Arena REIT

Annual Financial Statements

For the year ended 30 June 2014

Arena REIT ARSN 106 891 641
Responsible entity: **Arena Investment Management Limited** ACN 077 235 879 AFSL 233190

About Arena REIT

Arena REIT (ASX code: ARF) is an Australian Real Estate Investment Trust (A-REIT) listed on the ASX and included in the S&P/ASX 300 index. The Trust owns 176 childcare centres, 10 childcare development sites and 7 medical centres situated throughout Australia with an aggregate value of over $355.8 million.

ARF's investment strategy is to invest in sectors such as childcare, healthcare, education and government tenanted facilities leased on a long term basis. In FY14 we successfully delivered on this strategy, diversifying into healthcare and growing the childcare portfolio through the acquisition of operating centres and development sites.

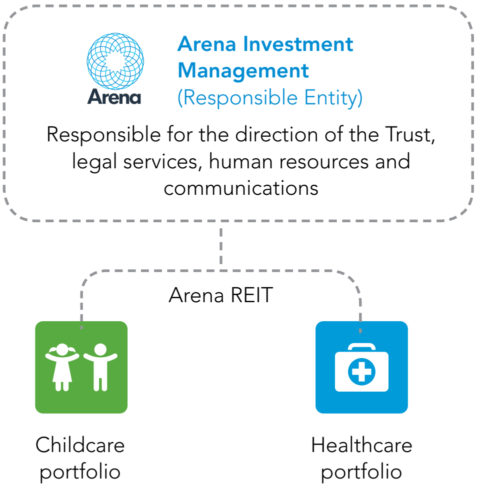
About the Responsible Entity

Arena Investment Management

Arena Investment Management Limited (Arena) is the responsible entity of ARF. Arena is a leading property funds manager in Australia, managing over $900 million in assets and has a strong track record of investing in childcare and healthcare assets over the last decade.

The Board of Arena consists of five Directors of which three, including the Chairman, are independent Directors.

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



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Corporate Governance Statement

ARF has adopted the recently issued 3rd edition of the ASX Corporate Governance Council early and the statement can be found on our website.

About this report

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

The Responsible Entity of Arena REIT is Arena Investment Management Limited (ACN 077235879).

The Responsible Entity's registered office is: 71 Flinders Lane, Melbourne VIC 3000

For more information

You'll find links throughout this report to guide you to further reading or relevant information

View online
Find more information on our website **arenainvest.com.au**

Arena Investment Management on Twitter
Follow us on @arenainvest

Directors' report

The directors of Arena Investment Management Limited, the Responsible Entity of Arena REIT, present their report together with the financial statements of Arena REIT for the year ended 30 June 2014.

Arena REIT (the 'Group') was formed in December 2013 by the stapling of Arena REIT No. 1 (formerly Arena REIT) and Arena REIT No. 2 (formerly Sydney Healthcare Trust).

Arena REIT comprises Arena REIT No. 1 and its controlled entities which includes Arena REIT No. 2 for the basis of statutory reporting. Arena REIT No. 1 and Arena REIT No. 2 are separate entities for which the units have been stapled together to enable trading as one security. The units of Arena REIT No. 1 and Arena REIT No. 2 cannot be traded separately. Neither entity controls the other, however for the purposes of statutory financial reporting Arena REIT No. 1 has been identified as the parent entity.

Investors approved the stapling on 9 December 2013, at which time the stapling arrangement became binding on investors. The financial report therefore combines the results of Arena REIT No. 1 for the entire year and the results of Arena REIT No. 2 from 9 December 2013. The comparative financial information presented is that of Arena REIT No. 1.

On 10 December 2013, Arena REIT changed its name to Arena REIT No. 1 and Sydney Healthcare Trust changed its name to Arena REIT No. 2.

Principal activities

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

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

Distributions to unitholders

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

	2014	2013	2014	2013
	$'000	$'000	cps	cps
September quarter	**4,230**	2,311	**2.050**	1.750
December quarter	**3,508**	2,642	**1.700**	2.000
March quarter	**5,657**	2,642	**2.675**	2.000
June quarter	**4,917**	3,269	**2.325**	2.250
Total distributions to unitholders	**18,312**	10,864	**8.750**	8.000

Operating and financial review

Arena REIT was formed by the stapling of Arena REIT No. 1 and Arena REIT No. 2 in December 2013. The Group operates with the aim of generating attractive and predictable distributions for unitholders with earnings growth prospects over the medium to long term.

The Group's strategy is to invest in property underpinned by relatively long leases and in sectors with supportive macro-economic trends, including population growth and emerging demographics such as an ageing population.

The following sectors have been identified as likely to provide investment opportunities consistent with this strategy:

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

Key financial metrics

	30 June 2014	30 June 2013	Change
Net profit (statutory)	**$44.6 million**	$17.2 million	+ 159.3%
Distributable income	**$18.5 million**	$11.2 million	+ 65.2%
Distributable income per security	**8.85 cents**	8.23 cents	+ 7.5%
Distributions per security	**8.75 cents**	8.00 cents	+ 9.4%

Total assets	**$375.3 million**	$241.3 million	+ 55.5%
Investment properties *	**$355.8 million**	$234.9 million	+ 51.5%
Borrowings	**$125.0 million**	$25.0 million	+ 400%
Net assets	**$238.2 million**	$210.1 million	+ 13.4%
NTA per security	**$1.13**	$1.02	+ 10.8%
Gearing **	**33.3%**	10.4%	+ 220%

** Includes Investment property classified as held for sale*
*** Gearing calculated as Borrowings / Total assets*

Directors' report

FY14 highlights

- Over 50% growth in the value of the Group's investment property portfolio with the addition of:
  - 6 medical centres leased to Primary Health Care Ltd on stapling with Sydney Healthcare Trust in December 2013;
  - 15 childcare centres including a 14 property portfolio leased to Affinity Education Group acquired in December 2013;
  - 6 childcare development sites; and
  - 1 medical centre leased to Primary Health Care Ltd.
- Further rebalancing of the investment property portfolio with the sale of 10 non-core Childcare Centres at a 46.8% premium to book value in June 2014.
- Total distributions to investors for FY14 of 8.75 cents per security, up 9.4% on the previous year and exceeding the IPO Forecast of 8.20 cents per security by 6.7%.
- Gearing of 33.3% remains below the low end of the Group's target gearing range of 35%-45%.
- The successful refinancing of the Group's debt facilities in FY14 which increased the amount of the facility, improved facility margins and extended the weighted average facility expiry from 2 years to 4 years at 30 June 2014.
- NTA per security at 30 June 2014 is $1.13, an increase of 10.8% on 30 June 2013. The increase in NTA is primarily due to the increase in value of the Group's investment properties, the gain on disposal of non-core assets, offset partially by transaction costs and unit redemptions associated with the stapling of Sydney Healthcare Trust.

Financial results and distributable income

	30 June 2014	30 June 2013
	$'000	$'000
Lease rental income	**26,382**	21,296
Other income	**71**	722
Total operating income	**26,453**	22,018
Property expenses	**(1,051)**	(879)
Trust administration and operating expenses	**(835)**	(985)
Management fees	**(2,377)**	(2,372)
Finance costs	**(3,682)**	(6,622)
Distributable income *	**18,508**	11,160
Non-distributable items:		
Straight-line rental income	**401**	497
Revaluation gain on investment properties	**24,489**	5,162
Change in fair value of derivatives	**(1,200)**	(141)
Revaluation gain on securities investment	**–**	1,413
Gain on sale of investment properties	**3,784**	10
Write-off capitalised debt establishment costs	**(449)**	(847)
Stapling and asset acquisition costs	**(969)**	(42)
Other	**–**	12
Statutory net profit	**44,564**	17,224

** Distributable income is not a statutory measure of profit*

Financial results summary

- Distributable Income is the measure used to determine unitholder distributions and represents the underlying operating profit of the Group for the relevant period. Distributable Income excludes fair value changes from asset and derivative revaluations and items of income or expense not representative of the Group's underlying operating earnings.
- The increase in Distributable Income during the year is primarily due to:
  - The debt funded acquisition of new Childcare Properties and Medical Centres throughout the year;
  - Ongoing annual rent increases in the Group's property portfolio;
  - Lower margins on borrowings following the refinancing of the long term facilities; and
  - Savings in financing costs from lower average gearing when compared to the comparative period.
- Non-distributable items primarily increased due to higher positive investment property revaluation gains than in the comparative period, and the realised gain on sale of 10 non-core Childcare Centres at a 46.8% premium to book value.

Distributable income per security

	30 June 2014	30 June 2013
Distributable income ($'000)	**18,508**	11,160
Weighted average number of ordinary securities ('000)	**209,096**	135,544
Distributable income per security (cents)	**8.85**	8.23

Investment property portfolio

Key property metrics

	30 June 2014	30 June 2013
Total value of investment properties *	**$355.8 million**	$234.9 million
Number of properties under lease	**181**	167
Development sites	**10**	4
Properties available for lease or sale	**2**	5
Properties held for sale	**–**	1
Total properties in portfolio	**193**	**177**
Portfolio occupancy	**99%**	97%
Weighted average lease expiry (WALE)	**8.5 years**	8.3 years

** Includes investment property classified as held for sale*

Directors' report

Investment property portfolio (continued)

- The increase in the value of investment properties is primarily due to the addition of:
  - 7 medical centres including 6 on stapling with Sydney Healthcare Trust with a total value of $60 million;
  - 15 childcare centres with a value of $28 million, including a 14 property portfolio leased to ASX listed Affinity Education Group in December 2013;
  - 6 childcare development sites for $12 million;
  - capital expenditure on developments of $5 million; and
  - a positive revaluation increment to the portfolio of $24.5 million.
- Offset by the following investment property disposals during the year:
  - 2 vacant childcare centres were sold for $1.5 million (book value) during the year; and
  - 10 non-core childcare centres with a book value of $9.7 million were sold at auction in June 2014 for $14.2 million (representing a 46.8% premium to book value).

Capital management

Stapling

- On the completion of the stapling of Arena REIT No. 1 and Arena REIT No. 2 in December 2013 the Group has 211,495,653 stapled securities on issue.
- Refer to note 13 for further information.

Bank facilities & gearing

- The Group's gearing at 30 June 2014 was 33.3%, which remains below the target gearing range of 35-45%.
- At 30 June 2014, the Group had undrawn facilities of $15 million. The Group extended the facility amount by a further $15 million in July 2014 to a total of $155 million.
- The Group refinanced its borrowings in March 2014, reducing facility margins and extending the maturity of the facility to a weighted average expiry of 4 years as at 30 June 2014. 50% of the Group's debt facility expires in June 2017 and 50% in June 2019. Prior to the refinancing the entire facility expired in June 2016.
- The Group was fully compliant with all bank facility covenants throughout FY14 and as at 30 June 2014.

Interest rate management

- As at 30 June 2014, 68% of Arena REIT borrowings are hedged for a weighted average term of 3.2 years (2013: 100% for 3 years). The average swap fixed rate at 30 June 2014 is 3.33% (2013: 2.95%).
- The Group will enter into additional interest rate swaps as assets are acquired in accordance with its interest rate risk management policy.

On market buy-back

In June 2013, the Responsible Entity announced an on-market buy-back of Arena REIT units to commence from 20 June 2013, with a potential buy-back of up to 13.2 million units. No units were bought back and the buy-back was cancelled in November 2013.

FY15 outlook

The Group presently expects to pay a minimum distribution of 9.75 cents per unit for FY15.

Notwithstanding the Group's strategy to acquire new investments, the distribution outlook assumes that the Group does not acquire any new investments in FY15. The distribution outlook also assumes that the Group's existing leases and contractual obligations are enforceable and tenants meet all their obligations in respect of those leases.

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

The Responsible Entity has entered into an exclusivity agreement for a period of 6 months with Citrus II Investments Pty Limited (the ultimate owner of Arena Investment Management Limited) for the Arena REIT Group to consider an internalisation of the Group which would allow it to employ its Board and management directly to enhance alignment of interests with investors and no longer pay fees to an external manager.

No decision has been made by the Responsible Entity to proceed with any proposal and as such, there is no certainty that a proposal will proceed. Investors should refer to ARF ongoing ASX announcements for further information in respect of this matter.

Apart from this, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

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

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

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

Likely developments and expected results of operations

The Group will continue to be managed in accordance with the investment objectives and guidelines set out in the Trust's Constitution.

The results of the Group's operations will be affected by a number of factors, including the performance of investment markets in which the Group invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Material business risks

The material business risks that could adversely affect the achievement of the Group's financial prospects are as follows. The Responsible Entity has in place a Risk Management Policy and Framework under which it identifies, assesses, monitors and manages these risks.

Concentration risk

The Group's property portfolio is presently 81.9% invested in childcare centres and childcare centre development sites and 18.1% in healthcare assets. Adverse events to the childcare sector or healthcare sector may result in a general deterioration of tenants' ability to meet their lease obligations and the future growth prospects of the current portfolio. 66.5% of the portfolio (excluding developments) (as at 30 June 2014) is leased to the largest two tenants Goodstart Early Learning Ltd ("Goodstart"), 47.4% by value and 19.1% by value to Primary Health Care Limited. Any material deterioration in the operating performance of these tenants may result in them not meeting their lease obligations which could reduce the Group's income.

Tenant risk

The Group relies on tenants to generate its revenue. Tenants may be not for profit companies limited by guarantee, private entities or listed public companies. If a tenant is affected by financial difficulties it may default on its rental or other contractual obligations which may result in loss of rental income and loss in value of the Group's properties. Under the Group's standard childcare leases, tenants are required to provide an unconditional and irrevocable bank guarantee, which must not expire until at least six months after the ultimate expiry date of the lease, for an amount equivalent to six months' rent (plus GST) as security for their performance under the lease. The Group currently leases all Healthcare assets to Primary Health Care Limited ('PRY'), a reputable tenant listed on the Australian Stock Exchange. Refer to note 9(d) for further details on tenancy risk for the portfolio.

Directors' report

Information on directors of the Responsible Entity

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

David Ross

Independent Non-Executive Chairman

Appointment to the Board: 2012

Committee membership: Audit Committee

Other current directorships: None

Former directorships in last three years: None

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

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

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

Interest in the Group: 200,000 units.

Simon Parsons

Independent Non-Executive Director

Appointment to the Board: 2012

Committee membership: Audit Committee

Other current directorships: None

Former directorships in last three years: None

Previous experience: Simon has over 34 years' experience in the commercial property industry. He is presently Managing Director of Parsons Hill Stenhouse Pty Ltd, a commercial property practice.

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

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

Interest in the Group: 200,000 units.

Dennis Wildenburg

Independent Non-Executive Director

Appointment to the Board: 2011

Committee membership: Audit Committee Chairman

Other current directorships: Investa Wholesale Funds Management Ltd.

Former directorships in last three years: Investa Funds Management Ltd.

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

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

Interest in the Group: 150,000 units.

James Goodwin

Executive Director

Appointment to the Board: 2011

Committee membership: None

Other current directorships: None

Former directorships in last three years: None

Previous experience: James has extensive experience in property funds management having previously spent five years at Becton Investment Management Ltd and prior to that, four years at Centro Properties Group and three years at Freehills.

Qualifications: James holds a Bachelor of Laws (Hons), a Bachelor of Arts and a Master of Applied Finance.

Interest in the Group: 500,000 units.

Bryce Mitchelson

Executive Director

Appointment to the Board: 2010

Committee membership: None

Other current directorships: None

Former directorships in last three years: OFLCO Ltd.

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

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

Interest in the Group: 749,000 units.

Information on directors of the Responsible Entity (continued)

The Group's constitution does not require directors to retire and seek re-election.

Company secretary

The company secretary is Mr Peter Hulbert, Head of Legal and Compliance. Peter has over 10 years' experience in corporate and commercial law and 8 years' experience in the financial services industry. Peter holds a Bachelor of Business (Management) and a Bachelor of Laws.

Meetings of directors

The numbers of meetings of the Responsible Entity's board of directors and of each board committee held during the year ended 30 June 2014, and the numbers of meetings attended by each director were:

	Board meetings#		Audit Committee meetings	
	Number of meetings	Meeting attendance	Number of meetings	Meeting attendance
	A	B	A	B
David Ross	41	**40**	7	**7**
Simon Parsons	41	**40**	7	**7**
Dennis Wildenburg	41	**40**	7	**7**
James Goodwin	41	**38**	*	*
Bryce Mitchelson	41	**40**	*	*

A - Number of meetings held during the time the director held office during the year.
B - Number of meetings attended.
 # - The above table shows the total number of meetings held by the Responsible Entity in respect of all funds it manages, including the Arena REIT Group.
** = Not a member of the relevant committee.*

Remuneration report

(a) Key management personnel

Key Management Personnel (KMP) includes persons who were non-executive and executive directors of the Responsible Entity, Arena Investment Management Limited, at any time during the financial year as follows:

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

Other key management personnel of Arena Investment Management Limited at any time during the financial year were as follows:

- Gareth Winter (Chief Financial Officer)

(b) Key management personnel compensation

No KMP are remunerated directly by the Group. The KMP of the Responsible Entity receive remuneration in their capacity as directors and senior management of the Responsible Entity and these amounts are paid by the Responsible Entity or an entity related to the Responsible Entity.

Directors' report

Remuneration report (continued)

(c) Key management personnel unitholdings

The KMP of Arena Investment Management Limited or their personal related parties held units in the Group as follows:

30 June 2014

Unitholder	No. of units held opening	No. of units acquired	No. of units disposed	No. of units held closing	Distributions paid/payable by the Group
	Units	Units	Units	Units	$
David Ross	200,000	–	–	200,000	17,500
Simon Parsons	200,000	–	–	200,000	17,500
Dennis Wildenburg	150,000	–	–	150,000	13,125
James Goodwin	500,000	–	–	500,000	43,750
Bryce Mitchelson	749,000	–	–	749,000	65,538
Gareth Winter	75,000	–	–	75,000	6,563

(d) Key management personnel loan disclosures

The Group has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(e) Other transactions within the Group

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Group during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

Indemnification and insurance of officers and auditors

During the year, the Responsible Entity has paid insurance premiums to insure each of the directors, and officers of the Responsible Entity 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 Responsible Entity other than conduct involving a wilful breach of duty in relation to the Responsible Entity.

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

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

Non-audit services

Details of the non-audit services provided to the Group by the Independent Auditor during the year ended 30 June 2014 are contained in note 5 to the financial statements.

Audit partner rotation

Listed entities are required to rotate their audit partner every 5 years. Arena REIT No.1 first listed on the ASX in June 2013. The financial year ended 30 June 2014 is the 6th year in which the existing audit partner has been the lead auditor for the Group. *The Corporations Act 2001* (the 'Act') allows for an extension of the appointment of the lead audit partner for up to 2 years in certain circumstances.

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

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

The Group has applied the exemption provided in ASIC Class Orders 13/1050 and 13/1644, issued by the Australian Securities and Investments Commission, allowing stapled entities to prepare consolidated financial statements. The Group has prepared consolidated financial statements covering the stapled group for the year ended 30 June 2014. The financial statements separately present the amounts of "non-controlled interest" attributable to the stapled security unitholders as required by the class orders.

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

Fees paid to the Responsible Entity and its associates out of Group property during the year are disclosed in note 16 to the financial statements.

No fees were paid out of Group property to the directors of the Responsible Entity during the year.

The number of interests in the Group held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 16 to the financial statements.

Interests in the Group

The movement in units on issue in the Group during the year is disclosed in note 13 to the financial statements.

Corporate governance statement

The board of directors of Arena Investment Management Limited (Arena), the Responsible Entity of Arena REIT, is responsible for the corporate governance of the Group.

In accordance with the ASX Listing Rule 4.10.3, Arena has placed a statement disclosing the extent to which the Group has followed the recommendations for good corporate governance set by the ASX Corporate Governance Council (3rd Edition) during the reporting period on its website, www.arenainvest.com.au/about/governance-policies. Arena has adopted the 3rd Edition early, as recommended.

Environmental regulation

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

Directors' report

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 13.

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

David Ross
Chairman

Melbourne
25 August 2014

Auditor's independence declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of the Arena REIT for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Charles Christie
PricewaterhouseCoopers

25 August 2014

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated statement of **comprehensive income**

	Notes	Consolidated 30 June 2014 $'000	Consolidated 30 June 2013 $'000
Income			
Property rental	9(c)	**26,783**	21,793
Interest		**71**	108
Distribution income		**–**	314
Fair value gains on financial assets held at fair value through profit or loss		**–**	1,413
Revaluation of investment properties	9	**24,489**	5,162
Profit on sale of direct properties		**3,784**	10
Other operating income		**–**	300
Total income		**55,127**	29,100
Expenses			
Property expenses	9(c)	**(1,051)**	(879)
Responsible Entity's fees	16	**(2,377)**	(2,372)
Stapling and asset acquisition costs		**(969)**	(42)
Trust administration expenses		**(835)**	(973)
Net loss on change in fair value of derivative financial instruments		**(1,200)**	(141)
Finance costs	4	**(4,131)**	(7,469)
Total expenses		**(10,563)**	(11,876)
Net profit for the year		**44,564**	17,224
Other comprehensive income		**–**	–
Total comprehensive income for the year		**44,564**	17,224
Total comprehensive income for the year is attributable to Arena REIT stapled group investors, comprising:			
Unitholders of Arena REIT No. 1		**38,487**	17,224
Unitholders of Arena REIT No. 2 (non–controlling interest)		**6,077**	–
		44,564	17,224
Earnings per security:		Cents	Cents
Basic earnings per security in Arena REIT No. 1	6	**18.41**	12.71
Diluted earnings per security in Arena REIT No. 1	6	**18.41**	12.71
Basic earnings per security in Arena REIT Group	6	**21.31**	–
Diluted earnings per security in Arena REIT Group	6	**21.31**	–

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

Consolidated balance sheet

		Consolidated	
		30 June 2014	30 June 2013
	Notes	$'000	$'000
Current assets			
Cash and cash equivalents	7	**3,947**	4,995
Trade and other receivables	8	**15,519**	1,346
Assets held for sale		–	1,150
Total current assets		**19,466**	7,491
Non-current assets			
Investment properties	9	**355,831**	233,784
Total non-current assets		**355,831**	233,784
Total assets		**375,297**	241,275
Current liabilities			
Trade and other payables	10	**10,985**	6,640
Total current liabilities		**10,985**	6,640
Non-current liabilities			
Derivative financial instruments	12	**1,298**	70
Interest bearing liabilities	11	**124,811**	24,500
Total non-current liabilities		**126,109**	24,570
Total liabilities		**137,094**	31,210
Net assets		**238,203**	210,065
Equity			
Contributed equity - Arena REIT No. 1	13	**183,221**	205,252
Contributed equity - Arena REIT No. 2 (non-controlling interest)	13	**21,285**	–
Accumulated profit	14	**33,697**	4,813
Total equity		**238,203**	210,065

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

Consolidated statement of **changes in equity**

	Consolidated			
	Contributed equity – Arena REIT No.1	Contributed equity – Arena REIT No.2	Accumulated profit/(losses)	Total equity
	$'000	$'000	$'000	$'000
Balance at 1 July 2012	134,325	–	(1,547)	**132,778**
Profit for the year	–	–	17,224	**17,224**
Total comprehensive income for the year	**–**	**–**	**17,224**	**17,224**
Transactions with owners in their capacity as owners:				
Distributions to unitholders	–	–	(10,864)	**(10,864)**
Contributions of equity, net of transaction costs	70,927	–	–	**70,927**
Balance at 30 June 2013	**205,252**	**–**	**4,813**	**210,065**
Balance at 1 July 2013	205,252	–	4,813	**210,065**
Profit for the year	–	–	44,564	**44,564**
Total comprehensive income for the year	**–**	**–**	**44,564**	**44,564**
Transactions with owners in their capacity as owners:				
Arising on stapling	–	24,197	2,871	**27,068**
Unitholder redemption	(22,235)	(2,912)	–	**(25,147)**
Distributions to unitholders	–	–	(18,312)	**(18,312)**
Contributions of equity, net of transaction costs	(35)	–	–	**(35)**
Other	239	–	(239)	**–**
Balance at 30 June 2014	**183,221**	**21,285**	**33,697**	**238,203**

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

Consolidated statement of **cash flows**

		Consolidated	
		30 June 2014	30 June 2013
	Notes	$'000	$'000
Cash flows from operating activities			
Property rental receipts		**27,734**	21,018
Payments to suppliers		**(4,378)**	(4,825)
Finance costs paid		**(3,347)**	(6,369)
Interest received		**71**	107
Other income received		**–**	1,067
Net cash inflow from operating activities	20	**20,080**	10,998
Cash flows from investing activities			
Cash arising on stapling		**598**	–
Proceeds from sale of investment properties		**1,280**	300
Payments for capital expenditure		**(534)**	(134)
Acquisition of investment properties		**(34,304)**	(1,117)
Land acquisition and development capital expenditure		**(16,692)**	(1,834)
Proceeds from sale of financial assets held at fair value through profit or loss		**–**	7,819
Other stapling cash flows		**(4,509)**	–
Net cash (outflow)/inflow from investing activities		**(54,161)**	5,034
Cash flows from financing activities			
Payment of unitholder redemption		**(25,147)**	–
Net proceeds from issue of units		**(583)**	71,476
Distributions paid to unitholders		**(17,191)**	(10,237)
Loan establishment costs paid		**(279)**	(569)
Proceeds from borrowings		**101,250**	1,500
Repayment of borrowings		**(24,971)**	(76,681)
Termination of derivatives		**(46)**	(2,087)
Net cash inflow/(outflow) from financing activities		**33,033**	(16,598)
Net increase/(decrease) in cash and cash equivalents		**(1,048)**	(566)
Cash and cash equivalents at the beginning of the year		**4,995**	5,561
Cash and cash equivalents at the end of the year	7	**3,947**	4,995

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

Contents of the notes to the consolidated financial statements

Notes to the consolidated financial statements

1. General information

These financial statements cover Arena REIT (the 'Group') comprising Arena REIT No. 1 and its controlled entities, and Arena REIT No. 2. Arena REIT is an ASX listed managed investment scheme registered and domiciled in Australia.

The Responsible Entity of the Group is Arena Investment Management Limited (the 'Responsible Entity').

Arena REIT (the 'Group') was formed by the stapling of Arena REIT No. 1 ('ARF1') and Arena REIT No. 2 ('ARF2') following the approval by the unitholders of both entities in December 2013 (the 'Aggregation').

The financial statements were authorised for issue by the directors of the Responsible Entity on 25 August 2014. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2. Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Compliance with International Financial Reporting Standards

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

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in their annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*;
- AASB 2012-10 *Amendments to Australian Accounting Standards - Transition Guidance and other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current year, AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*;
- AASB 119 *Employee Benefits* (September 2011) and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011);
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*; and
- AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*.

The adoption of the above standards did not result in any adjustments to the values included in the 30 June 2014 financial statements. The disclosure requirements of the above standards have been incorporated into this financial report.

Changes in accounting policy: Consolidated Financial Statements

Consolidated financial statements and joint arrangements 6-12,21-27 AASB108(28)(a),(c) AASB 10 *Consolidated Financial Statements* was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation - Special Purpose Entities*.

The Group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under AASB 127. The Group was formed through the stapling of the securities of ARF1 and ARF2.

The Group has relied on the relief provided by ASIC to stapled entities in Class Orders 13/1050 and 13/1644 allowing stapled groups to prepare Consolidated Financial Statements even where one entity in the stapled group is not deemed to have control over the other under the requirements of AASB 10. The Group has prepared consolidated financial statements at 30 June 2014 as if a business combination had occurred under AASB 3 *Business Combinations*.

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The relief provided by ASIC relates only to the relationship between ARF1 and ARF2. The Group otherwise complies with the requirements of AASB 10.

The Group assessed the impact of AASB 10 on other subsidiaries and investments. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Changes in accounting policy: Fair value measurement

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant.

No adjustments were made as a result of adopting the requirements of AASB 13 in respect of the fair value assessment of the Fund's financial derivatives at 30 June 2014. The AASB 13 disclosures applicable to year end financial reports are disclosed in Note 18.

Changes in accounting policy: Offsetting arrangements

AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities* requires additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments did not have any impact on the Group's financial position or performance, however, has resulted in additional disclosure in the notes to the financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2013 that would be expected to have a material impact on the Group.

(b) Segment reporting

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

The Board of Directors of Arena Investment Management (including the managing directors) are responsible for making strategic decisions about the Group, assessing the financial performance and financial position of the Group, and determining the allocation of resources. The Board of Directors have been identified as the Chief Operating Decision Maker.

(c) Principles of consolidation

(i) Stapled entities

The constitutions of ARF1 and ARF2 provide that the units of the trusts are "stapled" together and the stapled securities are listed on the ASX under the symbol ARF. The securities cannot be separately traded.

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

Unitholders approved the stapling on 9 December 2013 and this is the date the Aggregation has occurred for financial reporting purposes. The financial statements presented include the net profit and loss of ARF1 for the period including the results of ARF2 from 9 December 2013. The Balance Sheet includes the aggregated Balance Sheet of ARF1 and ARF2 as at 30 June 2014.

(ii) Subsidiaries

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

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

2. Summary of significant accounting policies (continued)

(c) Principles of consolidation (continued)

(ii) Subsidiaries (continued)

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.

(d) Presentation of members interests in ARF2

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

(e) Parent entity financial information

For the purpose of financial reporting, ARF1 has been assessed as the parent entity. The financial information for the parent entity, ARF1, disclosed in Note 19 has been prepared on the same basis as the consolidated financial statements.

(f) Investment properties

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

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

(i) Valuation basis

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

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

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

(g) 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

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(g) Assets held for sale (continued)

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.

(h) 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.

(i) Impairment of assets

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 to sell 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.

(j) Revenue

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

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

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

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

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

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).

2. Summary of significant accounting policies (continued)

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

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

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

Further detail on how the fair values of financial instruments are determined is disclosed in note 18(d).

Loans and receivables

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

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

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

(iv) Offsetting financial instruments

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

(l) 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, and bank overdrafts. Bank overdrafts are shown within borrowings in the consolidated balance sheet.

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(m) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in profit or loss on an accruals basis.

(n) Income tax

(i) Australian income tax

Under current legislation, the Group is not subject to Australian income tax provided its taxable income is fully distributed to unitholders.

(o) Distributions

In accordance with the constitutions of ARF1 and ARF2, the Group distributes income adjusted for amounts determined by the Responsible Entity. The distributions are recognised within the balance sheet and statement of changes in equity as a reduction in accumulated profit/(losses).

(p) Earnings per security (EPS)

(i) Basic earnings per security

Basic earnings per security is calculated by dividing:

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

(ii) Diluted earnings per security

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

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

(q) Receivables

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

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

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

(r) 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 Responsible Entity'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.

Provisions may include deferred management fees and disposal fees payable to the Responsible Entity upon the sale of investment property, which are only recognised on the disposal of an investment property.

(s) 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

2. Summary of significant accounting policies (continued)

(s) Borrowings (continued)

that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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

(t) Borrowing costs

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

(u) Goods and Services Tax (GST)

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

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

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

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

(v) Use of estimates

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

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

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. For more information on how fair value is calculated please refer to note 18.

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

The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations at least every 3 years. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The key assumptions used in this determination are set out in note 2(f) and 9.

(w) Rounding of amounts

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

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group has not early adopted these standards/interpretations. The Group's assessment of the impact of relevant new standards and interpretations is set out below:

Standard / Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	The standard addresses the classification, measurement and derecognition of financial instruments. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. As the Group no longer holds any non-controlled equity investments the revised standard is not expected to have any impact on the results of the Group. Since December 2013, AASB sets out new rules for hedge accounting which are expected to make it easier to adopt hedge accounting. The Group has not yet assessed the impact of this revision.	1 January 2015	30 June 2016
AASB 2013-3 Amendments to AASB 136 - Recoverable Amount of Disclosures for Non-Financial Assets	The AASB has made amendments to the disclosures required by AASB 136 Impairment of Assets, which removes the requirement to disclose the recoverable amount of all cash generating units that contain goodwill or identifiable assets with indefinite useful lives if there has been no impairment. When an impairment loss has been recognised or reversed, the amendment requires disclosure of the recoverable amount of an asset or CGU, and how the fair value has been measured. Management does not expect this to have a significant impact on the Group's financial statements.	1 January 2014	30 June 2015
AASB 2013-4 Amendments to Australian Accounting Standards -Novation of Derivatives and Continuation of Hedge Accounting	The AASB has made a limited scope amendment to AASB 139 Financial Instruments: Recognition and measurement. AASB 139 requires an entity to stop hedge accounting when a novation occurs, because the original hedging instrument envisaged in the hedge documentation has changed. As the Group does not adopt hedge accounting, no impact is expected.	1 January 2014	30 June 2015

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

3. Business combination to form the Arena REIT Group

On 9 December 2013, the unitholders of Arena REIT No. 1 (ARF1) and Arena REIT No. 2 (ARF2) approved the stapling arrangement. The stapling became binding on 9 December 2013 which represents the date from which Arena REIT No. 2 has been incorporated into this financial report.

The stapling has been accounted for as a business combination through contract under AASB 3. As noted in note 1(e)(i) the exemption under ASIC Class order 13/1050 has been applied allowing consolidated stapled accounts to be prepared.

ARF1 was deemed the acquirer of ARF2.

Assets and liabilities

The fair value of ARF2's assets and liabilities on 9 December 2013 are as follows:

	$'000
Assets	
Cash and cash equivalents	598
Trade and other receivables	391
Investment properties	54,691
Total assets	**55,680**
Liabilities	
Trade and other payables	(1,417)
Derivative financial instruments	(74)
Provisions	(3,400)
Interest bearing liabilities	(23,721)
Total liabilities	**(28,612)**
Net assets	**27,068**

Other capitalised costs

Transaction fees of $546,500 were capitalised.

Notes to the consolidated financial statements

4. Finance costs

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Finance costs:		
Interest paid or payable	**3,476**	6,356
Loan establishment and other finance costs	**206**	266
Write-off of loan establishment costs due to refinancing	**449**	847
Total finance costs expensed	**4,131**	7,469
Finance costs capitalised (a)	**232**	200
Total finance costs	**4,363**	7,669

(a) During the year, $232,177 of finance costs were capitalised in relation to current property developments. The capitalisation rate used to determine the amount of finance costs to be capitalised was the weighted average interest rate applicable to the Group's outstanding borrowings at the end of each month.

5. 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 2014	30 June 2013
	$	$
PricewaterhouseCoopers Australian firm		
Audit and other assurance services		
Audit and review of financial statements	**57,000**	39,000
Audit of compliance plan	**6,000**	4,000
Total remuneration for audit and other assurance services	**63,000**	43,000
Taxation services		
Tax compliance services, including review of income tax returns	**26,685**	49,058
Total remuneration for taxation services	**26,685**	49,058
Other services		
Investigating Accountant report and due diligence in respect of the IPO and stapling	**191,560**	241,485
Total remuneration of PricewaterhouseCoopers	**281,245**	333,543

6. Earnings per security ('EPS')

	2014	2013
	Cents	Cents
Basic EPS in Arena REIT No. 1	**18.41**	12.71
Diluted EPS in Arena REIT No. 1	**18.41**	12.71
Basic EPS in Arena REIT Group	**21.31**	–
Diluted EPS in Arena REIT Group	**21.31**	–

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

	2014 Number of units	2013 Number of units
	'000	'000
Weighted average number of ordinary securities used in calculating basic EPS	**209,096**	135,544
Bonus element of security options which are dilutive	**–**	–
Adjusted weighted average number of ordinary securities used in calculating diluted EPS	**209,096**	135,544

	$'000	$'000
Earnings used in calculating basic EPS for Arena REIT No. 1	**38,487**	17,224
Earnings used in calculating diluted EPS for Arena REIT No. 1	**38,487**	17,224
Earnings used in calculating basic EPS for Arena REIT Group	**44,564**	–
Earnings used in calculating diluted EPS for Arena REIT Group	**44,564**	–

There have been no conversions to, calls of, or subscriptions for ordinary securities or issues of potential ordinary securities since the reporting date and before the completion of this report.

7. Cash and cash equivalents

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Cash at bank	**3,947**	4,995
Total cash and cash equivalents	**3,947**	4,995

Notes to the consolidated financial statements

8. Trade and other receivables

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Trade receivables	**65**	860
Other receivables	**15,023**	381
Prepayments	**431**	105
	15,519	1,346

Other receivables includes $14,207,500 of sales proceeds payable to the Group following the successful auction of 10 childcare properties on 25 June 2014.

(a) Impairment and ageing

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

	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
	$'000	$'000	$'000	$'000
Not past due	**65**	**–**	177	–
Past due 0 - 30 days	**–**	**–**	383	–
Past due 31 - 60 days	**–**	**–**	151	–
Past due 61 - 90 days	**–**	**–**	2	–
Past due over 90 days	**–**	**–**	147	–
	65	**–**	860	–

No other class of financial asset is past due.

Any receivables which are doubtful have been provided for.

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

9. Investment properties

(a) Valuations and carrying amounts

Property Portfolio	No. of Properties	Carrying amount		Latest external valuation	
		2014	2013	2014	2013
		$'000	$'000	$'000	$'000
Childcare properties	176	**271,639**	231,235	**266,708**	227,155
Childcare developments	10	**20,004**	2,549	**–**	–
Healthcare properties	7	**64,188**	–	**63,855**	–
Total investment properties	**193**	**355,831**	233,784	**330,563**	227,155

During the year, independent valuations were performed over 74 childcare properties and 7 healthcare properties. The board of directors has reviewed these valuations and has determined they are appropriate to adopt at 30 June 2014. Directors valuations were performed over investment properties not independently valued.

The key inputs into valuations are:

- Market rent per licenced place (childcare properties)
- Market rents (healthcare properties)
- Capitalisation rates
- Sales evidence

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

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

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

(i) Key assumptions - Childcare properties

	30 June 2014	30 June 2013
Market rent per licenced place	$1,107 to $3,320	$1,074 to $3,230
Capitalisation rates	7.25% to 11.0%	7.75% to 11.0%
Sales evidence - Amount per licenced place	$11,000 to $30,000	$8,000 to $28,500

Notes to the consolidated financial statements

9. Investment properties (continued)

(ii) Key assumptions - Healthcare properties

	30 June 2014	30 June 2013
Discount rate	8.60%	9.63%
Terminal yield	8.37%	8.64%
Capitalisation rates	8.05%	8.34%
Expected vacancy period	0 months	0 months
Rental growth rate	3.03%	3.71%

(b) Movements during the financial year

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
At fair value		
Opening balance	233,784	226,292
Additions through business combination	55,237	–
Property acquisitions	33,729	–
Disposals	(9,985)	(290)
Transfers from/(to) classified as held for sale	–	(1,150)
Revaluations*	24,489	5,162
Changes in fair value for straight-lining of rent adjustment	401	497
Capital expenditure	543	134
Land acquisition and development capital expenditure	17,455	3,048
Leasing costs	213	116
Amortisation of leasing costs	(35)	(25)
Closing balance	355,831	233,784

* The revaluation adjustment comprises the following:

Gross revaluation of investment property	25,068	5,750
Change in fair value for straight-lining of rent adjustment	(401)	(497)
Leasing costs	(213)	(116)
Amortisation of leasing costs	35	25
Net revaluation adjustment	24,489	5,162

9. Investment properties (continued)

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

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Rental income	**26,382**	21,296
Other rental income (recognised on a straight line basis)	**401**	497
Direct operating expenses from property that generated rental income	**(674)**	(582)
Direct operating expenses from property that did not generate rental income	**(377)**	(297)
Revaluation gain on investment properties	**24,489**	5,162

(d) Tenancy risk

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

Goodstart Early Learning Ltd ("Goodstart") - representing 47.4% of the Group's investment property portfolio by value. Like most not-for-profit entities, Goodstart is a company limited by guarantee. It therefore does not have "shareholders," rather, each of the member charities (Mission Australia, Benevolent Society, Brotherhood of St Laurence and Social Ventures Australia) is a member of the company having a maximum liability of $100 due upon the winding up of the company. Goodstart's "capital" is loan capital of varying degrees of risk and subordination.

Primary Health Care Limited ("PRY") - representing 19.1% of the Group's investment property portfolio by value. PRY is a listed company and a major operator of medical clinics throughout Australia. PRY has entered into a deed of cross guarantee with its subsidiaries which are parties to the Group's healthcare property leases. The Group also has a parent entity guarantee with PRY to provide security for their performance under the leases.

Other Tenants

Operator	% of Investment Property Portfolio by Value
Affinity Education Group	15%
Preschool Services Australia P/L	4%
G8 Education	4%
Kids in Care Group	3%

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

(e) Assets pledged as security

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

Notes to the consolidated financial statements

9. Investment properties (continued)

(f) Contractual obligations

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

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Investment properties	**8,466**	–

The above commitments include the costs associated with developments, and the acquisition of childcare 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 2014	30 June 2013
	$'000	$'000
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	**29,958**	21,163
Later than one year but not later than 5 years	**124,550**	88,240
Later than 5 years	**123,440**	79,824
	277,948	189,227

10. Trade and other payables

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Prepaid rental income	**1,612**	1,342
Sundry creditors and accruals	**4,456**	2,029
Distributions payable	**4,917**	3,269
	10,985	6,640

Trade and other payables are non-interest bearing.

11. Interest bearing liabilities

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Non-current:		
Secured		
Cash advance facility	**125,000**	25,000
Unamortised transaction costs	**(189)**	(500)
Total secured non-current borrowings	**124,811**	24,500

(a) Financing arrangements

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Committed facilities available at the end of the reporting period		
Interest bearing liabilities	**140,000**	110,000
Facilities used at the end of the reporting period		
Interest bearing liabilities	**125,000**	25,000

Following the stapling in December 2013, Arena REIT No. 1's cash advance facility was extended to include Arena REIT No. 2 as joint borrower (Arena REIT facility). Arena REIT No. 2's previous bank facilities were repaid from the Arena REIT facility.

As at 30 June 2014, the Arena REIT Group has a $70 million facility expiring on 30 June 2017 and a $70 million facility expiring on 30 June 2019. Either Trust can draw on the facilities. The Group's debt facility was expanded to $155 million in July 2014 expiring on the same dates and ratio as the facility at 30 June 2014.

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

The bank facility may be drawn at any time.

Notes to the consolidated financial statements

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 the Group.

The carrying amounts of assets pledged as security are:

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Financial assets pledged		
Cash and cash equivalents	**3,947**	4,995
Trade and other receivables	**15,519**	1,346
	19,466	6,341
Other assets pledged		
Investment properties	**355,831**	233,784
Assets held for sale	**–**	1,150
	355,831	234,934

(c) Covenants

The covenants over the Group's bank facility requires an interest cover ratio of greater than 2.0 times and a loan to market value of investment properties ratio of less than 50%. The Group was in compliance with its covenants throughout the year and as at 30 June 2014.

12. Derivative financial instruments

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Non-current liabilities		
Interest rate swaps	**1,298**	70
	1,298	70

It is policy to protect interest bearing liabilities from exposure to changes in interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates.

Swaps currently in place cover 68% (2013: 100%) of the facility principal outstanding. The weighted average fixed interest swap rate at 30 June 2014 was 3.33% (2013: 2.95%).

The settlement dates coincide with the dates on which interest is payable on the underlying debt, and are settled on a net basis.

12. Derivative financial instruments (continued)

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

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Less than 1 year	–	–
1 - 2 years	**35,000**	–
2 - 3 years	**15,000**	25,000
3 - 4 years	**15,000**	–
4 - 5 years	**10,000**	–
Greater than 5 years	**10,000**	–
	85,000	25,000

13. Contributed equity

(a) Units

	Consolidated			
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	Units '000	Units '000	$'000	$'000
Ordinary Units				
Fully paid	**211,496**	206,343	**204,506**	205,252

(b) Movements in ordinary units

Date	Details	Number of units ('000)	Issue price ($)	$'000
1 July 2012	Opening balance	132,086		134,325
	Capital raising	74,257	$1.01	75,000
	Less: Transaction costs arising from capital raising			(4,073)
30 June 2013	Closing balance	206,343		205,252
1 July 2013	Opening balance	**206,343**		**205,252**
	Less: Transaction costs arising from capital raising			**(35)**
18 December 2013	Arising on stapling (net of unitholder redemption)	**5,153**		**(950)**
	Other			**239**
30 June 2014	Closing balance	**211,496**		**204,506**

Notes to the consolidated financial statements

13. Contributed equity (continued)

(b) Movements in ordinary units (continued)

(i) Stapling

In December 2013, the investors of the Trust voted to form a stapled group with Arena REIT No. 2 (formerly Sydney Healthcare Trust). Arena REIT No. 1 and Arena REIT No. 2 are separate entities for which the units have been stapled together to enable trading as one security. The Trust issued 5,152,690 units to stapled security holders during the period.

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

(ii) Redemption Offer

As part of the stapling arrangement an offer was made to existing Arena REIT No. 2 unitholders to redeem part or all of their entitlement to stapled securities. Unitholders elected to redeem 21,866,944 entitlements to stapled securities for $25.1 million.

(c) Capital management

The aims of the Group are to generate attractive and predictable income distributions 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 Responsible Entity regularly reviews the performance of the Group, 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 unitholders, return capital to unitholders, issue new units or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital through the analysis of a number of financial ratios, including the Gearing ratio. The Group targets a Gearing ratio of between 35% to 45%.

Gearing Ratio	2014	2013
	$'000	$'000
Interest bearing liabilities	**125,000**	25,000
Total assets	**375,297**	241,275
Gearing ratio	**33.3%**	10.4%

14. Accumulated profit

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Movements in accumulated profit/(losses) were as follows:		
Opening accumulated profit/(losses)	**4,813**	(1,547)
Arising on stapling	**2,871**	–
Net profit for the year	**44,564**	17,224
Distribution paid or payable	**(18,312)**	(10,864)
Other	**(239)**	–
Closing accumulated profit	**33,697**	4,813

Distributions to unitholders

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

	Distributions declared		Distributions declared	
	2014	2013	2014	2013
	$'000	$'000	cps	cps
September quarter	**4,230**	2,311	**2.050**	1.750
December quarter	**3,508**	2,642	**1.700**	2.000
March quarter	**5,657**	2,642	**2.675**	2.000
June quarter	**4,917**	3,269	**2.325**	2.250
Total distributions to unitholders	**18,312**	10,864	**8.750**	8.000

15. 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 directors of the Responsible Entity in making strategic decisions about the Group, assessing the financial performance and financial position of the Group, and determining the allocation of resources.

16. Related party disclosures

Subsidiaries

Interests in subsidiaries are set out in note 17.

Key management personnel

Disclosures relating to key management personnel are set out in the Directors' Report.

Responsible entity

The Responsible Entity of Arena REIT is Arena Investment Management Limited.

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.

Notes to the consolidated financial statements

16. Related party disclosures (continued)

	Consolidated	
	30 June 2014	30 June 2013
	$	$
Fees for the year paid/payable by the Trust:		
Management fees paid or payable by the Group to the Responsible Entity	**2,377,253**	2,372,452
Property management fees paid or payable to other related parties	**45,244**	–
Deferred management and disposal fees paid to the Responsible Entity	**3,400,000**	–
Reimbursement of stapling costs paid by the Responsible Entity on behalf of the Group	**1,094,514**	–
Reimbursement of listing costs paid by the Responsible Entity on behalf of the Group	**–**	1,264,113
Property acquisition fees	**876,280**	22,250
Amounts payable:		
Amount payable to the Responsible Entity at the end of the reporting period in relation to management fees and cost recoveries	**546,760**	346,882
Amounts payable to other related parties	**14,371**	–

Stapled group

The Arena REIT Stapled Group was formed in December 2013 by the stapling of Arena REIT No. 1 (formerly Arena REIT) and Arena REIT No. 2 (formerly Sydney Healthcare Trust).

There were no commercial transactions between the members of the Arena REIT Stapled Group from the date of stapling to the end of the financial year, and there are no amounts owing between the members of the Stapled Group as at 30 June 2014.

Related party unitholdings

The following related parties held units in the Group during the financial year:

	Distributions paid/payable by the Trust		Unit holding	
	2014	2013	30 June 2014	30 June 2013
	$	$	Units	Units
Arena Hybrid Property Fund	**–**	57,833	**–**	722,909
Citrus Subsidiary Trust	**2,358,376**	2,156,230	**26,952,874**	26,952,874

17. Investments in subsidiaries

The Group held investments in the following which are also managed by Arena Investment Management Limited or its related parties:

	Consolidated 2014	Consolidated 2013
	%	%
Arena CCPF Sub-Trust No. 1		
Beneficial Interest	–	100

During the year, the remaining assets of Arena CCPF Sub-Trust No. 1 were realised and liabilities settled. The entity was subsequently wound-up.

(a) Transactions with subsidiaries

The following transactions with subsidiaries were recognised by the Group during the financial year:

	2014	2013
	$'000	$'000
Return of capital	8	–

18. Financial risk management and fair value measurement

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

(a) Market risk

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

(i) Cash flow and fair value interest rate risk

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

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

Notes to the consolidated financial statements

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

(a) Market risk (continued)

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

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 2014	**30 June 2013**
	$'000	$'000
Financial assets		
Cash and cash equivalents (floating interest rate)	**3,947**	4,995
Financial liabilities		
Interest bearing liabilities - floating interest rate	**(125,000)**	(25,000)
Derivative financial instruments (notional principal amount) - fixed rate interest rate swaps	**85,000**	25,000
Net Exposure	**(36,053)**	4,995

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

	Consolidated	
	2014	**2013**
	$'000	$'000
Market interest rate increased by 100 basis points (2013: 100 bp)	**(361)**	50
Market interest rate decreased by 100 basis points (2013: 100 bp)	**361**	(50)
Instruments with fair value risk:		
Derivative financial instruments	**85,000**	25,000
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 (2013: 100 bp)	**1,942**	694
Market interest rate decreased by 100 basis points (2013: 100 bp)	**(1,942)**	(694)

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

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

(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 2014	30 June 2013
	$'000	$'000
Cash at bank	**3,947**	4,995
Other receivables	**880**	1,241
Less: Allowance for impairment of trade receivables	**–**	–
Maximum exposure to credit risk	**4,827**	6,236

The Group manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank and interest rate swaps are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Before accepting a new tenant, the Group endeavours to obtain financial information from the prospective tenant, and rental guarantees are sought before tenancy is approved. Loans and receivables from third parties are secured against land and corporate and personal guarantees. The Responsible Entity also performs a detailed review of both related and other parties before approving advancement of funds. This is performed to ensure that they will be able to meet interest and principal repayments. There have been no changes from previous periods.

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

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

(c) Liquidity risk

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

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

Notes to the consolidated financial statements

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

(c) Liquidity risk (continued)

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

	Less than 12 months	1-2 years	Greater than 2 years
	$'000	$'000	$'000
Consolidated 30 June 2014			
Trade and other payables	**10,985**	**–**	**–**
Interest rate swaps	**569**	**554**	**1,196**
Interest bearing liabilities	**7,168**	**7,168**	**139,335**
Contractual cash flows (excluding gross settled derivatives)	**18,722**	**7,722**	**140,531**
Consolidated 30 June 2013			
Trade and other payables	6,640	–	–
Interest rate swaps	33	33	31
Interest bearing liabilities	1,168	1,168	26,168
Contractual cash flows (excluding gross settled derivatives)	7,841	1,201	26,199

(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.

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

(e) Fair value hierarchy (continued)

(i) Classification of financial assets and financial liabilities (continued)

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 2014 and 30 June 2013 on a recurring basis:

Consolidated 30 June 2014	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial liabilities				
Interest rate swaps	–	1,298	–	1,298
Total	–	1,298	–	1,298

Consolidated 30 June 2013	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial liabilities				
Interest rate swaps	–	70	–	70
Total	–	70	–	70

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 2014.

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

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

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

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

Notes to the consolidated financial statements

19. Parent entity financial information

Summary of financial information

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

	30 June 2014	30 June 2013
	$'000	$'000
Parent		
Income statement information		
Net profit attributable to Arena REIT No. 1	**38,505**	16,919
Comprehensive income information		
Total comprehensive income attributable to Arena REIT No. 1	**38,505**	16,919
Balance Sheet		
Current assets	**18,895**	7,368
Non-current assets	**291,642**	233,811
Total assets	**310,537**	241,179
Current liabilities	**10,024**	6,544
Non-current liabilities	**91,302**	24,570
Total liabilities	**101,326**	31,114
Equity attributable to unitholders of Arena REIT No. 1		
Contributed equity	**183,221**	205,491
Accumulated profit	**25,990**	4,574
	209,211	210,065

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

	Consolidated	
	30 June 2014	30 June 2013
	$'000	$'000
Profit for the year	44,564	17,224
Amortisation of borrowing costs	590	1,113
Net increase in fair value of investment properties	(24,489)	(5,162)
Straight lining adjustment on rental income	(401)	(497)
Amortisation of leasing costs	–	25
Interest capitalised to development properties	(232)	(200)
Net (gain)/loss on sale of direct property	(3,784)	(10)
Net (gain)/loss on derivative financial instruments	1,200	141
Net (gain)/loss on financial assets held at fair value through profit or loss	–	(1,413)
Net (gain)/loss on foreign exchange	–	(12)
Other stapling costs	699	–
Changes in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	1,150	592
(Decrease)/increase in trade and other payables	783	(803)
Net cash inflow from operating activities	20,080	10,998

21. Contingent assets and liabilities and commitments

There are no material outstanding contingent assets or liabilities as at 30 June 2014 and 30 June 2013. For details of commitments of the Group as at 30 June 2014, refer to note 9.

22. Events occurring after the reporting period

The Responsible Entity has entered into an exclusivity agreement for a period of 6 months with Citrus II Investments Pty Limited (the ultimate owner of Arena Investment Management Limited) for the Arena REIT Group to consider an internalisation of the Group which would allow it to employ its Board and management directly to enhance alignment of interests with investors and no longer pay fees to an external manager.

No decision has been made by the Responsible Entity to proceed with any proposal and as such, there is no certainty that a proposal will proceed. Investors should refer to ARF ongoing ASX announcements for further information in respect of this matter.

Apart from this, no other significant events have occurred since the end of the reporting period which would impact on the financial position of the Group disclosed in the consolidated balance sheet as at 30 June 2014 or on the results and cash flows of the Group for the year ended on that date.

Directors' **declaration**

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 14 to 47 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 2014 and of its performance for the financial year ended on that date, and

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

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

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

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

David Ross
Chairman

Melbourne
25 August 2014

Independent auditor's report

Independent auditor's report to the unitholders of Arena REIT

Report on the financial report

We have audited the accompanying financial report of Arena REIT (the Trust), which comprises the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Arena REIT (the consolidated entity). The consolidated entity comprises Arena REIT and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

Independent auditor's report

Independent auditor's report to the unitholders of Arena REIT (continued)

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
25 August 2014

ASX
additional information

Additional Stock Exchange Information as at 19 August 2014

There were 211,495,653 fully paid ordinary units on issue, held by 3,053 security holders. There were 35 holders holding less than a marketable parcel.

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

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

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

Distribution of security holders

Number of securities held	Number of security holders	Total securities held	% of total securities on issue
1-1,000	54	14,915	0.01
1,001-5,000	131	474,728	0.22
5,001-10,000	462	3,890,216	1.84
10,001-100,000	2,272	76,072,063	35.97
100,000 and over	134	131,043,731	61.96
Total	**3,053**	**211,495,653**	**100**

Substantial security holders

Name of substantial security holder	Number of securities
Trust Company (Australia) Limited <Citrus Subsidiary Trust>	26,952,874
BT Investment Management Limited	19,487,639

ASX
additional information

Twenty largest security holders

Holder Name	Number of securities	Fully paid (%)
Trust Company (Australia) Limited <Citrus Subsidiary Trust>	26,952,874	12.74
HSBC Custody Nominees (Australia) Limited	23,539,168	11.13
J P Morgan Nominees Australia Limited	15,536,308	7.35
National Nominees Limited	7,917,441	3.74
Sandhurst Trustees Ltd <AIMS PSF A/c>	6,768,319	3.20
Citicorp Nominees Pty Limited	6,598,799	3.12
RBC Investor Services Australia Nominees Pty Limited <APN A/c>	3,558,747	1.68
UBS Nominees Pty Ltd	3,093,113	1.46
National Nominees Limited <DB A/c>	2,859,768	1.35
BNP Paribas Noms Pty Ltd	2,796,586	1.32
Navigator Australia Ltd <MLC Investment Sett A/c>	2,590,725	1.22
Citicorp Nominees Pty Limited <Colonial First State Inv A/c>	1,592,582	0.75
Keith David Kirk	722,195	0.34
Warbont Nominees Pty Ltd <Accumulation Entrepot A/c>	692,418	0.33
Netwealth Investments Limited <WRAP Services A/c>	668,411	0.32
Escor Equities Consolidated Pty Ltd	652,317	0.31
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/c>	638,247	0.30
Arkwright Developments Pty Limited <The Findlay A/c>	594,059	0.28
HSBC Custody Nominees (Australia) Limited - A/c 2	587,257	0.28
Mr Jiebo Huang	547,030	0.26
Totals	**108,906,364**	**51.49**

Corporate directory

Responsible Entity and principal place of business

Arena Investment Management Limited

ABN 23 077 235 879; AFSL 233190

71 Flinders Lane
Melbourne Vic 3000

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

Directors of the Responsible Entity

- David Ross (Independent, Non-Executive Chairman)
- Simon Parsons (Independent, Non-Executive Director)
- Dennis Wildenburg (Independent, Non-Executive Director)
- James Goodwin (Joint Managing Director)
- Bryce Mitchelson (Joint Managing Director)

Secretary

Peter Hulbert

Registry

Boardroom Pty Limited

Level 8, 446 Collins Street
Melbourne VIC 3000

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

Auditor

PricewaterhouseCoopers

Freshwater Place, 2 Southbank Boulevard
Southbank Vic 3006

Stock exchange listings

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

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

The Arena corporate website (www.arenainvest.com.au) provides a wealth of information on the Trust and its activities.

Information available on the site includes full and interim year financial reports, presentations, webinars, videos as well as Arena tax statement guides.

Social media

Arena is now active on different social media channels so you can keep up to date with our news and activities. Connect with us through the following:

@arenainvest

Arenainvestmentmanagement

Arena Investment Management

Managing your investments

Arena's registry; Boardroom is responsible for maintaining the Group's register of members. Investors with queries relating to their holding should contact Boardroom directly using the contact details provided opposite.

Register with Investor Serve

Investors are now able to manage their investments through InvestorServe, accessible via the Investor Centre section of Arena's website. This allows investors to view holding balances, transaction history and distribution payments, along with other useful functions.

To register with InvestorServe:

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

arenainvest.com.au

Arena Investment Management Limited ABN 23 077 235 879 AFSL No. 233190

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Arena REIT
Appendix 4E
For the year ended 30 June 2014

Name of entity:

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

ARSN:

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

Reporting period

This report details the consolidated results of Arena REIT for the year ended 30 June 2014. Arena REIT is a stapled group comprising Arena REIT No.1 and Arena REIT No.2.

Results for announcement to the market

All comparisons are to the year ended 30 June 2013.

				$A'000
Total income from ordinary activities	Up	89%	to	55,127
Profit from ordinary activities after tax attributable to Arena REIT stapled group investors	Up	159%	to	44,564
Net profit for the year attributable to Arena REIT stapled group investors	Up	159%	to	44,564

Distributions

Quarter	**Cents per unit**	**Paid/Payable**
September Quarter	2.050	15 November 2013
December Quarter	1.700	14 February 2014
March Quarter	2.675	14 April 2014
June Quarter	2.325	14 August 2014
Total	**8.750**	

Net tangible assets per unit

	Consolidated	
	30 June 2014	**30 June 2013**
Net tangible asset backing per ordinary unit	$1.13	$1.02

Refer to the Arena REIT Financial Report for the year ended 30 June 2014 for further information on results and additional Appendix 4E disclosure requirements.

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

This report is based on the Arena REIT 30 June 2014 financial statements which have been audited by PricewaterhouseCoopers. The Independent Auditor's Report provided by PricewaterhouseCoopers is included in the 30 June 2014 financial statements.

Signed:

David Ross
Chairman
25 August 2014