

Arena REIT

Appendix 4D

Half Year Final Report

For the half-year ended 31 December 2013

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 period ended 31 December 2013. 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 half year ended 31 December 2012.

				\$A'000
Total income from ordinary activities	Up	25%	to	16,289
Profit from ordinary activities after tax attributable to unitholders	Up	87%	to	12,643
Net profit for the period attributable to unitholders	Up	87%	to	12,643

Distributions

Quarter	Cents per unit	Paid
September 2013 Quarter	2.05	15 November 2013
December 2013 Quarter	1.70	14 February 2014
Total	3.75	

*The December Quarter distribution covers the period up until 10 December 2013. The first distribution of the stapled group will be paid for the period from 11 December 2013 to 31 March 2014.

Net tangible assets per unit

	Consolidated	
	31 December 2013	30 June 2013
Net tangible asset backing per ordinary unit	\$1.03	\$1.02

Refer to the Arena REIT Interim Report for the half-year ended 31 December 2013 for further information on results and additional Appendix 4D disclosure requirements.

This information should be read in conjunction with the 2013 Annual Financial Report of Arena REIT and any public announcements made during the period in accordance with the continuous disclosure

requirements of the *Corporations Act 2001* and Listing Rules.

This report is based on the Arena REIT 31 December 2013 half-year financial statements which have been reviewed by PricewaterhouseCoopers. The Independent Auditor's Report provided by PricewaterhouseCoopers is included in the 31 December 2013 half-year financial statements.

Signed:

A handwritten signature in black ink, appearing to read 'David Ross', written in a cursive style.

David Ross
Chairman
27 February 2014

Arena REIT

ARSN 106 891 641

Interim report

For the half-year ended 31 December 2013

Arena REIT

ARSN 106 891 641

Interim report - 31 December 2013

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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

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 period ended 31 December 2013.

The Arena REIT 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) collectively the 'Trusts'.

Arena REIT (the 'Group') 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 reporting period 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.

Directors

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

David Ross (Chairman)
Simon Parsons
Dennis Wildenburg
James Goodwin
Bryce Mitchelson

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 period.

Distributions to unitholders

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

	31 December 2013 \$'000	31 December 2012 \$'000	31 December 2013 cpu	31 December 2012 cpu
September quarter	4,230	2,311	2.05	1.75
December quarter *	3,508	2,642	1.70	2.00
Total distributions to unitholders	7,738	4,953	3.75	3.75

* The December quarter distribution covers the period up until 10 December 2013. The first distribution of the Arena REIT stapled group will be paid for the period from 11 December 2013 to 31 March 2014.

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

	31 December 2013	31 December 2012	Change
Net profit (statutory)	\$12.6 million	\$6.8 million	+ 85.3%
Distributable income	\$8.5 million	\$5.1 million	+ 66.7%
Distributable income per security	4.13 cents	3.84 cents	+ 7.6%
Distributions per security	3.75 cents	3.75 cents	0%

	31 December 2013	30 June 2013	Change
Total assets	\$331.8 million	\$241.3 million	+ 37.5%
Investment properties *	\$325.1 million	\$234.9 million	+ 38.4%
Borrowings	\$82.3 million	\$25.0 million	+ 229%
Net assets	\$216.9 million	\$210.1 million	+ 3.2%
NTA per security	\$1.03	\$1.02	+ 1%
Gearing **	24.8%	10.4%	+ 14.4%

* Includes investment property held for sale

** Gearing calculated as Borrowings / Total Assets

31 December 2013 half year highlights

- Successful stapling of Arena REIT No.1 and Arena REIT No.2 in December 2013.
- The property portfolio increased with the addition of 6 medical centres on completion of the stapling, the acquisition of 15 operating childcare centres, including a 14 property portfolio leased to ASX listed Affinity Education Group in December 2013, and 3 childcare development sites.
- Half year distributable income was \$8.5 million, up 67% on the previous half year.
- Gearing was 24.8% at 31 December 2013. The Group's target gearing range is 35-45%.
- NTA per security at 31 December 2013 was \$1.03, an increase of 1% on 30 June 2013. This was due to an increase in investment property value, offset partially by transaction costs associated with the stapling and redemption of units by former Arena REIT No. 2 unitholders.

Operating and Financial Review (continued)

31 December 2013 half year highlights (continued)

Financial results

	31 December 2013 \$'000	31 December 2012 \$'000
Rental income	11,370	10,685
Other income	30	379
Total operating income	11,400	11,064
Direct property expenses	(445)	(552)
Trust operating expenses	(384)	(539)
Management fees	(1,022)	(1,209)
Finance costs	(1,016)	(3,686)
Distributable income *	8,533	5,078
Non-distributable items:		
Straight-line rental income	451	374
Revaluation gain on investment properties	4,438	146
Change in fair value of derivatives	(43)	(256)
Revaluation gain on securities investment	-	1,413
Stapling and asset acquisition costs	(736)	-
Statutory net profit	12,643	6,755

** 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 period is primarily due to:
 - Ongoing annual rent increases on the Group's property portfolio;
 - Finance cost savings achieved from refinancing the Group's debt facility and reduced gearing;
 - Savings in management fees following a reduction in the rate to 0.8% (December 2012: 1%) of Gross Assets; and
 - The acquisition of new childcare properties and medical centres throughout the period.

Operating and Financial Review (continued)

Investment property portfolio

Key property metrics

	31 December 2013	30 June 2013
Total value of investment properties	\$325 million	\$235 million
Number of properties under lease	189	167
Development sites	7	4
Properties available for lease or sale	3	5
Properties held for sale	-	1
Total properties in portfolio	199	177
Portfolio occupancy	98%	97%
Weighted average lease expiry (WALE)	8.7 years	8.3 years

- The increase in the value of investment properties is primarily due to the addition of:
 - 6 medical centres on completion of the stapling, with a value of \$54.7 million;
 - 15 operating childcare centres with a value of \$26.7 million, including a 14 property portfolio leased to ASX listed Affinity Education Group in December 2013;
 - 3 childcare development sites for \$1.75 million;
 - a revaluation increment to the portfolio of \$4.955 million for the period.
- 2 vacant childcare centres were sold for \$1.5m (book value) during the period.

Capital management

Stapling

- On the completion of the stapling of Arena REIT No.1 and Arena REIT No.2 in December 2013, there are 211,495,653 securities on issue for the stapled group.
- Refer to note 7 for further information.

Bank facilities & gearing

- The Group expanded its existing facility during the period to cover the newly formed stapled Group.
- The facility limit was increased by \$30m to \$140m.
- The balance drawn increased throughout the period as acquisitions were funded through debt drawdowns and \$27m was used to fund the repayment of the Arena REIT No.2 existing facility and fees associated with the stapling.
- The redemption offer to Arena REIT No.2 investors was also funded by a drawdown of borrowings in January 2014.
- Gearing was 24.8% at 31 December 2013. Following the completion of the stapling redemption offer in January 2014, the gearing was 32.4% which is below the target range of 35-45%
- Refer to note 5 for further information.

Interest rate management

- As at 31 December 2013, 91% of Arena REIT borrowings are hedged. Following completion of the redemption offer in January 2014, 70% of borrowings are hedged. The average swap fixed rate is 3.24%.

Operating and Financial Review (continued)

Capital management (continued)

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.

FY14 outlook

Arena REIT presently expects to pay a distribution of 8.75 cents per security for FY14. This distribution is 0.3 cents above the distribution forecast contained in the Group's recent PDS primarily as a result of the acquisition of 14 childcare properties leased to Affinity Education Group in December 2013. The FY14 distribution is comprised of the 3.75 cents per security declared by Arena REIT No.1 up until 10 December 2013 and 5.0 cents per security forecast by the Group for the period from 11 December 2013 to 30 June 2014.

Notwithstanding the Group's strategy to acquire new investments, the distribution outlook assumes that the Group does not acquire any new investments or issue additional equity during the remainder of FY14. The distribution outlook also assumes that the Group's existing leases 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 period.

Matters subsequent to the end of the financial period

As part of the stapling arrangement an offer was made to existing Arena REIT No.2 investors to redeem part or all of their entitlement to stapled securities. Unitholders elected to redeem 21,866,944 entitlements to stapled securities for \$25.1m. The settlement of the redemption was paid in January 2014, and was funded from the Group's debt facility.

No other matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

The Group will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Group and in accordance with the provisions of 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.

Further information on likely developments in the operations of the Group and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Group.

Relief under ASIC Class Order 13/1050

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 period ended 31 December 2013. The financial statements separately present the amounts of "non-controlled interest" attributable to the stapled security unitholders as required by the class orders.

Rounding of amounts to the nearest thousand dollars

The Group is an entity of a kind referred to in Class Order 98/0100 (as amended) issued by ASIC 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 7.

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



David Ross
Chairman

Melbourne
27 February 2014



Auditor's Independence Declaration

As lead auditor for the review of Arena REIT for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Arena REIT, the entities it controlled during the period and Arena REIT No. 2.

A handwritten signature in blue ink, appearing to read 'Charles Christie'.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
27 February 2014

Arena REIT
Consolidated statement of comprehensive income
For the half-year ended 31 December 2013

Consolidated statement of comprehensive income

	Notes	31 December 2013 \$'000	31 December 2012 \$'000
Income			
Property rental	3	11,821	11,059
Interest		30	65
Distribution income		-	314
Revaluation of investment properties	4	4,438	146
Fair value gains on financial assets held at fair value through profit or loss		-	1,413
Total income		16,289	12,997
Expenses			
Direct property expenses		(445)	(552)
Responsible Entity's management fee		(1,022)	(1,209)
Custodian fees		(49)	(58)
Stapling and asset acquisition costs		(736)	-
Trust administration expenses		(335)	(481)
Net loss on fair value of derivative financial instruments		(43)	(256)
Finance costs		(1,016)	(3,686)
Total expenses		(3,646)	(6,242)
Net profit for the half-year		12,643	6,755
Other comprehensive income		-	-
Total comprehensive income for the half-year		12,643	6,755
Total comprehensive income for the half-year is attributable to Arena REIT stapled group investors, comprising:			
Unitholders of Arena REIT No. 1		12,429	6,755
Unitholders of Arena REIT No. 2 (non-controlling interest)		214	-
		12,643	6,755
Earnings per security:			
Basic earnings per security in Arena REIT No. 1		6.01	5.11
Diluted earnings per security in Arena REIT No. 1		6.01	5.11
Basic earnings per security in Arena REIT Group		6.12	-
Diluted earnings per security in Arena REIT Group		6.12	-

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

Arena REIT
Consolidated balance sheet
As at 31 December 2013

Consolidated balance sheet

		31 December 2013	30 June 2013
	Notes	\$'000	\$'000
Current assets			
Cash and cash equivalents		5,555	4,995
Trade and other receivables		1,233	1,346
Assets held for sale		-	1,150
Total current assets		6,788	7,491
Non-current assets			
Investment properties	4	325,057	233,784
Total non-current assets		325,057	233,784
Total assets		331,845	241,275
Current liabilities			
Trade and other payables		7,841	6,640
Provision for unit redemption	7(b)	25,147	-
Total current liabilities		32,988	6,640
Non-current liabilities			
Interest bearing liabilities	5	81,853	24,500
Derivative financial instruments	6	142	70
Total non-current liabilities		81,995	24,570
Total liabilities		114,983	31,210
Net assets		216,862	210,065
Equity			
Contributed equity - Arena REIT No. 1	7	182,988	205,252
Contributed equity - Arena REIT No. 2 (non-controlling interest)		21,285	-
Accumulated profit	8	12,589	4,813
Total equity		216,862	210,065

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

Arena REIT
Consolidated statement of changes in equity
For the half-year ended 31 December 2013

Consolidated statement of changes in equity

	Contributed equity - Arena REIT No. 1 \$'000	Contributed equity - Arena REIT No. 2 \$'000	Accumulated profit \$'000	Total equity \$'000
Balance at 1 July 2012	134,325	-	(1,547)	132,778
Profit for the half-year	-	-	6,755	6,755
Total comprehensive income for the period	-	-	6,755	6,755
Transactions with owners in their capacity as owners:				
Distributions to unitholders	-	-	(4,953)	(4,953)
Balance at 31 December 2012	134,325	-	255	134,580
Balance at 1 July 2013	205,252	-	4,813	210,065
Profit for the half-year	-	-	12,643	12,643
Total comprehensive income for the period	-	-	12,643	12,643
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	-	-	(7,738)	(7,738)
Equity raising costs	(29)	-	-	(29)
Balance at 31 December 2013	182,988	21,285	12,589	216,862

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

Arena REIT
Consolidated statement of cash flows
For the half-year ended 31 December 2013

Consolidated statement of cash flows

	31 December 2013 \$'000	31 December 2012 \$'000
<i>Cash flows from operating activities</i>		
Property rental receipts	11,746	11,502
Payments to suppliers	(6,427)	(3,485)
Distributions received	-	323
Interest received	30	65
Other income received	-	572
Finance costs paid	(775)	(3,406)
<i>Net cash inflow from operating activities</i>	4,574	5,571
<i>Cash flows from investing activities</i>		
Cash arising on stapling	598	-
Proceeds from sale of investment properties	1,464	285
Payments for capital expenditure	(126)	(358)
Acquisition of investment properties	(29,408)	(1,036)
Proceeds from sale of financial assets held at fair value through profit or loss	-	7,819
Acquisition of development properties	(2,476)	-
<i>Net cash inflow/(outflow) from investing activities</i>	(29,948)	6,710
<i>Cash flows from financing activities</i>		
Equity raising costs	(29)	-
Distributions paid to unitholders	(7,499)	(4,953)
Loan establishment costs paid	(92)	(138)
Proceeds from borrowings	58,571	1,000
Repayment of borrowings	(24,971)	-
Termination of derivatives	(46)	-
<i>Net cash inflow/(outflow) from financing activities</i>	25,934	(4,091)
<i>Net increase/(decrease) in cash and cash equivalents</i>	560	8,190
Cash and cash equivalents at the beginning of the financial period	4,995	5,561
Effects of exchange rate changes on cash and cash equivalents	-	1
<i>Cash and cash equivalents at the end of the financial period</i>	5,555	13,752

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

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1 Summary of significant accounting policies

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

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2013 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Arena REIT during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

(i) Net working capital deficiency

At 31 December 2013, the Group has a net working capital deficiency of \$26.2 million. This deficiency is due to Current Liabilities including the Provision for Unit Redemption of \$25.147 million and stapling costs of \$1.0 million included within Trade and Other Payables that arose from the Stapling in December 2013. The redemption of units was fully funded by a drawdown on the Group's debt facility in January 2014, and the stapling costs were paid from cash in January 2014.

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

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

(b) Principles of consolidation

The 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 half year 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 staple 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 is the date the Aggregation has occurred for financial reporting purposes. The financial statements presented include the net profit and loss of ARF 1 for the period including the results of ARF2 from 9 December 2013. The Balance Sheet includes the aggregated Balance Sheet of ARF1 and ARF2 at 31 December 2013.

(c) 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.

(d) 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*;

1 Summary of significant accounting policies (continued)

(d) New and amended standards adopted by the group (continued)

- 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 period, 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 half year financial statements. The adoption of the above standards will impact the financial statements disclosures which will be included in the Group's 30 June 2014 financial report.

(e) Changes in accounting policy

(i) AASB 10 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 Order 13/1050 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 31 December 2013 as if a business combination had occurred under AASB 3 *Business Combinations*.

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.

(ii) AASB 13 Fair Value Measurements

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 the fair value assessment of the Group's financial derivatives at 31 December 2013 in accordance with the requirements of AASB 13. The AASB 13 disclosures applicable to interim financial reports are disclosed in Note 10.

1 Summary of significant accounting policies (continued)

(f) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 reporting periods. The Group has not early adopted these standards/interpretations. The Group's assessment of the impact of these new standards and interpretations is set out below:

Standard / Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	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. Management does not expect this to have any impact on the Group's financial statements.	1 January 2015	30 June 2016
AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets	The AASB has made amendments to the disclosures required by AASB 136 Impairment of Assets, which remove the requirement to disclose the recoverable amount of all cash generating units that contain goodwill or identifiable assets with indefinite 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

2 Business combination to form Arena REIT

(a) Summary of business combination

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.

3 Property rental income

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

	31 December 2013 \$'000	31 December 2012 \$'000
Base rent	11,370	10,685
Other rental income (recognised on a straight line basis)	451	374
Total property rental income	11,821	11,059

4 Investment properties

	31 December 2013 \$'000	30 June 2013 \$'000
At fair value		
Opening balance	233,784	226,292
Additions through business combination	55,237	-
Property acquisitions	28,858	-
Land acquisition and development capital expenditure	2,476	3,048
Transfers from/(to) classified as held for sale	-	(1,150)
Disposals	(310)	(290)
Revaluations*	4,438	5,162
Changes in fair value for straight-lining of rent adjustment	451	497
Capital expenditure	57	134
Leasing costs	86	116
Amortisation of leasing costs	(20)	(25)
Closing balance	<u>325,057</u>	<u>233,784</u>

*The revaluation adjustment comprises the following:

	31 December 2013 \$'000	30 June 2013 \$'000
Gross revaluation of investment property	4,955	5,750
Changes in fair value for straight-lining of rent adjustment	(451)	(497)
Leasing costs	(86)	(116)
Amortisation of leasing costs	20	25
Net revaluation adjustment	<u>4,438</u>	<u>5,162</u>

5 Interest bearing liabilities

	31 December 2013 \$'000	30 June 2013 \$'000
Non-current		
Secured		
Cash advance facility	82,321	25,000
Unamortised transaction costs	(468)	(500)
Total non-current interest bearing liabilities	<u>81,853</u>	<u>24,500</u>

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.

5 Interest bearing liabilities (continued)

The Arena REIT facility has a limit of \$140 million and matures on 30 June 2016. Either Trust can draw on the facility.

The Group was compliant with all covenants over bank facilities throughout the period and at 31 December 2013.

6 Derivative financial instruments

	31 December 2013 \$'000	30 June 2013 \$'000
Non-current liabilities		
Interest rate swaps	142	70
	142	70

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

Swaps in place cover 91% (30 June 2013: 100%) of the facility principle outstanding. The weighted average fixed interest swap rate at 31 December 2013 was 3.24% (30 June 2013: 2.95%).

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

7 Contributed equity

(a) Units

	31 December 2013 Units '000	30 June 2013 Units '000	31 December 2013 \$'000	30 June 2013 \$'000
Ordinary Stapled Units				
Fully paid	211,496	206,343	204,273	205,252

(b) Movement in ordinary stapled units

Date	Details	Number of units '000	Unit 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	-		(29)
18 December 2013	Arising on stapling (net of unitholder redemption)	5,153		(950)
31 December 2013	Closing balance	211,496		204,273

7 Contributed equity (continued)

(b) Movement in ordinary stapled 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 \$25.1m.

8 Accumulated profit

Movement in accumulated profit was as follows:

	31 December 2013 \$'000	30 June 2013 \$'000
Opening accumulated profit/(losses)	4,813	(1,547)
Arising on stapling	2,871	-
Profit for the financial period	12,643	17,224
Distributions paid or payable	(7,738)	(10,864)
Closing accumulated profit	12,589	4,813

(i) Distributions paid or payable to unitholders

	31 December 2013 \$'000	31 December 2012 \$'000	31 December 2013 cpu	31 December 2012 cpu
September quarter	4,230	2,311	2.05	1.75
December quarter *	3,508	2,642	1.70	2.00
Total distributions to unitholders	7,738	4,953	3.75	3.75

* The December quarter distribution covers the period up until 10 December 2013. The first distribution of the Arena REIT stapled entity will be paid for the period from 11 December 2013 to 31 March 2014.

9 Segment information

The Group operates as one business segment being investment in real estate, and in one geographic segment being Australia. The Group's segments are based on reports used by the Responsible Entity in making key strategic decisions.

10 Fair value measurement of financial instruments

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

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

(a) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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 following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December and 30 June 2013 on a recurring basis:

31 December 2013

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities				
Financial liabilities held for trading:				
Interest rate swaps	-	142	-	142
Total	-	142	-	142

30 June 2013

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities				
Financial liabilities held for trading:				
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 period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2013.

10 Fair value measurement of financial instruments (continued)

(a) Fair value hierarchy (continued)

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

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

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

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

11 Contingent assets and liabilities and commitments

There are no material outstanding contingent assets, liabilities or commitments as at 31 December 2013.

12 Events occurring after the reporting period

As part of the stapling arrangement an offer was made to existing Arena REIT No.2 investors to redeem part or all of their entitlement to stapled securities. Unitholders elected to redeem 21,866,944 entitlements to stapled securities for \$25.1m. The settlement of the redemption was paid in January 2014, and was entirely funded from the Group's debt facility.

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 31 December 2013 or on the results and cash flows of the Group for the half-year ended on that date.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 8 to 21 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the financial period ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay their debts as and when they become due and payable.

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



David Ross
Chairman

Melbourne
27 February 2014



Independent auditor's review report to the unitholders of Arena REIT

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Arena REIT (the Group), which comprises the balance sheet as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Arena REIT. The Group comprises Arena REIT, the entities it controlled during that half-year and Arena REIT No. 2.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arena REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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

Conclusion

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

- a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A blue ink signature in cursive script, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A blue ink signature in cursive script, appearing to read 'Charles Christie'.

Charles Christie
Partner

Melbourne
27 February 2014