

# Arena REIT

## Appendix 4D

### For the period ended 31 December 2015

Name of entity:

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

ARSN:

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

ACN:

Arena REIT Limited 602 365 186

#### Reporting period

This report details the consolidated results of Arena REIT for the half-year ended 31 December 2015. Arena REIT is a stapled security comprising Arena REIT Limited, Arena REIT No.1 and Arena REIT No.2.

#### Results for announcement to the market

All comparisons are to the half-year ended 31 December 2014.

				\$A'000
Total income from ordinary activities	Up	59%	to	46,555
Profit from ordinary activities after tax attributable to Arena REIT stapled group investors	Up	93%	to	41,444
Net profit for the period attributable to Arena REIT stapled group investors	Up	93%	to	41,444

#### Distributions

Quarter	Cents per security	Paid/Payable
September Quarter	2.6750	12 November 2015
December Quarter	2.6750	11 February 2016
<b>Total</b>	<b>5.3500</b>	

#### Net assets per security

	Consolidated	
	31 December 2015	30 June 2015
Net asset value per ordinary security	\$1.46	\$1.33

This information should be read in conjunction with the 31 December 2015 Half Year Financial Report of Arena REIT and any public announcements made during the period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and Listing Rules.

This report is based on the Arena REIT 31 December 2015 half-year financial statements which have been reviewed by PricewaterhouseCoopers. The Independent Auditor's Review Report provided by PricewaterhouseCoopers is included in the 31 December 2015 half year financial statements.

Signed:

A handwritten signature in dark ink, appearing to read 'David Ross', is positioned above the printed name.

David Ross  
Chairman  
22 February 2016

**Arena REIT**

ARSN 106891641

**Interim report**

**For the half-year ended 31 December 2015**

# Arena REIT

ARSN 106 891 641

## Interim report

### For the half-year ended 31 December 2015

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

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

71 Flinders Lane  
Melbourne VIC 3000

## **Directors' report**

The directors of Arena REIT Limited ('ARL') and Arena REIT Management Limited ('ARML'), the Responsible Entity of Arena REIT No. 1 and Arena REIT No. 2 (the 'Trusts'), present their report together with the financial statements of Arena REIT for the period ended 31 December 2015. The interim financial report covers ARL, Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2'), and their controlled entities.

Arena REIT No.1, Arena REIT No. 2 and Arena REIT Limited are separate entities for which the units and shares have been stapled together to enable trading as one security. The units of Arena REIT No.1, Arena REIT No.2 and shares of Arena REIT Limited cannot be traded separately. None of the stapled entities controls any of the other stapled entities, however for the purposes of statutory financial reporting the entities form a consolidated group.

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

## **Directors**

The following persons held office as directors of Arena REIT Limited from 16 October 2014 and up to the date of this report:

David Ross (Chairman) (Independent, non-executive)

Simon Parsons (Independent, non-executive)

Dennis Wildenburg (Independent, non-executive)

Bryce Mitchelson (Executive)

The following persons held office as directors of Arena REIT Management Limited on 12 December 2014 when it became Responsible Entity of the Trusts and up to the date of this report:

David Ross (Chairman) (Independent, non-executive)

Simon Parsons (Independent, non-executive)

Dennis Wildenburg (Independent, non-executive)

Bryce Mitchelson (Executive)

Gareth Winter (Executive)

## **Principal activities**

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

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

## **Distributions to securityholders**

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

	<b>31 December 2015 \$'000</b>	<b>31 December 2014 \$'000</b>	<b>31 December 2015 cps</b>	<b>31 December 2014 cps</b>
September quarter	<b>6,128</b>	5,155	<b>2.6750</b>	2.4375
December quarter	<b>6,158</b>	5,211	<b>2.6750</b>	2.4625
Total distributions to securityholders	<b>12,286</b>	10,366	<b>5.3500</b>	4.9000

## Operating and Financial Review

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

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

- 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

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>Change</b>
Net profit (statutory)	\$41.4 million	\$21.5 million	+ 93%
Net operating profit (distributable income)	\$12.6 million	\$10.5 million	+ 20%
Distributable income per security	5.52 cents	4.97 cents	+ 11%
Distributions per security	5.35 cents	4.90 cents	+ 9%

	<b>31 December 2015</b>	<b>30 June 2015</b>	<b>Change</b>
Total assets	\$480.7 million	\$450.6 million	+ 7%
Investment properties	\$455.5 million	\$420.5 million	+ 8%
Borrowings	\$131.0 million	\$131.0 million	- %
Net assets	\$335.8 million	\$303.5 million	+ 11%
NAV per security	\$1.46	\$1.33	+ 10%
Gearing *	27.3%	29.1%	-180 bps

\* Gearing calculated as Borrowings / Total Assets

## 31 December 2015 half year highlights

- The property portfolio increased with the addition of 6 childcare development sites. During the period, 2 childcare developments were completed and leases commenced;
- Half year net operating profit was \$12.6 million, up 20% on the previous half year comparative period;
- Gearing was 27.3% at 31 December 2015, representing a 180bps reduction on 30 June 2015 and below the Group's maximum gearing range of 35-45%;
- NAV per security at 31 December 2015 was \$1.46, an increase of 10% on 30 June 2015. This was primarily due to an increase in investment property values.

**Operating and Financial Review (continued)**

**31 December 2015 half year highlights (continued)**

**Financial results**

	<b>31 December 2015 \$'000</b>	31 December 2014 \$'000
Rental income	<b>16,284</b>	15,218
Other income	<b>312</b>	54
<b>Total operating income</b>	<b>16,596</b>	15,272
Direct property expenses	<b>(439)</b>	(605)
Operating expenses	<b>(1,459)</b>	(343)
Former responsible entity management fees	-	(1,353)
Finance costs	<b>(2,053)</b>	(2,458)
<b>Net operating profit (distributable income) *</b>	<b>12,645</b>	10,513
<b>Non-distributable items:</b>		
Straight-line rental income	<b>36</b>	190
Revaluation gain on investment properties	<b>30,005</b>	13,745
Change in fair value of derivatives	<b>(751)</b>	(1,860)
Stapling and other transaction costs	<b>(221)</b>	(1,117)
Other (non-cash)	<b>(270)</b>	-
<b>Statutory net profit</b>	<b>41,444</b>	21,471

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

**Financial results summary**

	<b>31 December 2015</b>	31 December 2014
Net operating profit (distributable income) (\$'000)	<b>12,645</b>	10,513
Weighted average number of ordinary securities ('000)	<b>229,197</b>	211,525
Distributable income per security (cents)	<b>5.52</b>	4.97

- Operating profit is the measure used to determine securityholder distributions and represents the underlying cash based profit of the Group for the relevant period. Operating profit excludes fair value changes from asset and derivative revaluations and items of income or expense not representative of the Group's underlying operating earnings.
- The increase in operating profit during the period is primarily due to:
  - Ongoing annual rent increases on the Group's property portfolio;
  - Commencement of rental income from 5 childcare developments completed since 31 December 2014;
  - A full period of savings in management costs following the internalisation of management completed in December 2014; and
  - Lower cost of debt compared to the comparative period.

## Operating and Financial Review (continued)

### Investment property portfolio

#### Key property metrics

	31 December 2015	30 June 2015
Total value of investment properties	\$455.5 million	\$420.5 million
Number of properties under lease	186	184
Development sites	15	11
Properties available for lease or sale	-	2
Properties held for sale	-	-
<b>Total properties in portfolio</b>	<b>201</b>	<b>197</b>
Portfolio occupancy	100%	99%
Weighted average lease expiry (WALE)	8.8 years	8.9 years

- The increase in the value of investment properties is primarily due to:
  - new childcare development expenditure of \$6.1 million;
  - a net revaluation increment to the portfolio of \$30.0 million for the period.

### Capital management

#### Bank facilities & gearing

- Arena REIT completed a refinancing of its syndicated debt facility during the half-year period to extend the facility term to December 2018 (50% of facility) and December 2020 (50% of facility).
- There was no change in the drawn facility balance during the period, with development capex funded from recycling asset sale proceeds.
- Gearing was 27.3% at 31 December 2015 (30 June 2015: 29.1%).
- The Group was fully compliant with all bank facility covenants throughout the period and as at 31 December 2015.
- Refer to note 4 for further information.

### Interest rate management

- As at 31 December 2015, Arena REIT has hedged 76% of borrowings for a weighted average term of 4.3 years (30 June 2015: 69% for 3.5 years). The average swap fixed rate at 31 December 2015 is 2.48% (30 June 2015: 2.62%).

### FY16 outlook

Arena REIT presently expects to pay a distribution of 10.9 cents per security for FY16. This represents an upgrade of 0.2 cents per security on previously provided guidance. The FY16 distribution is comprised of the 5.35 cents per security declared by Arena REIT up until 31 December 2015 and 5.55 cents per security forecast by the Group for the period from 1 January 2016 to 30 June 2016.

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



**Significant changes in state of affairs**

In the opinion of the directors, other than the matters identified in this report, there were no significant changes in the state of affairs of the Group that occurred during the financial period.

**Matters subsequent to the end of the financial period**

No matters or circumstances have arisen since 31 December 2015 that have significantly affected, or may significantly affect:

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

**Likely developments and expected results of operations**

The Group will continue to be managed in accordance with its existing investment objectives and guidelines.

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

**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 2015. The financial statements separately present the amounts of "non-controlled interest" attributable to the stapled securityholders 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  
22 February 2016



## Auditor's Independence Declaration

As lead auditor for the review of Arena REIT for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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 and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Elizabeth O'Brien', written over a horizontal line.

Elizabeth O'Brien  
Partner  
PricewaterhouseCoopers

Melbourne  
22 February 2016

**Arena REIT**  
**Consolidated statement of comprehensive income**  
**For the half-year ended 31 December 2015**

**Consolidated statement of comprehensive income**

		<b>Consolidated</b>	
		<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Income</b>			
Property rental	2	16,320	15,408
Management fee income		152	17
Interest		78	37
Revaluation of investment properties	3	30,005	13,745
<b>Total income</b>		<b>46,555</b>	<b>29,207</b>
<b>Expenses</b>			
Direct property expenses		(489)	(605)
Management and administration expenses		(1,568)	(1,694)
Depreciation		(29)	(2)
Stapling and asset transaction costs		(20)	(1,117)
Net loss on fair value of derivative financial instruments		(751)	(1,860)
Finance costs		(2,254)	(2,458)
<b>Total expenses</b>		<b>(5,111)</b>	<b>(7,736)</b>
<b>Net profit for the half-year</b>		<b>41,444</b>	<b>21,471</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the half-year</b>		<b>41,444</b>	<b>21,471</b>
<b>Total comprehensive income for the half-year is attributable to Arena REIT stapled group investors, comprising:</b>			
Unitholders of Arena REIT No. 1		32,957	19,266
Unitholders of Arena REIT No. 2 (non-controlling interest)		8,805	2,200
Unitholders of Arena REIT Limited (non-controlling interest)		(318)	5
		<b>41,444</b>	<b>21,471</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per security:</b>			
Basic earnings per security in Arena REIT No. 1		14.38	9.11
Diluted earnings per security in Arena REIT No. 1		14.38	9.11
Basic earnings per security in Arena REIT Group		18.08	10.15
Diluted earnings per security in Arena REIT Group		18.08	10.15

*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 2015**

**Consolidated balance sheet**

		<b>Consolidated</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
Notes	<b>\$'000</b>	<b>\$'000</b>
<b>Current assets</b>		
Cash and cash equivalents	<b>8,403</b>	10,888
Trade and other receivables	<b>4,870</b>	7,163
<b>Total current assets</b>	<b>13,273</b>	18,051
<b>Non-current assets</b>		
Receivables	<b>1,021</b>	1,189
Property, plant and equipment	<b>103</b>	121
Investment properties	<b>455,530</b>	420,532
Intangible assets	<b>10,816</b>	10,730
<b>Total non-current assets</b>	<b>467,470</b>	432,572
<b>Total assets</b>	<b>480,743</b>	450,623
<b>Current liabilities</b>		
Trade and other payables	<b>12,877</b>	15,297
Provisions	<b>201</b>	212
<b>Total current liabilities</b>	<b>13,078</b>	15,509
<b>Non-current liabilities</b>		
Derivative financial instruments	<b>866</b>	398
Provisions	<b>434</b>	451
Interest bearing liabilities	<b>130,527</b>	130,774
<b>Total non-current liabilities</b>	<b>131,827</b>	131,623
<b>Total liabilities</b>	<b>144,905</b>	147,132
<b>Net assets</b>	<b>335,838</b>	303,491
<b>Equity</b>		
Contributed equity - Arena REIT No. 1	<b>194,483</b>	191,845
Contributed equity - Arena REIT No. 2 (non-controlling interest)	<b>24,849</b>	24,472
Contributed equity - Arena REIT Limited (non-controlling interest)	<b>14,390</b>	14,390
Accumulated profit	<b>101,830</b>	72,672
Reserves	<b>286</b>	112
<b>Total equity</b>	<b>335,838</b>	303,491

*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 2015

**Consolidated statement of changes in equity**

	Consolidated					
	Contrib. equity - ARF1 \$'000	Contrib. equity - ARF2 \$'000	Contrib. equity - ARL \$'000	Reserves \$'000	Accumulated profit \$'000	Total equity \$'000
<b>Balance at 1 July 2014</b>	183,221	21,285	-	-	33,697	238,203
Profit for the period	-	-	-	-	21,471	21,471
<b>Total comprehensive income for the period</b>	-	-	-	-	21,471	21,471
<b>Transactions with owners in their capacity as owners:</b>						
Arising on stapling	(13,000)	-	13,000	-	-	-
Contributions of equity, net of transaction costs	134	18	-	-	-	152
Employee share scheme - value of employee services	-	-	-	10	-	10
Distributions to securityholders	-	-	-	-	(10,366)	(10,366)
<b>Balance at 31 December 2014</b>	<b>170,355</b>	<b>21,303</b>	<b>13,000</b>	<b>10</b>	<b>44,802</b>	<b>249,470</b>
<b>Balance at 1 July 2015</b>	191,845	24,472	14,390	112	72,672	303,491
Profit for the period	-	-	-	-	41,444	41,444
<b>Total comprehensive income for the period</b>	-	-	-	-	41,444	41,444
<b>Transactions with owners in their capacity as owners:</b>						
Securities issued under DRP	2,638	377	-	-	-	3,015
Employee share scheme - value of employee services	-	-	-	174	-	174
Distributions to securityholders	-	-	-	-	(12,286)	(12,286)
<b>Balance at 31 December 2015</b>	<b>194,483</b>	<b>24,849</b>	<b>14,390</b>	<b>286</b>	<b>101,830</b>	<b>335,838</b>

*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 2015**

**Consolidated statement of cash flows**

	<b>Consolidated</b>	
	<b>31 December 2015 \$'000</b>	31 December 2014 \$'000
<b><i>Cash flows from operating activities</i></b>		
Property rental receipts	<b>16,069</b>	14,577
Property management receipts	<b>234</b>	39
Payments to suppliers	<b>(1,548)</b>	(3,555)
Interest received	<b>77</b>	37
Finance costs paid	<b>(1,902)</b>	(3,051)
<b><i>Net cash inflow from operating activities</i></b>	<b>12,930</b>	8,047
<b><i>Cash flows from investing activities</i></b>		
Cash arising on stapling	<b>-</b>	1,625
Acquisition of subsidiaries	<b>(995)</b>	(4,862)
Net proceeds from sale of investment properties	<b>6,061</b>	13,539
Payments for investment properties and capital expenditure	<b>(10,776)</b>	(12,653)
<b><i>Net cash (outflow) from investing activities</i></b>	<b>(5,710)</b>	(2,351)
<b><i>Cash flows from financing activities</i></b>		
Payment of transaction costs from issue of securities	<b>(13)</b>	(2)
Distributions paid to securityholders	<b>(8,921)</b>	(9,918)
Loan establishment costs paid	<b>(488)</b>	(91)
Capital receipts from lenders	<b>3,500</b>	25,500
Capital payments to lenders	<b>(3,783)</b>	(18,433)
<b><i>Net cash (outflow) from financing activities</i></b>	<b>(9,705)</b>	(2,944)
<b><i>Net (decrease)/increase in cash and cash equivalents</i></b>	<b>(2,485)</b>	2,752
Cash and cash equivalents at the beginning of the financial period	<b>10,888</b>	3,947
<b><i>Cash and cash equivalents at the end of the financial period</i></b>	<b>8,403</b>	6,699

*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 2015 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 2015 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*.

The Arena REIT Stapled Group (the 'Group') now comprises Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2') and Arena REIT Limited ('ARL'), following the stapling of ARL (the 'Aggregation'). The stapling occurred as a consequence of the internalisation of corporate governance and management rights of the Group, as approved by unitholders in December 2014.

### (b) Principles of consolidation

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

The Group has relied on the relief provided by ASIC to stapled entities in Class Orders 13/1050 and 13/1644 allowing stapled groups to prepare Consolidated Financial Statements even where one entity in the stapled group is not deemed to have control over the other under the requirements of AASB 10. The half year financial statements reflect the consolidation of ARF1, ARF2 and ARL. 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 and ARL.

Unitholders approved the internalisation proposal on 5 December 2014, with the implementation and stapling of ARL to the existing stapled group being completed on 12 December 2014. 12 December 2014 is therefore the date the Aggregation has occurred for financial reporting purposes. The financial statements presented include the net profit and loss of ARF1, ARF2 and ARL for the period ended 31 December 2015. The comparatives include the net profit and loss of ARF1 and ARF2 for the period including the results of ARL from 12 December 2014. The Balance Sheet includes the aggregated Balance Sheet of ARF1, ARF2 and ARL as at 31 December 2015.

### (c) Presentation of members interests in ARF2 and ARL

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

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

There are no new or amended standards adopted by the Group for the first time in their interim reporting period commencing 1 July 2015.

### (e) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 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:



## 1 Summary of significant accounting policies (continued)

### (e) New accounting standards and interpretations (continued)

Standard / Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>AASB 9 Financial Instruments</i>	<p>The standard addresses the classification, measurement and derecognition of financial instruments. For financial liabilities that are measured under the fair value option, entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.</p> <p>New hedge accounting rules align hedge accounting more closely with common risk management processes. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation. In December 2014, the AASB introduced a new impairment model. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.</p> <p>Management does not expect the above changes to have a significant impact on the Group's financial statements.</p>	1 January 2018	30 June 2019
<i>AASB 15 Revenue from contracts with customers</i>	<p>The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.</p> <p>Management does not expect this to have an impact on the Group's financial statements.</p>	1 January 2017	30 June 2018
<i>IFRS 16 Leases</i>	<p>On 13 January 2016, the IASB issued IFRS 16 Leases. The main impact on leasees is that almost all leases go on balance sheet, as the balance sheet distinction between operating and finance leases is removed for leasees. Under the new standard an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases.</p> <p>Management does not expect the above changes to have a significant impact on the Group's financial statements.</p>	1 January 2019	30 June 2020

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

## 2 Property rental income

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

	<b>31 December 2015 \$'000</b>	<b>Consolidated 31 December 2014 \$'000</b>
Rental income	16,284	15,218
Other rental income (recognised on a straight line basis)	36	190
Total property rental income	<u>16,320</u>	<u>15,408</u>

## 3 Investment properties

	<b>31 December 2015 \$'000</b>	<b>Consolidated 30 June 2015 \$'000</b>
<b>At fair value</b>		
Opening balance	420,532	355,831
Property acquisitions and capital expenditure	6,073	29,839
Disposals	(1,150)	(5,080)
Revaluations	30,005	39,828
Other IFRS revaluation adjustments	70	114
Closing balance	<u>455,530</u>	<u>420,532</u>

## 4 Interest bearing liabilities

	<b>31 December 2015 \$'000</b>	<b>Consolidated 30 June 2015 \$'000</b>
<b>Non-current</b>		
<b>Secured</b>		
Cash advance facility	131,000	131,000
Unamortised transaction costs	(473)	(226)
Total non-current interest bearing liabilities	<u>130,527</u>	<u>130,774</u>

Arena REIT extended the term of its \$175 million debt facility in December 2015 (\$87.5 million for a 3 year term to 31 December 2018 and \$87.5 million for a 5 year term to 31 December 2020).

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

Arena REIT was compliant with all facility covenants throughout the period and at 31 December 2015.

## 5 Derivative financial instruments

	31 December 2015 \$'000	30 June 2015 \$'000
<b>Non-current liabilities</b>		
Interest rate swaps	866	398
	<b>866</b>	<b>398</b>

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 76% (30 June 2015: 69%) of the facility principle outstanding. The weighted average fixed interest swap rate at 31 December 2015 was 2.48% (30 June 2015: 2.62%) and the weighted average term was 4.3 years (30 June 2015: 3.5 years).

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

## 6 Contributed equity

### (a) Units

	31 December 2015 Securities '000	30 June 2015 Securities '000	31 December 2015 \$'000	30 June 2015 \$'000
<b>Ordinary Stapled Securities</b>				
Fully paid	230,214	228,290	233,722	230,707

### (b) Movement in ordinary stapled units

Date	Details	Number of securities '000	\$'000
1 July 2014	Opening balance	211,496	204,506
	Issue of securities under DRP (i)	1,169	1,860
10 March 2015	Issue of securities under institutional placement (ii)	15,625	24,341
30 June 2015	Closing balance	228,290	230,707
1 July 2015	Opening balance	228,290	230,707
	Issue of securities under DRP (i)	1,924	3,015
31 December 2015	Closing balance	230,214	233,722

#### (i) Distribution Re-investment Plan (DRP)

The Group has a Distribution Re-investment Plan (DRP) under which securityholders may elect to have all or part of their distribution entitlements satisfied by the issue of new securities rather than being paid in cash. The DRP first came into operation with the distribution for the quarter-ended 30 September 2014.

#### (ii) Institutional Placement

The Group completed a fully underwritten placement to institutional and professional investors in the prior year. \$25 million was raised through the issue of 15,625,000 stapled securities at a price of \$1.60 per stapled security. Settlement of the stapled securities issued under the placement occurred 10 March 2015.

## 7 Accumulated profit

Movement in accumulated profit was as follows:

	31 December 2015 \$'000	30 June 2015 \$'000
Opening accumulated profit	72,672	33,697
Net profit for the period	41,444	60,966
Distribution paid or payable	(12,286)	(21,991)
Closing accumulated profit	101,830	72,672

(i) Distributions paid or payable to securityholders

	31 December 2015 \$'000	31 December 2014 \$'000	31 December 2015 cps	31 December 2014 cps
September quarter	6,128	5,155	2.6750	2.4375
December quarter	6,158	5,211	2.6750	2.4625
Total distributions to securityholders	12,286	10,366	5.3500	4.9000

## 8 Reserves

	31 December 2015 \$'000	30 June 2015 \$'000
Opening balance	112	-
Security-based benefits expense for the period	174	112
Closing balance	286	112

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

## 9 Segment information

The Group operates as one business segment being investment in real estate, and in one geographic segment being Australia. The Group's segments are based on reports used by the Chief Operating Decision Maker in making strategic decisions about the Group, assessing the financial performance and financial position of the Group, determining the allocation of resources, and risk management.

## 10 Fair value measurement of financial instruments

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

## 10 Fair value measurement of financial instruments (continued)

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

### (a) Fair value hierarchy

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

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

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

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

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

The tables below set out the Group's financial assets and financial liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2015 and 30 June 2015.

#### Consolidated

#### 31 December 2015

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial liabilities</b>				
Financial liabilities held for trading:				
Interest rate swaps	-	866	-	866
<b>Total</b>	-	866	-	866

## 10 Fair value measurement of financial instruments (continued)

### (a) Fair value hierarchy (continued)

Consolidated

30 June 2015

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial liabilities</b>				
Financial liabilities held for trading:				
Interest rate swaps	-	398	-	398
<b>Total</b>	-	398	-	398

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 2015.

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

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

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

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

## 11 Contingent assets and liabilities

There are no material outstanding contingent assets or liabilities as at 31 December 2015 and 30 June 2015.

## 12 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Group disclosed in the consolidated balance sheet as at 31 December 2015 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 19 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 2015 and of its performance for the financial period ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay their debts as and when they become due and payable.

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



David Ross  
Chairman

Melbourne  
22 February 2016



## **Independent auditor's review report to the securityholders 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 consolidated balance sheet as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Group. The Group comprises Arena REIT No. 1, Arena REIT No. 2, Arena REIT Limited and the entities it controlled during that half-year.

### ***Directors' responsibility for the half-year financial report***

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

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 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*.

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**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](http://www.pwc.com.au)

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### ***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 2015 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*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Elizabeth O'Brien*

Elizabeth O'Brien  
Partner

Melbourne  
22 February 2016