | | | |
|-----------------------------|--------------------------------|--|-------------------|--------------------------------|------------------|---|
| Executive KMP | Holding Balance 1 July 2022 | FY21 Deferred STI Award ¹ | FY20 LTI Award | Bought/(Sold) During Period | Other Changes | Holding Balance 30 June 2023 ² |
| | No. | No. | No. | No. | No. | No. |
| Rob de Vos | 787,779 | 47,644 | 157,828 | - | - | 993,251 |
| Gareth Winter | 804,532 | 30,373 | 120,739 | - | - | 955,644 |

1. Includes additional securities granted in respect of distribution equivalents on Deferred STI awards.

2. Arena requires Executive KMP to accumulate (over four years from their date of appointment) and maintain a minimum holding of Arena securities equivalent to 100% of their fixed annual remuneration. Value is determined by reference to the higher of cost or market value at the commencement of the financial year. The Executive KMP comply with the minimum securityholding requirement.

| DEFERRED STI RIGHTS | | | | | | | | |
|---------------------|-------------------|----------------------------|------------------------------|---------------------------------|--------------------------------|--------------------------------|------------------|---|
| Executive KMP | Year ¹ | Grant Date ³ | Vesting Date ⁴ | Value per Right ² | Rights Granted ² | Portion Vested ⁴ | Rights Lapsed | Maximum Value to be recognised in future years |
| | | | | \$ | No. | % | | \$ |
| Rob de Vos | FY23 | 1 July 23 | 1 July 24 | \$3.7563 | 46,497 | - | - | \$87,328 |
| | FY22 | 1 July 22 | 1 July 23 | \$4.1011 | 56,030 | 100% | - | - |
| | FY21 | 1 July 21 | 1 July 22 | \$3.4422 | 47,644 | 100% | - | - |
| Gareth Winter | FY23 | 1 July 23 | 1 July 24 | \$3.7563 | 22,837 | - | - | \$42,891 |
| | FY22 | 1 July 22 | 1 July 23 | \$4.1011 | 27,518 | 100% | - | - |
| | FY21 | 1 July 21 | 1 July 22 | \$3.4422 | 30,373 | 100% | - | - |

1. Represents the period in respect of which the STI was awarded. Vesting is subject to service at the vesting date.

2. The initial allocation of rights is determined on a face value basis by dividing the value of the Deferred STI award by the 15 day VWAP (ex-distribution) of Arena Stapled Securities immediately prior to the end of the relevant financial year. This also reflects a reasonable estimation of their grant date fair value as additional rights are subsequently granted for the value of distributions equivalent to that declared to ordinary securityholders during the deferral period.

3. The FY23 grant of Deferred STI Rights to the Executive KMP have been approved by the Board with an effective date of 1 July 2023 but will be presented for securityholder approval at Arena's 2023 AGM as vesting may not be satisfied by acquiring equivalent securities on market. The FY22 grant was approved by securityholders on 24 November 2022 and the FY21 grant was approved by securityholders on 25 November 2021.

4. Vested FY21 Deferred STI Rights were exercised by Executive KMP on 26 September 2022. FY22 Deferred STI Rights have vested, are unexercised but may be exercised by Executive KMP at any time after the date of this report.

REMUNERATION REPORT CONTINUED

| LTI PERFORMANCE RIGHTS ^{6,7,8} | | | | | | | | |
|---|------------|-------------------------|---------------------------|-----------------------------------|-------------------------------|-----------------------------|---------------|---|
| Executive KMP | Grant Year | Grant Date ¹ | Vesting Date ⁴ | Fair Value per Right ³ | Rights Granted ^{1,2} | Portion Vested ⁴ | Rights Lapsed | Maximum Value to be recognised in future years ⁵ |
| | | | | \$ | No. | % | | \$ |
| Rob de Vos | FY23 | 24 Nov 22 | 1 July 25 | \$2.50 | 138,804 | - | - | \$231,340 |
| | FY22 | 25 Nov 21 | 1 July 24 | \$3.68 | 159,782 | - | - | \$195,999 |
| | FY21 | 19 Nov 20 | 1 July 23 | \$2.00 | 194,932 | 100% | - | - |
| Gareth Winter | FY23 | 24 Nov 22 | 1 July 25 | \$2.50 | 87,153 | - | - | \$145,256 |
| | FY22 | 25 Nov 21 | 1 July 24 | \$3.68 | 100,318 | - | - | \$123,057 |
| | FY21 | 19 Nov 20 | 1 July 23 | \$2.00 | 149,123 | 100% | - | - |

- Rights are approved by the Board at the commencement of the three year performance period. Each LTI grant to Executive KMP is conditional on approval by securityholders at Arena's AGM.
- Commencing from the FY22 grant year, the allocation of rights is determined on a face value basis by dividing the LTI opportunity by the 15 day VWAP (ex-distribution) of Arena Stapled Securities to 30 June at the beginning of each grant year (FY23: \$4.1011).
- Reflects fair value for accounting purposes noting that actual LTI allocations from FY22 have been determined on a face value basis.
- LTI Rights vested in accordance with the FY21 LTI assessment as set out on page 38. Vested rights are unexercised but may be exercised by Executive KMP at any time after the date of this report.
- The fair value of rights is amortised over the 3 year performance period for accounting purposes. This represents the maximum value of rights to be recognised in future years in the Statement of Comprehensive Income. The value will be nil if rights do not vest.
- No payment is required on issue of Rights or stapled securities in respect of a vested Right. Vesting is subject to performance measures and service at the vesting date.
- 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 will 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).
- Executive KMP are restricted from entering into transactions (using derivatives or otherwise) that would have the effect of limiting the economic risk from participating in the LTI.

Non-Executive Director Remuneration Framework

| | |
|---|--|
| How are Non-Executive Director (NED) fees set? | Fees are set to ensure NEDs are remunerated fairly for their services, recognising the level of skill, expertise and experience required to perform the role. The fees are periodically benchmarked against a comparable group of listed entities. |
| Who approves the fees? | Each NED is paid an amount determined by the Board. NEDs do not receive any equity based payments, retirement benefits or incentive payments. |
| Is there a maximum fee? | NED fees are subject to a maximum aggregate amount approved by securityholders of \$1 million per annum. |
| Are NEDs required to have a minimum security holding? | Arena's minimum securityholding policy requires NEDs to acquire (over three years from the later of the date the policy was adopted or their date of appointment) and maintain a minimum holding of Arena securities equivalent to 100% of the annual Board fee. The assessed value is the higher of cost or market value at the beginning of the relevant financial year. |

FY23 Board and Committee Fees

| | Board Fee ¹ | Audit Committee | Culture & Remuneration Committee | Nomination Committee |
|--------|------------------------|-----------------|----------------------------------|----------------------|
| | \$ | \$ | \$ | \$ |
| Chair | \$240,000 | \$21,000 | \$21,000 | \$5,200 |
| Member | \$110,000 | \$10,500 | \$10,500 | \$2,600 |

- The Board Fee received by the Chair of the Board is inclusive of all Committee fees.
- All Fees are set inclusive of prescribed Superannuation Guarantee contributions.

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

Non-Executive Director Reported Remuneration (statutory)

| | | Fee ¹ |
|--------------------------------|------|------------------|
| | | \$ |
| David Ross (Board Chair) | FY23 | \$240,000 |
| | FY22 | \$230,000 |
| Rosemary Hartnett ² | FY23 | \$144,100 |
| | FY22 | \$137,500 |
| Simon Parsons ³ | FY23 | \$133,600 |
| | FY22 | \$127,500 |
| Helen Thornton ⁴ | FY23 | \$73,022 |
| | FY22 | - |
| Dennis Wildenburg ⁵ | FY23 | \$144,100 |
| | FY22 | \$137,500 |

1. Fees are set inclusive of prescribed Superannuation Guarantee contributions.

2. Chair of the Culture and Remuneration Committee.

3. Dr Parsons retired from the Board on 15 June 2023.

4. Ms Thornton was appointed to the Board on 15 December 2022.

5. Chair of the Audit Committee.

Non-Executive Director Securityholdings

| Ordinary Securities | Balance 1 July 2022 | Acquired | Disposed | Other | Balance 30 June 2023 |
|-----------------------------|------------------------|----------|----------|-----------|-------------------------|
| | No. | No. | No. | No. | No. |
| David Ross | 213,565 | - | - | - | 213,565 ¹ |
| Rosemary Hartnett | 26,711 | 1,194 | - | - | 27,905 ¹ |
| Simon Parsons ³ | 217,644 | - | - | (217,644) | - |
| Helen Thornton ² | - | - | - | - | - |
| Dennis Wildenburg | 173,334 | - | - | - | 173,334 ¹ |

1. Complies with minimum securityholding requirement (MSHR) as measured at the commencement of the financial year.

2. Ms Thornton has three years from appointment on 15 December 2022 to meet the MSHR.

3. Dr Parsons retired from the Board on 15 June 2023.

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 in their capacity as 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 2023 are disclosed in note 24 of the financial statements.

FEES PAID TO AND INTERESTS HELD IN THE GROUP BY THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

Fees paid to the Responsible Entity and its related parties out of Group property during the year are disclosed in note 22 of the financial statements.

INTERESTS IN THE GROUP

The movement in securities on issue in the Group during the year is disclosed in note 13 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.

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

- ▶ Communications Policy;
- ▶ Continuous Disclosure Policy;
- ▶ Diversity Policy;
- ▶ Environmental, Social and Governance Policy;
- ▶ Privacy Policy;
- ▶ Securities Trading Policy;
- ▶ Summary of Risk Management Framework;
- ▶ Whistleblower Policy.

In compliance with ASX Listing Rule 4.10.3, the Group publishes an annual statement on its website disclosing the extent to which it has followed the recommendations for good corporate governance set by the ASX Corporate Governance Council during the reporting period.

ENVIRONMENTAL REGULATION

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

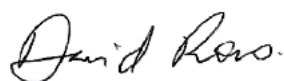
ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

The Group is an entity of a kind referred to in 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

The Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 44.

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



David Ross, Chair
Melbourne, 10 August 2023

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Arena REIT No. 1 for the year ended 30 June 2023, 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 No. 1 and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'JDP Wills', is written over a horizontal line.

JDP Wills
Partner
PricewaterhouseCoopers

Sydney
10 August 2023

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Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 30 June 2023 | CONSOLIDATED | | |
|--|--------------|-----------------|-----------------|
| | | 30 June 2023 | 30 June 2022 |
| | Notes | \$'000 | \$'000 |
| Income | | | |
| Property income | 8(c) | 92,641 | 80,804 |
| Management fee income | | - | 396 |
| Interest | | 594 | 42 |
| Revaluation gain on investment properties | 8 | - | 240,253 |
| Net gain on change in fair value of derivative financial instruments | | 527 | 24,478 |
| Profit on sale of direct properties | | - | 1,023 |
| Total income | | 93,762 | 346,996 |
| Expenses | | | |
| Property expenses | 8(c) | (635) | (576) |
| Management and administration expenses | | (6,543) | (6,110) |
| Revaluation loss on investment properties | 8 | (1,497) | - |
| Finance costs | 3 | (10,023) | (5,608) |
| Loss on sale of direct properties | | (47) | - |
| Other expenses | | (778) | (414) |
| Total expenses | | (19,523) | (12,708) |
| Net profit for the year | | 74,239 | 334,288 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 74,239 | 334,288 |
| Total comprehensive income for the year is attributable to Arena REIT stapled group investors, comprising: | | | |
| Unitholders of Arena REIT No. 1 | | 72,637 | 304,012 |
| Unitholders of Arena REIT No. 2 (non-controlling interest) | | 3,242 | 31,373 |
| Unitholders of Arena REIT Limited (non-controlling interest) | | (1,640) | (1,097) |
| | | 74,239 | 334,288 |
| | Notes | Cents | Cents |
| Earnings per security: | | | |
| Basic earnings per security in Arena REIT No. 1 | 5 | 20.83 | 88.00 |
| Diluted earnings per security in Arena REIT No. 1 | 5 | 20.75 | 87.67 |
| Basic earnings per security in Arena REIT Group | 5 | 21.29 | 96.76 |
| Diluted earnings per security in Arena REIT Group | 5 | 21.20 | 96.40 |

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

CONSOLIDATED BALANCE SHEET

| | | CONSOLIDATED | |
|--|-------|------------------|------------------|
| For the year ended 30 June 2023 | | 30 June 2023 | 30 June 2022 |
| | Notes | \$'000 | \$'000 |
| Current assets | | | |
| Cash and cash equivalents | 6 | 16,113 | 22,200 |
| Trade and other receivables | 7 | 5,304 | 3,595 |
| Derivative financial instruments | 12 | 6,939 | 3,064 |
| Total current assets | | 28,356 | 28,859 |
| Non-current assets | | | |
| Trade and other receivables | 7 | - | 314 |
| Derivative financial instruments | 12 | 12,558 | 15,906 |
| Property, plant and equipment | | 654 | 783 |
| Investment properties | 8 | 1,515,912 | 1,461,888 |
| Intangible assets | 9 | 10,816 | 10,816 |
| Total non-current assets | | 1,539,940 | 1,489,707 |
| Total assets | | 1,568,296 | 1,518,566 |
| Current liabilities | | | |
| Trade and other payables | 10 | 12,579 | 11,450 |
| Provisions | | 766 | 792 |
| Distributions payable | | 14,730 | 14,040 |
| Lease liabilities | | 229 | 215 |
| Total current liabilities | | 28,304 | 26,497 |
| Non-current liabilities | | | |
| Provisions | | 121 | 97 |
| Interest bearing liabilities | 11 | 340,342 | 322,547 |
| Lease liabilities | | 222 | 451 |
| Total non-current liabilities | | 340,685 | 323,095 |
| Total liabilities | | 368,989 | 349,592 |
| Net assets | | 1,199,307 | 1,168,974 |
| Equity | | | |
| Contributed equity - ARF1 | 13 | 424,361 | 415,410 |
| Accumulated profit | 14 | 632,316 | 591,012 |
| Non-controlling interests - ARF2 and ARL | 15 | 142,630 | 162,552 |
| Total equity | | 1,199,307 | 1,168,974 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| For the year ended 30 June 2023 | CONSOLIDATED | | | |
|--|--------------------|--------------------|--|------------------|
| | Contributed equity | Accumulated profit | Non-controlling interests - ARL & ARF2 | Total equity |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2021 | 406,736 | 335,143 | 137,039 | 878,918 |
| Profit for the year | - | 304,012 | 30,276 | 334,288 |
| Total comprehensive income for the year | - | 304,012 | 30,276 | 334,288 |
| Transactions with owners in their capacity as owners: | | | | |
| Issue of securities under the DRP | 8,674 | - | 1,303 | 9,977 |
| Distributions to securityholders | - | (48,143) | (7,194) | (55,337) |
| Equity-based remuneration | - | - | 1,128 | 1,128 |
| Balance at 30 June 2022 | 415,410 | 591,012 | 162,552 | 1,168,974 |
| Balance at 1 July 2022 | 415,410 | 591,012 | 162,552 | 1,168,974 |
| Profit for the year | - | 72,637 | 1,602 | 74,239 |
| Total comprehensive income for the year | - | 72,637 | 1,602 | 74,239 |
| Transactions with owners in their capacity as owners: | | | | |
| Issue of securities under the DRP | 8,951 | - | 4,334 | 13,285 |
| Distributions to securityholders | - | (31,333) | (27,335) | (58,668) |
| Equity-based remuneration | - | - | 1,477 | 1,477 |
| Balance at 30 June 2023 | 424,361 | 632,316 | 142,630 | 1,199,307 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

| For the year ended 30 June 2023 | CONSOLIDATED | | |
|---|--------------|-----------------|-----------------|
| | | 30 June 2023 | 30 June 2022 |
| | Notes | \$'000 | \$'000 |
| Cash flows from operating activities | | | |
| Receipts in the course of operations | | 81,210 | 74,916 |
| Payments in the course of operations | | (13,111) | (12,341) |
| Finance costs paid | | (8,837) | (4,520) |
| Interest received | | 593 | 41 |
| Net cash inflow from operating activities | 16 | 59,855 | 58,096 |
| Cash flows from investing activities | | | |
| Proceeds from sale of investment properties | | 33,004 | 15,969 |
| Payments for investment properties and capital expenditure | | (71,326) | (103,996) |
| Refund of investment property acquisition costs | | 115 | 384 |
| Proceeds from transfer of ownership of plant and equipment | | - | 142 |
| Net cash (outflow) from investing activities | | (38,207) | (87,501) |
| Cash flows from financing activities | | | |
| Net proceeds from issue of securities | | (60) | (44) |
| Distributions paid to securityholders | | (44,633) | (44,077) |
| Loan establishment costs paid | | (817) | (1,436) |
| Capital receipts from lenders | | 43,000 | 84,064 |
| Capital payments to lenders | | (25,000) | (666) |
| Finance lease payments | | (225) | (254) |
| Net cash (outflow)/inflow from financing activities | | (27,735) | 37,587 |
| Net (decrease)/increase in cash and cash equivalents | | (6,087) | 8,182 |
| Cash and cash equivalents at the beginning of the financial year | | 22,200 | 14,018 |
| Cash and cash equivalents at the end of the financial year | 6 | 16,113 | 22,200 |

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



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

These financial statements cover Arena REIT (the 'Group') comprising Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2'), Arena REIT Limited ('ARL'), and their controlled entities. Arena REIT is listed on the ASX and registered and domiciled in Australia. The Responsible Entity of ARF1 and ARF2 is Arena REIT Management Limited (the 'Responsible Entity').

As permitted by Class order 13/1050 issued by ASIC, this financial report is a combined financial report that presents the financial statements and accompanying notes of Arena REIT at and for the year ended 30 June 2023.

The financial statements were authorised for issue by the directors on 10 August 2023. The directors have the power to amend and reissue the financial statements.

(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 share-based payments which are measured at fair value. Cost is based on the fair value of consideration given in exchange for assets. Comparative information is reclassified where appropriate to enhance comparability.

The financial statements are presented in Australian Dollars, which is the Group's functional currency.

Compliance with International Financial Reporting Standards

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

(b) New and amended standards adopted by the Group

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2022 that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

(c) New accounting standards and interpretations not yet adopted

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

(d) Critical accounting estimates and judgements

The Group makes estimates and judgements 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. Estimates and judgements which are material to the financial report are found in the following notes:

- ▶ Investment properties Note 8
- ▶ Impairment of goodwill Note 9
- ▶ Financial instruments Notes 12, 17

(e) Rounding of amounts

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

FINANCIAL RESULTS, ASSETS AND LIABILITIES

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the Group, including:

- (a) accounting policies that are relevant for an understanding of the items recognised in the financial statements
- (b) analysis and sub-totals
- (c) information about estimates and judgements made in relation to particular items.

2. SEGMENT INFORMATION

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

A key financial metric used to define the results and performance of the Group is net operating profit (distributable income). Net operating profit is a non-statutory measure of profit used to determine securityholder distributions and represents the underlying cash-based profit for the relevant period. Net operating profit excludes fair value changes from asset and derivative valuations and items of income or expense not representative of the underlying operating earnings or cashflow.

A reconciliation between statutory net profit per the Consolidated Statement of Comprehensive Income and net operating profit (distributable income) is set out below:

| | 30 June 2023 | 30 June 2022 |
|---|---------------|----------------|
| | \$'000 | \$'000 |
| Statutory net profit | 74,239 | 334,288 |
| Investment property revaluation and straight-lining of rent | (16,997) | (254,486) |
| Change in fair value of derivatives | (527) | (24,478) |
| Loss/(profit) on sale of investment properties | 47 | (1,023) |
| Transaction costs | 745 | 541 |
| Amortisation of equity-based remuneration (non-cash) | 1,557 | 1,135 |
| Other | 588 | 350 |
| Net operating profit (distributable income)* | 59,652 | 56,327 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. FINANCE COSTS

| | CONSOLIDATED | |
|--|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Finance costs: | | |
| Interest paid or payable | 9,318 | 4,707 |
| Loan establishment and other finance costs | 544 | 513 |
| Write-off of loan establishment costs due to refinancing | 161 | 388 |
| Total finance costs expensed | 10,023 | 5,608 |
| Finance costs capitalised (a) | 3,079 | 3,338 |
| Total finance costs | 13,102 | 8,946 |

Finance costs are capitalised at rates based on contracted fund through rates for each development ranging from 5.0% to 6.8% (30 June 2022: 5.0% to 6.8%).

(a) Accounting policy - Finance costs

Finance costs include interest and amortisation of costs incurred in connection with the arrangement of borrowings. Finance 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 for the acquisition, construction or production of a qualifying asset, the finance costs capitalised are those incurred in relation to that qualifying asset.

4. INCOME TAXES

Under current Australian income tax legislation, ARF1 and ARF2 are not liable to Australian income tax, provided that the securityholders 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.

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

| | CONSOLIDATED | |
|---|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Profit/(loss) before income tax | 74,239 | 334,288 |
| Tax at the applicable Australian tax rate of 25.0% (2022 - 25.0%) | (18,560) | (83,572) |
| Profit attributable to entities not subject to tax | 18,970 | 83,846 |
| Deferred tax assets not recognised | (410) | (274) |
| Income tax expense | - | - |

Unrecognised deferred tax assets are \$0.4 million (2022: \$0.3 million). These have not been recognised as it is not probable that future taxable profit will arise to offset these deductible temporary differences.

4. INCOME TAXES CONTINUED

(b) Accounting policy - 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

ARL 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, ARL, 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.

In addition to its own current and deferred tax amounts, ARL 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 ARL. As there is no tax sharing agreement in place the current tax receivable or payable is transferred from each controlled entity to ARL as a contribution to (or distribution from) wholly owned entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. EARNINGS PER SECURITY ('EPS')

| | 2023 | 2022 |
|---------------------------------|-------|-------|
| | Cents | Cents |
| Basic EPS in Arena REIT No. 1 | 20.83 | 88.00 |
| Diluted EPS in Arena REIT No. 1 | 20.75 | 87.67 |
| Basic EPS in Arena REIT Group | 21.29 | 96.76 |
| Diluted EPS in Arena REIT Group | 21.20 | 96.40 |

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

| | 2023 | 2022 |
|---|----------------------|----------------------|
| | Number of securities | Number of securities |
| | '000 | '000 |
| Weighted average number of ordinary securities used in calculating basic EPS | 348,771 | 345,469 |
| Rights granted under employee incentive plans | 1,353 | 1,308 |
| Adjusted weighted average number of ordinary securities used in calculating diluted EPS | 350,124 | 346,777 |

| | 30 June 2023 | 30 June 2022 |
|---|--------------|--------------|
| | Cents | Cents |
| Earnings used in calculating basic EPS for Arena REIT No. 1 | 72,637 | 304,012 |
| Earnings used in calculating diluted EPS for Arena REIT No. 1 | 72,637 | 304,012 |
| Earnings used in calculating basic EPS for Arena REIT Group | 74,239 | 334,288 |
| Earnings used in calculating diluted EPS for Arena REIT Group | 74,239 | 334,288 |

(a) Accounting policy - earnings per security

(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;
- ▶ the weighted average number of additional ordinary securities that would have been outstanding assuming the conversion of all dilutive potential ordinary securities.

6. CASH AND CASH EQUIVALENTS

| | CONSOLIDATED | |
|--|---------------|---------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Cash at bank | 16,113 | 22,200 |
| Total cash and cash equivalents | 16,113 | 22,200 |

(a) Accounting policy - 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.

7. TRADE AND OTHER RECEIVABLES

(a) Trade and other receivables - Current

| | CONSOLIDATED | |
|--------------------------------|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Trade receivables | 911 | 989 |
| Expected credit loss provision | (154) | (154) |
| Other receivables | 3,437 | 1,862 |
| Prepayments | 1,110 | 898 |
| | 5,304 | 3,595 |

(i) Ageing of trade receivables

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

| | 2023 | 2022 |
|-----------------------|------------|------------|
| | \$'000 | \$'000 |
| Not past due | 880 | 989 |
| Past due 0 - 30 days | 12 | - |
| Past due 31 - 60 days | 14 | - |
| Past due 61 - 90 days | - | - |
| Past due over 90 days | 5 | - |
| | 911 | 989 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. TRADE AND OTHER RECEIVABLES CONTINUED

(b) Accounting policy - Receivables

Receivables may include amounts for interest and trust distributions. 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.

Receivables are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Group measures the loss allowance on receivables at an amount equal to the lifetime expected credit losses. Expected credit losses are measured using probability of default, exposure at default and loss given default. 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 expected credit loss provision 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 expected credit loss provision 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.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an expected credit loss provision 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.

8. INVESTMENT PROPERTIES

(a) Valuations and carrying amounts

| | Carrying amount | | Latest independent valuation | |
|-----------------------|------------------|------------------|------------------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| ELC properties | 1,335,964 | 1,236,859 | 1,228,375 | 1,033,210 |
| ELC developments | 41,108 | 50,705 | 26,273 | 25,174 |
| Healthcare properties | 138,840 | 174,324 | 135,230 | 162,794 |
| Total | 1,515,912 | 1,461,888 | 1,389,878 | 1,221,178 |

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.

Independent valuations were performed on 96 Early Learning Centres ('ELC') and three healthcare properties throughout the year ended 30 June 2023. The directors have reviewed these valuations and determined they are appropriate to adopt during the financial period ending 30 June 2023. Director valuations were performed on investment properties not independently valued as at 30 June 2023.

Development properties have been subject to a Director valuation and are carried at fair value on completion less cost to complete, including an appropriate adjustment for development risk.

The key inputs into valuations are:

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

8. INVESTMENT PROPERTIES CONTINUED

(a) Valuations and carrying amounts *continued*

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

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

(i) Key assumptions - ELCs

| | 30 June 2023 | 30 June 2022 |
|--------------------------------|--------------------|--------------------|
| Market rent per licenced place | \$1,800 to \$6,000 | \$1,300 to \$5,450 |
| Capitalisation rates | 4.25% to 6.50% | 4.25% to 7.50% |
| Passing yields | 3.75% to 6.75% | 3.50% to 6.50% |

(ii) Key assumptions - Healthcare properties

| | 30 June 2023 | 30 June 2022 |
|----------------------|----------------|----------------|
| Capitalisation rates | 4.75% to 6.25% | 4.25% to 6.25% |
| Passing yields | 4.75% to 6.00% | 4.75% to 6.50% |
| Discount rates | 5.75% to 7.50% | 5.50% to 7.00% |

(iii) Sensitivity analysis

The Group's investment properties are 100% occupied with a weighted average lease expiry of 19.3 years. The Group's investment properties are typically on long term leases with contracted annual income escalations and accordingly, they are generally valued on a capitalisation of income or discounted cash flow (DCF) (healthcare properties) basis. The Group's investment properties are therefore exposed to a risk of change in their fair values due to changes in market capitalisation rates and discount rates.

For ELC properties, if the capitalisation rate expanded by 25 basis points, fair value would reduce by \$62 million from the fair value as at 30 June 2023 and if the capitalisation rate compressed by 25 basis points, fair value would increase by \$68 million from the fair value as of 30 June 2023.

For Healthcare properties, if the capitalisation rate expanded by 25 basis points, fair value would reduce by \$3 million from the fair value as at 30 June 2023 and if the capitalisation rate compressed by 25 basis points, fair value would increase by \$4 million from the fair value as of 30 June 2023. If the discount rate expanded by 25 basis points, fair value would reduce by \$1 million from the fair value as at 30 June 2023 and if the discount rate compressed by 25 basis points, fair value would increase by \$1 million from the fair value as of 30 June 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8. INVESTMENT PROPERTIES CONTINUED

(b) Movements during the financial year

| | CONSOLIDATED | |
|---|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| At fair value | | |
| Opening balance | 1,461,888 | 1,112,431 |
| Property acquisitions and capital expenditure | 70,219 | 105,345 |
| Refund of property acquisition costs | (115) | (384) |
| Disposals | (33,049) | (9,989) |
| Revaluations | (1,497) | 240,253 |
| Other IFRS revaluation adjustments | 18,466 | 14,232 |
| Closing balance | 1,515,912 | 1,461,888 |

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

| | CONSOLIDATED | |
|--|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Property income | 74,147 | 66,570 |
| Other property income (recognised on a straight line basis) | 18,494 | 14,234 |
| Direct operating expenses from property that generated property income | (635) | (576) |
| Revaluation gain on investment properties | (1,497) | 240,253 |

(d) Tenancy risk

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

Goodstart Early Learning Ltd ('Goodstart') - representing 24% of the Group's investment property portfolio by income. Like many 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.

Green Leaves Group Limited ('Green Leaves') - representing 18% of the Group's investment property portfolio by income. Green Leaves is a privately held provider of early childhood education, owning and operating approximately 60 ELCs throughout Australia.

Edge Early Learning ('Edge') - representing 11% of the Group's investment property portfolio by income. Edge is a privately held provider of early childhood education, owning and operating more than 50 ELCs throughout Australia.

Affinity Education Group Limited ('Affinity') - representing 10% of the Group's investment property portfolio by income. Affinity is a privately held provider of early childhood education, owning and operating over 225 ELCs throughout Australia.

8. INVESTMENT PROPERTIES CONTINUED

Other Tenants

| % of Investment Property Portfolio by Income | |
|--|----|
| ForHealth | 7% |
| G8 Education | 5% |
| Aspire Education | 4% |
| Petit Early Learning Journey | 3% |
| Mayfield | 2% |
| SACare | 2% |

All of the above tenants are ELC or healthcare operators. G8 Education and Mayfield are listed on the Australian Securities Exchange. The other tenants are privately owned with experience operating ELCs or healthcare businesses. 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 of the lease.

(e) Assets pledged as security

Refer to note 11 for information on investment properties and other assets pledged as security by the Group.

(f) Contractual obligations

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

| | 30 June 2023 | 30 June 2022 |
|-----------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Investment properties | 56,763 | 45,619 |

The above commitments include the costs associated with developing early learning properties.

(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 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Minimum lease receivable under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows: | | |
| Within 1 year | 72,246 | 68,714 |
| 1 - 2 years | 73,885 | 70,131 |
| 2 - 3 years | 75,743 | 71,733 |
| 3 - 4 years | 77,653 | 73,536 |
| 4 - 5 years | 79,618 | 75,389 |
| Greater than 5 years | 1,452,002 | 1,441,846 |
| | 1,831,147 | 1,801,349 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8. INVESTMENT PROPERTIES CONTINUED

(h) Impact of climate change on investment property valuations

Climate change can impact investment property values in a number of ways. Firstly, the increasing frequency and severity of extreme weather events pose risks of property damage, higher maintenance costs and income loss. The risk of this is influenced by factors like property location and whether measures have been implemented to mitigate the impacts of adverse weather. Regulators may demand additional sustainability measures for buildings, both during their construction phase and through the course of operations. Properties that effectively minimise their environmental impact may attract premium rents, thereby supporting higher property valuations.

Valuers consider the impact of specific identified risk factors, such as flooding or bushfires, when assessing the value of each property during their valuation process. They utilise property-specific overlays and benchmarking against market transactions that demonstrate premiums and discounts for properties with varying levels of risk.

(i) Accounting policy - 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Valuations are derived through a combination of the valuations determined using the discounted cash flow (DCF) method, the income capitalisation method, and the direct comparison method. They consider 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.

9. INTANGIBLE ASSETS

| | CONSOLIDATED | |
|----------|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Goodwill | 10,816 | 10,816 |
| | 10,816 | 10,816 |

The intangible asset held by the Group represents goodwill on acquisition. There are no other intangibles held by the Group.

Goodwill has been allocated to the Group's lowest cash generating unit representing funds management across the Arena REIT business as a whole.

The Group tests impairment of goodwill annually by comparing its carrying amount with its recoverable amount. The recoverable amount is determined using a fair value methodology which applies asset values and net cashflow financial budgets approved by the Board of Directors, contractual fee rates and a valuation multiple.

There has been no impairment of goodwill recognised in the current or prior financial years.

Key assumptions include:

- ▶ growth rates set in the range of 2% to 5% per annum, reflecting a line-by-line net cashflow and asset value forecast and contracted fee income; and
- ▶ cash flows are discounted at a rate of 9.68% per annum, based on an appropriate measure of cost of capital plus a premium for risk capitalised at a rate derived from an independent valuation obtained in support of the acquisition and updated for current economic conditions and risk.

The Group has considered and assessed reasonably possible changes in key assumptions and have not identified any foreseeable instances that could cause the carrying amount to exceed its recoverable amount.

(a) Accounting policy - 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10. TRADE AND OTHER PAYABLES

| | CONSOLIDATED | |
|-------------------------------|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Prepaid rental income | 3,260 | 3,831 |
| Sundry creditors and accruals | 9,319 | 7,619 |
| | 12,579 | 11,450 |

Trade and other payables are non-interest bearing.

11. INTEREST BEARING LIABILITIES

| | CONSOLIDATED | |
|--------------------------------------|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Non-current: | | |
| Secured | | |
| Syndicated facility | 342,000 | 324,000 |
| Unamortised transaction costs | (1,658) | (1,453) |
| Total secured non-current borrowings | 340,342 | 322,547 |

(a) Financing arrangements

| | CONSOLIDATED | |
|--|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Committed facilities available at the end of the reporting period | | |
| Interest bearing liabilities | 500,000 | 430,000 |
| Facilities used at the end of the reporting period | | |
| Interest bearing liabilities | 342,000 | 324,000 |

The Group refinanced its syndicated debt facility in December 2022, increasing the facility limit by \$70 million to \$500 million, extending the maturity dates and adding a Sustainability Linked Loan (SLL) overlay. The SLL has annual Sustainability Performance Targets (SPTs) which may result in an adjustment to the margin paid on the drawn debt balance.

The Group has a \$200 million facility expiring 31 March 2026, a \$150 million facility expiring 31 March 2027, and a \$150 million facility expiring 31 March 2028, providing a remaining weighted average term of 3.7 years (30 June 2022: 3.4 years).

The facilities are available to both ARF1 and ARF2 and the assets of both Trusts are held as security under the facilities.

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

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

11. INTEREST BEARING LIABILITIES CONTINUED

(b) Assets pledged as security

The bank facilities are secured by a registered first mortgage over investment property and a fixed and floating charge over the assets of ARF1 and ARF2.

The carrying amounts of assets pledged as security are:

| | CONSOLIDATED | |
|----------------------------------|---------------|---------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Financial assets pledged | | |
| Cash and cash equivalents | 9,689 | 15,430 |
| Trade and other receivables | 4,868 | 3,442 |
| Derivative financial instruments | 19,497 | 18,970 |
| | 34,054 | 37,842 |

| | CONSOLIDATED | |
|-----------------------------|------------------|------------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Other assets pledged | | |
| Investment properties | 1,515,912 | 1,461,888 |
| | 1,515,912 | 1,461,888 |

(c) Covenants

The covenants over the Group's bank facility require an interest cover ratio of greater than 2.0 times (actual at 30 June 2023 of 5.4 times) and a loan to market value of investment properties ratio of less than 50% (actual at 30 June 2023 of 24.6%). The Group was in compliance with its covenants throughout the year.

(d) Accounting policy - 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. Transaction costs are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. DERIVATIVE FINANCIAL INSTRUMENTS

| | CONSOLIDATED | |
|---------------------------|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Current assets | | |
| Interest rate swaps | 6,939 | 3,064 |
| | 6,939 | 3,064 |
| Non-current assets | | |
| Interest rate swaps | 12,558 | 15,906 |
| | 12,558 | 15,906 |

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

Swaps in place as at 30 June 2023 cover 88% (2022: 77%) of the facility principal outstanding. The weighted average fixed interest swap rate at 30 June 2023 was 2.03% (2022: 1.68%), and the weighted average term was 3.5 years (2022: 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.

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

| | CONSOLIDATED | |
|----------------------|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Less than 1 year | 15,000 | - |
| 1 – 2 years | 45,000 | 15,000 |
| 2 – 3 years | 70,000 | 45,000 |
| 3 – 4 years | 60,000 | 50,000 |
| 4 – 5 years | 45,000 | 60,000 |
| Greater than 5 years | 65,000 | 80,000 |
| | 300,000 | 250,000 |

(a) Accounting policy - Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group does not designate any derivatives as hedges in a hedging relationship and therefore changes in the fair value of any derivative instrument are recognised immediately in the statement of comprehensive income.

(b) Key estimate - Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives or unquoted securities) is determined using valuation techniques.

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.

Refer to Note 17 for further information on the fair value estimation and fair value hierarchy of financial instruments.

13. CONTRIBUTED EQUITY

(a) Securities

| | CONSOLIDATED | | | |
|----------------------------|-----------------|-----------------|--------------|--------------|
| | 30 June 2023 | 30 June 2022 | 30 June 2023 | 30 June 2022 |
| | Securities '000 | Securities '000 | \$'000 | \$'000 |
| Ordinary Securities | | | | |
| Fully paid | 350,705 | 346,678 | 424,361 | 415,410 |

Other contributed equity attributable to securityholders of the Group relating to ARF2 and ARL of \$89.7 million is included within Non-controlling interests - ARF2 and ARL (30 June 2022: \$84.4 million).

(b) Movements in ordinary securities

| Date | Details | Number of securities | |
|--------------|---|----------------------|---------|
| | | '000 | \$'000 |
| 1 July 2021 | Opening balance | 343,644 | 406,736 |
| | Issue of securities under the DRP (i) | 2,334 | 8,674 |
| | Vesting of equity-based remuneration (ii) | 700 | - |
| 30 June 2022 | Closing balance | 346,678 | 415,410 |
| 1 July 2022 | Opening balance | 346,678 | 415,410 |
| | Issue of securities under the DRP (i) | 3,546 | 8,951 |
| | Vesting of equity-based remuneration (ii) | 481 | - |
| 30 June 2023 | Closing balance | 350,705 | 424,361 |

(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.

(ii) Equity-based remuneration

In September 2022, 368,439 performance rights granted to employees of a related party of the Responsible Entity in FY20 vested as a result of performance conditions being fulfilled. In addition, 112,658 deferred short-term incentive rights granted to employees of a related party of the Responsible Entity in FY21 vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. ACCUMULATED PROFIT

| | CONSOLIDATED | |
|---|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Movements in accumulated profit were as follows: | | |
| Opening accumulated profit | 591,012 | 335,143 |
| Net profit for the year attributable to ARF1 | 72,637 | 304,012 |
| Distribution paid or payable attributable to ARF1 | (31,333) | (48,143) |
| Closing accumulated profit | 632,316 | 591,012 |

Distributions to securityholders

The following table details the distributions to securityholders during the financial year on a consolidated basis, including distributions declared by ARF2 (classified as a non-controlling interest) of \$27.3 million (30 June 2022: \$7.2 million).

| Distributions declared | 2023 | | 2022 | |
|--|---------------------------------|--------|------------------------------|-------|
| | \$'000 | \$'000 | cps | cps |
| | Distributions declared (\$'000) | | Distributions declared (cps) | |
| September quarter | 14,607 | 13,629 | 4.20 | 3.95 |
| December quarter | 14,646 | 13,651 | 4.20 | 3.95 |
| March quarter | 14,685 | 14,017 | 4.20 | 4.05 |
| June quarter | 14,730 | 14,040 | 4.20 | 4.05 |
| Total distributions to securityholders | 58,668 | 55,337 | 16.80 | 16.00 |

15. NON-CONTROLLING INTERESTS

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 and parent of ARF2 and ARL, resulting in ARF2 and ARL being disclosed as non-controlling interests.

Movements in non-controlling interests were as follows:

| | ARF2 | ARL | Total |
|--|---------|---------|---------|
| | \$'000 | \$'000 | \$'000 |
| Opening balance - 1 July 2021 | 116,290 | 20,749 | 137,039 |
| Issue of securities under the DRP | 1,303 | - | 1,303 |
| Vesting of equity-based remuneration | - | 1,126 | 1,126 |
| Net profit/(loss) for the year attributable to non-controlling interests | 31,373 | (1,097) | 30,276 |
| Distributions paid or payable attributable to non-controlling interests | (7,194) | - | (7,194) |
| Increase/(decrease) in reserves (i) | - | 2 | 2 |
| Closing balance - 30 June 2022 | 141,772 | 20,780 | 162,552 |

| | ARF2 | ARL | Total |
|--|----------|---------|----------|
| | \$'000 | \$'000 | \$'000 |
| Opening balance - 1 July 2022 | 141,772 | 20,780 | 162,552 |
| Issue of securities under the DRP | 4,334 | - | 4,334 |
| Vesting of equity-based remuneration | - | 961 | 961 |
| Net profit/(loss) for the year attributable to non-controlling interests | 3,242 | (1,640) | 1,602 |
| Distributions paid or payable attributable to non-controlling interests | (27,335) | - | (27,335) |
| Increase/(decrease) in reserves (i) | - | 516 | 516 |
| Closing balance - 30 June 2023 | 122,013 | 20,617 | 142,630 |

(i) Reserves

| | CONSOLIDATED | |
|--------------------------------------|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Opening balance | 1,753 | 1,751 |
| Vesting of equity-based remuneration | (961) | (1,126) |
| Equity-based remuneration expense | 1,477 | 1,128 |
| Balance 30 June | 2,269 | 1,753 |

The equity-based remuneration reserve is used to recognise the fair value of rights issued under the Group's Deferred Short Term and Long Term Incentive Plan. Refer to Note 23 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. CASHFLOW INFORMATION

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

| | CONSOLIDATED | |
|--|---------------|---------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Profit for the year | 74,239 | 334,288 |
| Amortisation of borrowing costs | 612 | 821 |
| Net decrease/(increase) in fair value of investment properties | 1,497 | (240,253) |
| Straight lining adjustment on rental income | (18,494) | (14,234) |
| Net loss/(gain) on sale of direct property | 47 | (1,023) |
| Net (gain)/loss on derivative financial instruments | (527) | (24,478) |
| Equity-based remuneration expense | 1,477 | 1,128 |
| Other | 379 | 368 |
| Changes in operating assets and liabilities | | |
| (Increase)/decrease in trade and other receivables | (2,137) | 3,071 |
| Increase/(decrease) in trade and other payables | 2,765 | (1,735) |
| (Decrease)/increase in provisions | (3) | 143 |
| Net cash inflow from operating activities | 59,855 | 58,096 |

(b) Net debt reconciliation

This section sets out an analysis of the net debt movements for the financial year:

| | Cash and cash equivalents | Interest bearing liabilities & lease liabilities | Derivative financial instruments | Total |
|------------------------------------|------------------------------|--|--|------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Net debt as at 1 July 2021 | 14,018 | (240,069) | (6,174) | (232,225) |
| Cash flows | 8,182 | (82,310) | 666 | (73,462) |
| Other non-cash movements | - | (835) | 24,478 | 23,643 |
| Net debt as at 30 June 2022 | 22,200 | (323,214) | 18,970 | (282,044) |
| Net debt as at 1 July 2022 | 22,200 | (323,214) | 18,970 | (282,044) |
| Cash flows | (6,087) | (16,958) | - | (23,045) |
| Other non-cash movements | - | (621) | 527 | (94) |
| Net debt as at 30 June 2023 | 16,113 | (340,793) | 19,497 | (305,183) |

RISK

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

17. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group's activities expose it to various types of risk that are associated with the financial instruments and markets in which it operates. 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.

The Directors are responsible for ensuring a prudent risk management culture is established for the Group. This is reflected in the adoption of a Risk Management Framework that clearly defines risk appetite and risk tolerance limits which are consistent with Arena REIT's investment mandate.

The effective design and operation of the risk management systems, controls and policies is overseen by the Audit Committee and Board of Directors.

Risk management in respect of financial instruments is achieved via written policies that establish risk appetite and tolerance limits in respect to exposure to interest rate risk, credit risk, the use of derivative financial instruments and the investment of excess liquidity. Compliance with these policies and exposure limits is reviewed by the Directors on a periodic basis.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to the market risk that is the result of interest rate risk.

(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 economically 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'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 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents - floating interest rate | 16,113 | 22,200 |
| Financial liabilities | | |
| Interest bearing liabilities - floating interest rate | (342,000) | (324,000) |
| Derivative financial instruments (notional principal amount) - fixed rate interest rate swaps | 300,000 | 250,000 |
| Net Exposure | (25,887) | (51,800) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT CONTINUED

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

| | CONSOLIDATED | |
|---|--------------|--------------|
| | 30 June 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Sensitivity of profit or loss to movements in market interest rates for derivative instruments with cash flow risk: | | |
| Market interest rate increased by 100 basis points (2022: 100 bp) | (259) | (518) |
| Market interest rate decreased by 100 basis points (2022: 100 bp) | 259 | 518 |
| Instruments with fair value risk: | | |
| Derivative financial instruments | 300,000 | 250,000 |
| Sensitivity of profit or loss to movements in market interest rates for financial instruments with fair value risk: | | |
| Market interest rate increased by 100 basis points (2022: 100 bp) | 9,028 | 9,423 |
| Market interest rate decreased by 100 basis points (2022: 100 bp) | (9,028) | (9,423) |

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 net profit or loss 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 2023 | 30 June 2022 |
| | \$'000 | \$'000 |
| Cash at bank | 16,113 | 22,200 |
| Trade and other receivables | 5,458 | 3,165 |
| Less: Expected credit loss provision | (154) | (154) |
| Maximum exposure to credit risk | 21,417 | 25,211 |

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 a tenancy is approved. Third party credit risk is secured by corporate, personal and bank guarantees where possible (refer note 8(d) for further details).

17. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT CONTINUED

(b) Credit risk *continued*

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

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

(c) Liquidity risk

Liquidity risk is the risk that the 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 or debt facility funding available to meet the contractual obligations of financial liabilities as they fall due. The Group sets budgets to monitor cash flows.

The tables below analyse 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 from these liabilities, and do not take into account revenue that could be used to meet these obligations.

| | CONSOLIDATED | | |
|--|------------------------|--------------|-------------------------|
| | Less than 12 months | 1-2 years | Greater than 2 years |
| 30 June 2023 | \$'000 | \$'000 | \$'000 |
| Trade and other payables | 12,579 | - | - |
| Interest rate swaps | (6,985) | (5,848) | (10,357) |
| Interest bearing liabilities | 20,754 | 20,754 | 368,628 |
| Lease liabilities | 229 | 222 | - |
| Contractual cash flows (excluding gross settled derivatives) | 26,577 | 15,128 | 358,271 |

| | CONSOLIDATED | | |
|--|------------------------|--------------|-------------------------|
| | Less than 12 months | 1-2 years | Greater than 2 years |
| 30 June 2022 | \$'000 | \$'000 | \$'000 |
| Trade and other payables | 11,450 | - | - |
| Interest rate swaps | (3,061) | (2,995) | (6,512) |
| Interest bearing liabilities | 14,210 | 157,697 | 195,805 |
| Lease liabilities | 215 | 229 | 222 |
| Contractual cash flows (excluding gross settled derivatives) | 22,814 | 154,931 | 189,515 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT CONTINUED

(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.

(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 2023 and 30 June 2022 on a recurring basis:

| | CONSOLIDATED | | | |
|-------------------------|--------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | Total |
| 30 June 2023 | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial assets | | | | |
| Interest rate swaps | - | 12,558 | - | 12,558 |
| Total | - | 12,558 | - | 12,558 |

| | CONSOLIDATED | | | |
|-------------------------|--------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | Total |
| 30 June 2022 | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial assets | | | | |
| Interest rate swaps | - | 18,970 | - | 18,970 |
| Total | - | 18,970 | - | 18,970 |

17. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT CONTINUED

(i) Classification of financial assets and financial liabilities continued

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 2023.

(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 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.

18. CAPITAL MANAGEMENT

The objectives of the 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.

The Group monitors capital through the analysis of a number of financial ratios, including the Gearing ratio.

| Gearing Ratio | 30 June 2023 | 30 June 2022 |
|----------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Net Interest bearing liabilities | 325,887 | 301,800 |
| Total assets less cash | 1,552,183 | 1,496,366 |
| Gearing ratio | 21.0% | 20.2% |

GROUP STRUCTURE

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole.

19. INVESTMENTS IN CONTROLLED ENTITIES

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

| Name of entity | Country of incorporation | Class of shares | Equity holding | |
|--|--------------------------|-----------------|----------------|------|
| | | | 2023 | 2022 |
| | | | % | % |
| Citrus Investment Services Pty Limited | Australia | Ordinary | 100 | 100 |
| Arena REIT Management Limited | Australia | Ordinary | 100 | 100 |
| Arena REIT Operations Pty Limited | Australia | Ordinary | 100 | 100 |

UNRECOGNISED ITEMS

This section of the notes provides information about items that are not recognised in the financial statements as they do not satisfy the recognition criteria.

20. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

There are no material outstanding contingent assets or liabilities as at 30 June 2023 and 30 June 2022. For details of commitments of the Group as at 30 June 2023, refer to note 8.

21. 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 2023 or on the results and cash flows of the Group for the year ended on that date.

FURTHER DETAILS

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

22. RELATED PARTY DISCLOSURES

Subsidiaries

Investments in controlled entities is set out in note 19.

Key management personnel compensation

| | 30 June 2023 | 30 June 2022 |
|------------------------------|--------------|--------------|
| | \$ | \$ |
| Short term employee benefits | 2,090,828 | 2,029,659 |
| Post-employment benefits | 120,409 | 104,636 |
| Long term benefits | 35,080 | 27,358 |
| Termination benefits | - | - |
| Equity-based remuneration | 1,030,499 | 840,694 |
| | 3,276,816 | 3,002,347 |

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) is Responsible Entity of the Trusts.

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.

Outside of the Group, the Responsible Entity was receiving fees associated with being Manager to a wholesale fund. This fund was wound-up during the year ended 30 June 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. RELATED PARTY DISCLOSURES CONTINUED

| | 30 June 2023 | 30 June 2022 |
|---|--------------|--------------|
| | \$ | \$ |
| The following transactions occurred with related parties: | | |
| Property management income received from other related parties | - | 30,231 |
| Management fees received by the Group from other related parties | - | 603,737 |
| Property income received from other related parties | - | 23,250 |
| Increase/(decrease) in fair value of performance fee receivable by the Group from other related parties | - | 162,003 |
| Performance fees received by the Group from other related parties | - | 376,826 |
| Amounts receivable: | | |
| Amount receivable from other related parties at the end of the reporting period | - | - |
| Deferred management and performance fees receivable at the end of the reporting period | - | - |
| Amounts payable: | | |
| Amounts payable to other related parties at the end of the reporting period | - | - |

23. EQUITY-BASED REMUNERATION

(a) Performance Rights and Deferred Short Term Incentive Rights Plan (Rights)

The performance rights and deferred short term incentive rights are unquoted securities. Conversion to stapled securities is subject to performance conditions which are discussed in the Remuneration Report.

| Performance rights | 2023 | 2022 | 2021 | 2020 | 2019 | Total |
|--|----------------|----------------|----------------|----------------|----------------|------------------|
| | No | No | No | No | No | No |
| Rights issued | 401,833 | 372,783 | 475,774 | 377,023 | 604,596 | 2,232,009 |
| Performance rights issued | 401,833 | 372,783 | 475,774 | 377,023 | 604,596 | 2,232,009 |
| Number rights forfeited/lapsed in prior years | - | (7,206) | (10,738) | (8,544) | (111,319) | (137,807) |
| Number rights forfeited/lapsed in current year | - | - | - | - | - | - |
| Number rights vested in prior years | - | - | - | - | (493,277) | (493,277) |
| Number rights vested in current year | - | - | - | (368,479) | - | (368,479) |
| Closing balance | 401,833 | 365,577 | 465,036 | - | - | 1,232,446 |

| Deferred Short Term Incentive Rights | 2023 | 2022 | 2021 | 2020 | 2019 | Total |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | No | No | No | No | No | No |
| Rights issued | 120,157 | 108,767 | 191,677 | 161,034 | 171,120 | 752,755 |
| Deferred Short Term Incentive rights issued | 120,157 | 108,767 | 191,677 | 161,034 | 171,120 | 752,755 |
| Number rights forfeited/lapsed in prior years | - | - | - | - | - | - |
| Number rights forfeited/lapsed in current year | - | - | - | - | - | - |
| Number rights vested in prior years | - | - | (191,677) | (161,034) | (171,120) | (523,831) |
| Number rights vested in current year | - | (108,767) | - | - | - | (108,767) |
| Closing balance | 120,157 | - | - | - | - | 120,157 |

(b) Rights expense

Total expenses relating to the Rights recognised during the year as part of equity-based remuneration was as follows:

| | 30 June 2023 | 30 June 2022 |
|--------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Performance Rights | 1,048 | 678 |
| Deferred Short Term Incentive Rights | 429 | 450 |
| | 1,477 | 1,128 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23. EQUITY-BASED REMUNERATION CONTINUED

(c) Rights valuation inputs

(i) Performance Rights

Performance Rights issued were independently valued for the purposes of valuation and accounting using a Binomial Tree or Monte Carlo method, as applicable. The model inputs for the Rights issued during FY23 to assess the fair value are as follows:

| Grant period | FY23 |
|---|--------|
| Weighted average security price at grant date | \$4.08 |
| Weighted average fair value of right | \$2.84 |
| Expected price volatility | 24% |
| Risk-free interest rate | 2.97% |

(ii) Deferred Short Term Incentive Rights

The valuation of Deferred Short Term Incentive Rights is based on the volume weighted average price ("VWAP") 15 days prior to the commencement of the performance period. The VWAP is deemed to be a reasonable estimation of fair value, as the rights are entitled to distribution equivalents over the performance period.

(d) Accounting policy - Equity-based remuneration

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 equity-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.

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.

24. 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 2023 | 30 June 2022 |
| | \$ | \$ |
| PricewaterhouseCoopers Australian firm | | |
| Audit and other assurance services | | |
| Audit and review of financial statements | 173,210 | 152,200 |
| Audit of compliance plans | 17,200 | 16,200 |
| Total remuneration for audit and other assurance services | 190,410 | 168,400 |
| Taxation services | | |
| Tax compliance services, including review of income tax returns | 47,825 | 32,342 |
| Tax consulting | 3,000 | 3,000 |
| Total remuneration for taxation services | 50,825 | 35,342 |
| Other services | | |
| Provision of training | 2,500 | - |
| Total remuneration of PricewaterhouseCoopers | 243,735 | 203,742 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25. PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity Arena REIT No. 1, has been prepared on the same basis as the consolidated financial statements.

(a) Summary of financial information

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

| Parent | 30 June 2023 | 30 June 2022 |
|---|--------------|--------------|
| | \$'000 | \$'000 |
| Income statement information | | |
| Net profit attributable to Arena REIT No. 1 | 72,637 | 304,012 |
| Comprehensive income information | | |
| Total comprehensive income attributable to Arena REIT No. 1 | 72,637 | 304,012 |
| Balance Sheet | | |
| Current assets | 18,590 | 16,058 |
| Non-current assets | 1,388,850 | 1,303,144 |
| Total assets | 1,407,440 | 1,319,202 |
| Current liabilities | 18,224 | 26,437 |
| Non-current liabilities | 332,539 | 286,343 |
| Total liabilities | 350,763 | 312,780 |
| Equity attributable to securityholders of Arena REIT No. 1 | | |
| Contributed equity | 424,361 | 415,410 |
| Accumulated profit | 632,316 | 591,012 |
| | 1,056,677 | 1,006,422 |

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Principles of consolidation

(i) Stapled entities

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 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 Arena REIT Stapled Group incorporate the assets and liabilities of the entities controlled by ARF1 at 30 June 2023, including those deemed to be controlled by ARF1 by identifying it as the parent of the Arena REIT Stapled 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.

(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 26(c)).

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.

(b) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) 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.

(d) 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 on a time-proportionate basis 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 received for performance obligations fulfilled over time with revenue recognised accordingly.

Performance fees earned from managed funds are for performance obligations fulfilled over time and fees are determined in accordance with the relevant agreement. It is recognised to the extent that it is highly probable that the amount of consideration recognised will not be significantly reversed when uncertainty is resolved.

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).

(e) Expenses

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

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(f) 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.

(g) 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).

(h) 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.

(i) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(j) 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.

(k) 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.

(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 recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the statement of comprehensive income within 'net gain/(loss) on change in fair value' of the financial instrument in the period in which they arise.

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 17(d).

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(k) Financial instruments *continued*

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.

Further detail on receivables' accounting policy is disclosed in note 7(b).

(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.

(l) 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.

(m) 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 gross 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.



DIRECTORS' DECLARATION

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 45-85 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 2023 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 1(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the managing 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, Chair
Melbourne, 10 August 2023

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report

To the stapled securityholders of Arena REIT No. 1

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Arena REIT No. 1 (the Trust) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

For the purposes of consolidation accounting, the Trust is the deemed parent entity and acquirer of Arena REIT No. 2 and Arena REIT Limited and its controlled entities. The financial report represents the consolidated financial results of the Trust, Arena REIT No.2 and Arena REIT Limited and its controlled entities.

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2023
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

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

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of \$2.981 million, which represents approximately 5% of the Group's net operating profit (distributable income). This metric is defined in note 2 of the financial report.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group net operating profit (distributable income) because, in our view, it is the benchmark against which the performance of the Group is most commonly measured in the industry.
- We utilised a 5% threshold based on our professional judgement, noting it is within the common range relative to profit-based benchmarks.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The audit team consisted of individuals with the appropriate skills and competencies needed for the audit, which included industry expertise in real estate.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Valuation of investment properties (Refer to note 8) \$1,516 million</p> <p>The Group's investment property portfolio comprised Early Learning Centre (ELC) properties, ELC developments and healthcare properties ("Investment Properties") in Australia at 30 June 2023.</p> <p>Investment Properties were valued at fair value as at balance sheet date primarily using a combination of the income capitalisation method, discounted cash flow method and the direct comparison method.</p> <p>Factors such as current market conditions, existing lease contracts, and comparable sales impact fair value. Amongst others, the following inputs and assumptions were key in establishing fair value:</p> <ul style="list-style-type: none"> ● passing rent; ● market rents; ● capitalisation rates; ● lease terms and rent reviews; ● planning status and approvals; ● discount rates; and ● capital expenditure and vacancy contingencies. <p>At each balance sheet date the directors determine the fair value of the Investment Properties in accordance with the Group's valuation policy as described in note 8.</p> <p>This was a key audit matter because of the:</p> <ul style="list-style-type: none"> ● relative size of the Investment Property portfolio to net assets and related valuation movements, and | <p>To assess the valuation of Investment Properties we performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> ● We developed an understanding of the Group's processes and controls for determining the valuation of Investment Properties. ● We assessed the scope, competence and objectivity of the independent valuation experts engaged by the Group to provide independent valuations at reporting date. ● We met with a sample of independent valuation experts used by the Group to develop an understanding of their processes, judgements, and observations. ● We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used in the real estate industry for investment properties. ● We agreed the rental income used in a sample of Investment Property valuations to relevant lease agreements. ● We assessed the appropriateness of significant assumptions, including capitalisation rates and discount rates, for a risk-based sample of Investment Properties with reference to market data and comparable transactions, where possible. ● We tested the mathematical accuracy of a sample of the Investment Property valuations. |



| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|--|--|
| <ul style="list-style-type: none"> the inherent subjectivity of the significant assumptions that underpin the valuations. | <ul style="list-style-type: none"> We agreed the fair value of each Investment Property to the independent valuation or Directors' valuation, as applicable. We assessed the reasonableness of the disclosures made in the Group's financial report against the requirements of Australian Accounting Standards. |

Other information

The directors of Arena REIT Management Limited, the Responsible Entity of the Trust (the directors), are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon through our opinion on the financial report. We have issued a separate opinion on the remuneration report.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 28 to 42 of the Directors' Report for the year ended 30 June 2023.

In our opinion, the remuneration report of Arena REIT No. 1 for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors 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.

PricewaterhouseCoopers

JDP Wills
Partner

Sydney
10 August 2023



ASX ADDITIONAL INFORMATION

ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 18 AUGUST 2023

There were 351,961,011 fully paid ordinary securities on issue, held by 5,327 securityholders. There were 444 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:

- (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

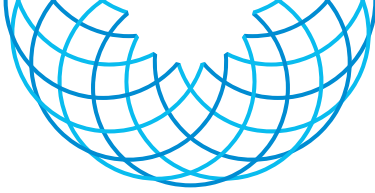
| Number of securities held | Number of securityholders | Total securities held | % of total securities on issue |
|---------------------------|---------------------------|-----------------------|--------------------------------|
| | No. | No. | % |
| 1-1,000 | 1,175 | 368,925 | 0.10 |
| 1,001-5,000 | 1,342 | 3,769,440 | 1.07 |
| 5,001-10,000 | 908 | 6,857,742 | 1.95 |
| 10,001-100,000 | 1,807 | 50,003,624 | 14.21 |
| 100,001-9,999,999,999 | 95 | 290,961,280 | 82.67 |
| Totals | 5,327 | 351,961,011 | 100.00 |

SUBSTANTIAL SECURITYHOLDERS

| Name of substantial securityholder | Number of securities | Fully Paid (%) |
|------------------------------------|----------------------|----------------|
| | No. | % |
| The Vanguard Group, Inc | 26,562,449 | 7.55 |
| BlackRock Group | 23,704,579 | 6.74 |
| State Street Corporation | 19,753,533 | 5.61 |

TWENTY LARGEST SECURITYHOLDERS

| Holder Name | Number of securities | Fully Paid (%) |
|--|----------------------|----------------|
| | No. | % |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 90,755,376 | 25.79 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 66,942,568 | 19.02 |
| CITICORP NOMINEES PTY LIMITED | 38,747,380 | 11.01 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 30,773,419 | 8.74 |
| NATIONAL NOMINEES LIMITED | 23,708,165 | 6.74 |
| BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 13,005,664 | 3.70 |
| CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 3,296,116 | 0.94 |
| CARBRY INVESTMENTS PTY LTD <CARBRY FAMILY A/C> | 1,560,859 | 0.44 |
| ONE MANAGED INVESTMENT FUNDS LTD <CHARTER HALL MAXIM PROPERTY SEC> | 1,275,000 | 0.36 |
| NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C> | 1,095,472 | 0.31 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 1,021,602 | 0.29 |
| DE VOS NOMINEES PTY LTD <DE VOS FAMILY A/C> | 993,251 | 0.28 |
| MR GARETH WINTER <WINTER FAMILY A/C> | 955,644 | 0.27 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 880,681 | 0.25 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C> | 864,341 | 0.25 |
| MR DAVID STEWART FIELD | 725,000 | 0.21 |
| BNP PARIBAS NOMS (NZ) LTD <DRP> | 721,879 | 0.21 |
| LOTO JADE PTY LTD <LOTO JADE A/C> | 400,775 | 0.11 |
| NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT> | 386,536 | 0.11 |
| NUSHAPEMALLCOM PTY LTD <THE MICHAEL BENJAMIN S/F> | 373,000 | 0.11 |
| Total Securities of Top 20 Holdings | 278,482,728 | 79.12 |



INVESTOR INFORMATION

ASX LISTING

Arena REIT is listed on the Australian Securities Exchange (ASX) under the code ARF.

ARENA REIT SECURITIES

A stapled security in Arena REIT comprises:

- ▶ one share in Arena REIT Limited;
- ▶ one unit in Arena REIT No.1; and
- ▶ one unit in Arena REIT No.2;

stapled and traded together as one security.

ACCESSING INFORMATION ON ARENA

The Arena website www.arena.com.au provides access to the latest announcements, financial reports, presentations and teleconferences released by Arena. It also provides information on Arena's Board and management team, as well as access to information on your investment via the Investor Centre.

RECEIVING INFORMATION ELECTRONICALLY

By electing to receive information from Arena electronically, you will receive secure and environmentally friendly email notifications of ASX announcements, distribution and annual tax statements, annual reports and upcoming events. If you wish to register for electronic communications you can log in and update your details online, download the form from the registry website at boardroomlimited.com.au/investor-forms or call 1800 008 494 to request a form.

MANAGING YOUR INVESTMENT ONLINE

You can manage your holding online at the Investor Centre on the Arena website www.investorserve.com.au/arena or call 1800 008 494.

DISTRIBUTION PAYMENTS

Arena generally makes distribution payments on a quarterly basis, typically within six weeks of the quarter end. Details of the 2023 financial year distributions are provided in the table below.

FY23 distributions

| Period ended | Payment date | Distribution amount (cps) |
|-------------------|-----------------|---------------------------|
| 30 September 2022 | 3 November 2022 | 4.20 |
| 31 December 2022 | 2 February 2023 | 4.20 |
| 31 March 2023 | 4 May 2023 | 4.20 |
| 30 June 2023 | 3 August 2023 | 4.20 |

To ensure timely receipt of your distribution, please consider the following:

Direct credit

Arena makes distribution payments via Electronic Funds Transfer (EFT) and requires you to provide your banking instructions. If you wish to update your payment details you can log in and amend your details online, download the form from the registry website at boardroomlimited.com.au/investor-forms or call 1800 008 494 to request a form.

DISTRIBUTION PAYMENTS *CONTINUED*

Dividend and distribution reinvestment plan

The dividend and distribution reinvestment plan (DRP) is currently in operation and allows investors to reinvest their distribution payments automatically into additional securities, without brokerage or other transaction costs. Participation is optional and investors can join, vary their participation or withdraw from the DRP at any time. Please visit the Investor Centre www.arena.com.au/investor-centre/investor-information/dividend-and-distribution-reinvestment-plan for further details.

Tax File Number (TFN) notification

You are not required by law to provide your TFN, Australian Business Number (ABN) or exemption status. However, if you do not provide your TFN, ABN or exemption, withholding tax at the highest marginal rate for Australian resident members may be deducted from distributions paid to you. If you wish to update your TFN, ABN or exemption status, you can log in and amend your details online, download the form from the registry website at boardroomlimited.com.au/investor-forms or call 1800 008 494 to request a form. If you are a CHESSE holder, please contact your sponsoring broker.

AMIT Member Annual Statement (AMMA Statement) and 2023 annual tax guide

An AMMA Statement is generally dispatched to investors in August each year. To assist in completion of your tax return, Arena also publishes an annual tax guide each year. The 2023 tax guide is available for download from the Investor Centre www.arena.com.au/investor-centre/investor-information/tax-information.

INVESTOR FEEDBACK OR COMPLAINTS

Arena welcomes and values complaints and feedback and is committed to the fair, effective and efficient resolution of complaints. Complaints or feedback may be made verbally or in writing, and should be directed to::

Arena Investor Relations

Locked Bag 32002
Collins Street East
Melbourne VIC 8003

Telephone: 1800 008 494

Email: complaints@arena.com.au

Arena will acknowledge your complaint promptly, investigate objectively and provide a written response including actions taken or proposed in relation to the complaint, which may include amendment to business practices or policies.

If you make a complaint to Arena and do not receive a satisfactory outcome or a response within 30 days of making a complaint you may refer the complaint to the Australian Financial Complaints Authority (AFCA):

Online: www.afca.org.au

Email: info@afca.org.au

Phone: 1800 931 678 (free call)

Mail: Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001

PRIVACY POLICY

Arena is committed to ensuring the confidentiality and security of investors' personal information. Arena's privacy policy, detailing how we handle personal information, is available on the Arena website www.arena.com.au.

Better Communities. Together.



CORPORATE DIRECTORY

Arena REIT Limited

ACN 602 365 186

Arena REIT Management Limited (ARML)

ACN 600 069 761 AFSL 465754

PRINCIPAL PLACE OF BUSINESS

Level 32, 8 Exhibition Street
Melbourne Vic 3000

Phone: +61 3 9093 9000

Email: info@arena.com.au

Website: www.arena.com.au

DIRECTORS

David Ross (Independent, Non-Executive Chair)

Rosemary Hartnett (Independent, Non-Executive Director)

Helen Thornton (Independent, Non-Executive Director)

Dennis Wildenburg (Independent, Non-Executive Director)

Rob de Vos (Managing Director)

Gareth Winter (Executive Director of ARML)

COMPANY SECRETARY

Gareth Winter

AUDITOR

PricewaterhouseCoopers

2 Riverside Quay
Southbank VIC 3006

REGISTRY

Boardroom Pty Limited

Level 8, 210 George Street
Sydney NSW 2000

Telephone: 1300 737 760

INVESTOR ENQUIRIES AND CORRESPONDENCE

Arena REIT

Locked Bag 32002
Collins Street East
Melbourne VIC 8003

Telephone: 1800 008 494

Website: www.arena.com.au

Email: info@arena.com.au

