Arena REIT
Appendix 4E
For the year ended 30 June 2017

Name of entity:

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

ARSN:

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

ACN:

Arena REIT Limited (ACN 602 365 186)

Reporting period

This report details the consolidated results of Arena REIT for the year ended 30 June 2017. Arena REIT is a stapled security comprising Arena REIT Limited, Arena REIT No.1 and Arena REIT No.2.

Results for announcement to the market

All comparisons are to the year ended 30 June 2016.

				$A'000
Total income from ordinary activities	Up	31%	to	106,832
Profit from ordinary activities after tax attributable to Arena REIT stapled group investors	Up	33%	to	96,791
Net profit for the year attributable to Arena REIT stapled group investors	Up	33%	to	96,791

Distributions

Quarter	**Cents per security**	**Paid/Payable**
September Quarter	2.9250	11 November 2016
December Quarter	2.9250	9 February 2017
March Quarter	3.0750	11 May 2017
June Quarter	3.0750	10 August 2017
Total	**12.0000**	

Net assets per security

	Consolidated	
	30 June 2017	**30 June 2016**
Net asset value per ordinary security	$1.84	$1.54

This information should be read in conjunction with the 2017 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 2017 financial statements which have been audited by PricewaterhouseCoopers. The Independent Auditor's Report provided by PricewaterhouseCoopers is included in the 30 June 2017 financial statements.

Signed:

David Ross
Chairman
24 August 2017

Arena REIT
Financial Report 2017

For the year ended 30 June 2017

Arena

Contents

About this report

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

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

Level 5, 41 Exhibition Street
Melbourne VIC 3000

Directors' Report

The directors of Arena REIT Limited ('ARL') and Arena REIT Management Limited ('ARML'), the Responsible Entity of Arena REIT No. 1 and Arena REIT No. 2 (the 'Trusts'), present their report together with the financial statements of Arena REIT for the year ended 30 June 2017. The financial report covers ARL, Arena REIT No. 1 ('ARF1'), Arena REIT No. 2 ('ARF2'), and their controlled entities.

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

Directors

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

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

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

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

Principal activities

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

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

Distributions to securityholders

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

	2017 $'000	2016 $'000	2017 cps	2016 cps
September quarter	**6,807**	6,128	2.9250	2.6750
December quarter	**6,834**	6,158	2.9250	2.6750
March quarter	**7,205**	6,413	3.0750	2.7750
June quarter	**7,222**	6,437	3.0750	2.7750
Total distributions to securityholders	**28,068**	**25,136**	**12.0000**	**10.9000**

Directors' Report

Operating and financial review

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

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

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

Key financial metrics

	30 June 2017	30 June 2016	Change
Net profit (statutory)	**$96.8 million**	$72.6 million	+ 33%
Net operating profit (distributable income)	**$28.7 million**	$25.6 million	+ 12%
Distributable income per security	**12.3 cents**	11.1 cents	+ 11%
Distributions per security	**12.0 cents**	10.9 cents	+ 10%
Total assets	**$621.3 million**	$514.0 million	+ 21%
Investment properties	**$591.7 million**	$491.4 million	+ 20%
Borrowings	**$171.0 million**	$138.0 million	+ 24%
Net assets	**$432.5 million**	$357.5 million	+ 21%
NAV per security	**$1.84**	$1.54	+ 19%
Gearing *	**27.5%**	26.8%	+ 70 bps

* Gearing calculated as Borrowings / Total assets.

FY17 highlights

- Net operating profit was $28.7 million, up 12% on the previous year;
- 11% growth in distributable income per security and 10% growth in distributions paid to investors;
- The property portfolio increased with the addition of 5 Early Learning Centre ('ELC') development sites. During the year, 8 ELC development projects were completed and leases commenced;
- Gearing was 27.5% at 30 June 2017;
- NAV per security at 30 June 2017 was $1.84, an increase of 19% on 30 June 2016. This was primarily due to the increase in investment property values during the year;
- Weighted average lease expiry (WALE) extended to 12.8 years at 30 June 2017 (30 June 2016: 9.7 years) following the renegotiation of leases within the portfolio.

Financial results

	30 June 2017 $'000	30 June 2016 $'000
Rental income	**37,437**	33,316
Other income	**689**	638
Total operating income	**38,126**	33,954
Property expenses	**(1,152)**	(1,003)
Operating expenses	**(3,535)**	(3,249)
Finance costs	**(4,714)**	(4,131)
Net operating profit (distributable income) *	**28,725**	25,571
Non-distributable items:		
Straight-line rental income	**732**	(327)
Revaluation gain on investment properties	**66,124**	51,062
Change in fair value of derivatives	**1,805**	(2,915)
Profit/(loss) on sale of investment properties	**12**	(121)
Transaction costs	**(77)**	(242)
Amortisation of security-based payments (non-cash)	**(576)**	(365)
Other	**46**	(42)
Statutory net profit	**96,791**	72,621

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

Financial results summary

	30 June 2017	30 June 2016
Net operating profit (distributable income) ($'000)	**28,725**	25,571
Weighted average number of ordinary securities ('000)	**233,557**	230,165
Distributable income per security (cents)	**12.30**	11.11

- Net operating profit is the measure used to determine securityholder distributions and represents the underlying cash-based profit of the Group for the relevant period. Net operating profit excludes fair value changes from asset and derivative revaluations and items of income or expense not representative of the Group's underlying operating earnings or cashflow.
- The increase in net operating profit during the year is primarily due to:
  - Ongoing fixed annual rent increases and market rent reviews on the Group's property portfolio;
  - Commencement of rental income from the 8 ELC development projects completed during the year, and the acquisition of new ELC development projects during the year;
  - The full year effect of acquisitions and developments completed during FY16;
  - Lower cost of debt compared to the prior year following the completion of the debt refinance and extension in December 2015.
- Non-distributable items primarily increased due to a higher investment property revaluation gain compared to the prior period.

Directors' Report

Investment property portfolio

Key property metrics

	30 June 2017	30 June 2016
Total value of investment properties	$591.7 million	$491.4 million
Number of properties under lease	**195**	189
Development sites	**10**	14
Properties available for lease or sale	**–**	–
Total properties in portfolio	**205**	**203**
Portfolio occupancy	**100%**	100%
Weighted average lease expiry (WALE)	**12.8 years**	9.7 years

- The increase in the value of investment properties is primarily due to the addition of:
  - A net revaluation increment to the portfolio of $66.1 million for the year; and
  - New ELC development expenditure and capital expenditure of $40.0 million.
- Offset by the following investment property disposals during the year:
  - One ELC development and one operating ELC were sold in June 2017 with sale proceeds of $6.8 million to be received in FY18.

Capital management

Equity

- During the year, 2.9 million securities were issued at an average price of $1.99 to raise $5.7 million of equity pursuant to the Distribution Re-investment Plan (DRP).

Bank facilities & gearing

- The total facility limit of the Group was extended by $30 million in January 2017. At 30 June 2017, the Group had $102.5 million of debt facility expiring on 31 December 2018 and $102.5 million of debt facility expiring on 31 December 2020;
- The balance drawn increased by $33 million to fund acquisitions and development capital expenditure;
- Gearing was 27.5% at 30 June 2017 (30 June 2016: 26.8%);
- The Group was fully compliant with all bank facility covenants throughout FY17 and as at 30 June 2017. At 30 June 2017 the Loan to Valuation Ratio was 32.0% (Covenant: 50%) and the Interest Cover Ratio was 5.6 times (Covenant: 2.0 times).

Interest rate management

- During the year the Group managed its interest rate risk in accordance with its interest rate risk management policy. The swap portfolio average term was extended due to near term swap expiry;
- As at 30 June 2017, 79% of the Group's borrowings are hedged for a weighted average term of 4.3 years (2016: 72% for 4.0 years). The average swap fixed rate at 30 June 2017 is 2.39% (2016: 2.48%);
- The Group will manage its interest rate swaps to deal with near term expiry and as debt is drawn in accordance with its interest rate risk management policy.

FY18 outlook

The Group has provided market guidance for FY18 distribution of 12.8 cents per security, which represents an increase of 6.7% on FY17.

The distribution outlook assumes a status quo basis, with no new acquisitions or disposals, developments in progress are completed in line with budget assumptions and tenants comply with 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 year.

Matters subsequent to the end of the financial year

On 28 July 2017, the Group announced the acquisition of a portfolio of nine ELC properties under development for a total cost of $65 million. In conjunction with this acquisition, the Group undertook a fully underwritten Institutional Placement of $55 million.

On 7 August 2017, the Group issued a Security Purchase Plan for eligible Australian and New Zealand investors to raise up to $10 million. This offer remains open as at the date of this report.

Other than those matters identified above, no other significant events have occurred since 30 June 2017 that have 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 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.

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 86% invested in childcare centres and childcare centre development sites and 14% 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. As at 30 June 2017, 70% of the portfolio by income (excluding developments) is leased to the largest three tenants (Goodstart Early Learning Ltd with 40%, Primary Health Care Limited with 15% and Affinity Education Group with 15%). 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 they may default on their rental or other contractual obligations which may result in loss of rental income and loss in value of the Group's properties. Typically, tenants are required to provide an unconditional and irrevocable bank guarantee, which must not expire until at least six months after the ultimate expiry date of the lease, for an amount generally equivalent to six months' rent (plus GST) as security for their performance under the lease. Refer to note 9(d) for further details on tenancy risk for the portfolio.

Directors' Report

Information on directors

The directors at the date of this report are:

David Ross, Independent Non-Executive Chairman

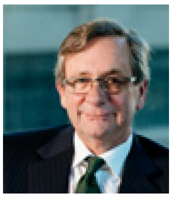
David has over 30 years' experience in the real estate and investment management sectors.

He held senior positions with Lend Lease Corporation over a period of 10 years, including Global and US Chief Executive Officer Real Estate Investments, 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. David was appointed as an Independent Non-Executive Director of Charter Hall Group in December 2016.

David holds a Bachelor of Commerce, a Property Valuation qualification and is a Fellow of the Australian Institute of Company Directors (FAICD).

Other current directorships: Charter Hall Group.

Former directorships in last 3 years: None.



Simon Parsons, Independent Non-Executive Director

Simon has over 30 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 (FAICD), and is a member of the RICS Oceania Property Board.

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

Other current directorships: None.

Former directorships in last 3 years: None.

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

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

Dennis is a member of the Institute of Chartered Accountants in Australia and is a Fellow of the Australian Institute of Company Directors (FAICD).

Other current directorships: Investa Wholesale Funds Management Limited, ICPF Holdings Limited.

Former directorships in last 3 years: None.

Bryce Mitchelson, Executive Director

Bryce is Managing Director of the Group and joined in May 2009.

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.

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

Other current directorships: None.

Former directorships in last 3 years: None.

Gareth Winter, Executive Director and Company Secretary

Gareth was appointed Chief Financial Officer of the Group in March 2012, and Executive Director of Arena REIT Management Limited in December 2014. Gareth was formerly a partner at PricewaterhouseCoopers and has over 20 years' professional experience.

Throughout his professional career Gareth specialised in advising the listed and unlisted property and infrastructure funds management sector on corporate finance, capital management, risk management, transaction structuring and financial systems and reporting.

Gareth is a member of the Institute of Chartered Accountants in Australia and holds a Bachelor of Commerce.

Other current directorships: None.

Former directorships in last 3 years: None.

Meetings of directors

The number of meetings of the Responsible Entity's board of directors and of each board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	ARL Board		ARML Board		Audit Committee		Remuneration & Nomination Committee	
	A	B	A	B	A	B	A	B
David Ross	8	8	11	11	8	8	4	4
Simon Parsons	8	8	11	11	8	8	4	4
Dennis Wildenburg	8	8	11	11	8	8	4	4
Bryce Mitchelson	8	8	11	11	*	*	*	*
Gareth Winter	*	*	11	11	*	*	*	*

A - Number of meetings held during the year.
B - Number of meetings attended.
* = Not a member of the relevant committee.

Remuneration Report

Arena REIT's ('Arena') Remuneration and Nomination Committee presents the Remuneration Report which includes information on the remuneration arrangements for Key Management Personnel (KMP) for the year ended 30 June 2017. The report has been prepared and audited in accordance with the requirements of the Corporations Act and Regulations.

Remuneration Report Summary

Key Decisions and Remuneration outcomes in respect of FY17		Section
KMP	No change in KMP in FY17	1.2
Remuneration Mix	The relative weighting of at-risk remuneration for Executive KMP attributable to LTI opportunity was increased by 5% (excluding the Managing Director).	3
Fixed Remuneration (TFR)	Executive KMP received an average TFR increase of 3% in FY17.	
Short Term Incentive (STI)	Executive KMP were awarded between 90-95% of STI opportunity based on exceeding financial targets and the assessment of individual performance against non-financial KPIs.	4.2
Long Term Incentive (LTI)	No LTI vested in FY17.	4.4

Directors' Report

Remuneration report (continued)

Remuneration Report Summary

Key Decisions in respect to FY18 Remuneration Framework and LTI Assessment		
Governance and Independent Review	The Committee engaged Conari Partners to undertake an independent review of Arena's remuneration framework, incentive plans, performance hurdles and benchmarked the level of remuneration in comparison to market practice.	1.1
Short Term Incentive (STI)	Arena will introduce a deferred component to the STI plan from FY18 whereby the vesting of 50% of any STI awarded to Executive KMP will be deferred for a period of 1 year and payment will be delivered in the form of Arena Stapled Securities.	
Long Term Incentive (LTI)	The testing of hurdles and other conditions in relation to the FY15 LTI Grant occurred after 30 June 2017. The FY15 LTI grant was 100% vested in August 2017 as: • Arena's relative TSR ranked in the top quartile of the comparator group comprising the members of the ASX300 A-REIT Index over the performance period; and • Arena's FY17 Distributable Income per Security exceeded the performance hurdle range.	4.4

1. Overview

1.1 Governance

The directors have appointed a Remuneration and Nomination Committee (the 'Committee') to advise the Board on remuneration policy and practices. The Committee is comprised of the independent directors and is chaired by Mr David Ross. The Committee will, as required, appoint remuneration advisers to review and advise on aspects of a remuneration policy and associated frameworks. During the year, the Committee engaged Conari Partners to conduct an independent review of Arena's remuneration framework, incentive plans and benchmarked the level of remuneration in comparison to market practice in the A-REIT sector. Conari Partners did not provide any remuneration recommendations in respect of KMP.

1.2 Key Management Personnel (KMP)

KMP are persons identified as having authority and responsibility for planning, directing and controlling the activities of Arena. There has been no change in KMP since the end of the reporting period.

Non-Executive Directors	Position	FY17 KMP	FY16 KMP
David Ross	Non-Executive Chairman Chair – Remuneration & Nomination Committee Member – Audit Committee	Yes	Yes
Simon Parsons	Non-Executive Director Member – Remuneration & Nomination Committee Member – Audit Committee	Yes	Yes
Dennis Wildenburg	Non-Executive Director Chair – Audit Committee Member – Remuneration & Nomination Committee	Yes	Yes
Executive KMP	**Position**	**FY17 KMP**	**FY16 KMP**
Bryce Mitchelson	Managing Director	Yes	Yes
Gareth Winter	Executive Director & Chief Financial Officer	Yes	Yes
Robert de Vos	Head of Property	Yes	Yes

Remuneration report (continued)

1.3 Remuneration Framework

The directors of Arena have adopted a remuneration framework that recognises the need to attract, motivate and retain employees to deliver sustainable and superior business performance. The remuneration policy is underpinned by the following principles:

- Remuneration is externally competitive in terms of quantum, mix and design to support the attraction and retention of employees and takes into account the relative size and nature of the Arena business, its ability to pay and the role and experience of employees;
- The remuneration framework supports the delivery of Arena's business strategy;
- Remuneration is made up of fixed and variable reward;
- Variable reward will be used to recognise performance in both the short term and longer term and will depend on performance against key targets and objectives.

2. Non-Executive Director Remuneration Framework

Each non-executive director of Arena is paid an amount determined by the Board to a maximum aggregate amount approved by security holders of $650,000 per annum.

Fees are set to ensure non-executive directors are remunerated fairly for their services, recognising the level of skill, expertise and experience required to perform the role. Non-executive directors do not receive any equity based payments, retirement benefits or incentive payments.

Annual fees in respect of FY17 (inclusive of applicable superannuation) were:

Board Fees		Audit Committee Fees		Remuneration & Nomination Committee Fees	
Chairman[1]	Member	Chairman	Member	Chairman	Member
$187,000	$95,000	$10,000	$5,000	$10,000	$5,000

1. The Board fee received by the Chairman of the Board is inclusive of all Committee fees.

3. Executive KMP Remuneration Framework

In FY17, Executive KMP remuneration comprised:

- total fixed remuneration (TFR);
- short term incentive (STI); and
- long-term incentive (LTI).

The FY17 Total Maximum Remuneration (TMR) mix for the Executive KMP is set out in the table below:

			At Risk Performance Based Remuneration	
Executive KMP	**Position**	**TFR**	**STI**	**LTI**
Bryce Mitchelson	Managing Director	50%	25%	25%
Gareth Winter	Chief Financial Officer	55%	20%	25%
Robert de Vos	Head of Property	50%	25%	25%

Directors' Report

Remuneration report (continued)

3.1 Total Fixed Remuneration

TFR consists of base salary, employer superannuation contributions, salary sacrifice benefits and other non-monetary benefits. TFR is set based on the role responsibilities, experience and qualifications of the individual, and with reference to market data of comparable organisations. TFR will generally be reviewed on an annual basis.

3.2 Short Term Incentive Plan (STI)

The short term incentive is a performance based component of remuneration and is designed to reward annual performance and focus Executive KMP on meeting business plan objectives. Executive KMP participation in the STI is at the discretion of the Board.

The STI opportunity for each Executive KMP is based on the STI proportion of their TMR. The actual award is based on the achievement of specific Key Performance Indicators (KPI's) for each Executive KMP.

STI objectives for each Executive KMP take into account their respective role and the objectives of the organisation to which they are expected to contribute. The link between the organisation's objectives and the Executive KMP's short term incentive KPI's is designed to align Executive KMP to Arena's objectives.

FY17 performance was measured across two categories of KPI's:

- Financial – Target Distributions per Security and Distributable Income per Security;
- Non-financial – linked to non-financial metrics specific to each role eg. strategy development and execution, business performance, risk management, leadership, human resources, stakeholder management and relationships and specific personal objectives.

The FY17 STI will be paid in cash following Board approval. Taking into consideration circumstances over the course of the financial year, the Board has discretion to reduce, cancel or increase STI payments.

3.3 Long Term Incentive Plan (LTI)

The LTI Plan is an equity based incentive scheme designed to align the interests of key management personnel and investors over the long term and retain high performing individuals. Executive KMP (and other Arena staff) participate in the LTI at the discretion of the Board.

The LTI opportunity for each Executive KMP is based on the LTI proportion of their TMR. The actual benefit delivered to the Executive KMP will depend on the quantum of rights granted, the extent to which the performance hurdles are achieved and security price performance. The LTI will be satisfied through the issue of 1 fully paid ordinary stapled security for each Right that vests.

3.3.1 LTI - Performance Rights

Arena's ongoing LTI Plan is in the form of Performance Rights. The vesting of each grant of Performance Rights is subject to the achievement of threshold and performance hurdles measured over a 3 year period. The number of Performance Rights granted is based on the value of the LTI award opportunity divided by an independent valuation of the fair value of a Performance Right as at the grant date. The fair value and the face value of each grant of Performance Rights on the relevant grant date is set out in Section 5 of this report.

Under the LTI Plan grants for FY17 there are two independent hurdles to the vesting of Performance Rights, each with a 50% weighting:

Hurdle 1: Relative total shareholder return (TSR)

Relative TSR performance is determined based on Arena's total ASX return (assuming reinvestment of distributions) ranked against the members of the comparator group over the performance period. The comparator group in respect of the FY17 Performance Rights grant are the members of the S&P / ASX 300 A-REIT Index at the commencement of the performance period.

Remuneration report (continued)

The Relative TSR vesting schedule is as follows:

Arena's TSR ranking	Proportion of TSR Hurdle Performance Rights that vest
Below 50th percentile	0%
50th to 75th percentile	50% at the threshold plus progressive pro-rata vesting between 50% and 100% (ie on a straight-line basis)
At or above the 75th percentile	100%

Relative TSR was selected as a performance condition because:

- It aligns Executive KMP rewards with Arena security holder returns;
- The effects of market cycles are reduced as it measures Arena's performance relative to its peers, which are presently considered to be the A-REIT members of the S&P / ASX 300 Index.

Hurdle 2: Distributable Income per Security (DIS)

The DIS hurdle is based on a target range to be assessed in the final year of a three year performance period. DIS is determined in accordance with Arena's Distribution Policy.

The DIS vesting schedule is as follows:

Arena's DIS (in year 3 of the performance period)	Proportion of DIS Hurdle Performance Rights that vest
Below the Target Range	0%
In the Target Range	50% plus progressive pro-rata vesting between 50% and 100% (ie on a straight-line basis)
Above the Target Range	100%

DIS was selected as a performance condition (for STI and LTI) because:

- It aligns Executive KMP rewards with Arena security holder returns;
- DIS is a key performance indicator referenced by the Board in preparing the annual budget and business plan and in measuring Arena's underlying performance.

The Board retains discretion to adjust the conditions and / or the performance outcome used for assessing whether the performance related conditions have been satisfied to ensure that executive KMP are neither advantaged nor disadvantaged by matters that affect the conditions, for example the timing of a material equity raising or excluding the effects of one-off / non recurrent items.

3.3.2 LTI - Recognition Rights

Executive KMP received a once-off grant of Recognition Rights in FY15 to recognise their commitment to the Arena REIT internalisation and reward ongoing effort to deliver Arena's business performance.

Recognition Rights were subject to an employment retention period ended on 30 June 2017. The Board considered the Recognition Rights to be an important incentive for Executive KMP to remain with the business during Arena's transition to an internalised management structure.

Directors' Report

Remuneration report (continued)

3.3.3 Other LTI Plan Terms

Other key terms of the LTI Plan are:

- Participants do not receive distributions or dividends on unvested LTI awards during the performance period;
- No payment for Performance Rights or Recognition Rights is required;
- No payment is required on the issue of stapled securities in respect of a vested Performance Right or Recognition Right;
- In the event of termination of employment, the following treatment applies to unvested awards:
  - Dismissal for cause or resignation: unvested awards will lapse unless the Board determines otherwise;
  - In all other circumstances: unvested awards will remain on-foot subject to the original performance conditions and vesting period. The Board will have discretion to pro-rate awards which remain on foot (eg to reflect the portion of the performance / vesting period that has elapsed). The Board may cancel an award in full and also allow accelerated vesting (pro-rated for time and performance) in special circumstances subject to termination benefit rules.
- In the event of an actual or proposed change of control event that the Board in its discretion determines should be treated as a change of control, a pro-rata number of unvested grants vest at the time of the relevant event, based on the performance period elapsed and the extent to which performance hurdles have been achieved at the time (unless the Board determines another treatment in its discretion);
- The LTI Plan restricts Executive KMP from entering into transactions (through the use of derivatives or otherwise) that would have the effect of limiting the economic risk from participating in the LTI Plan.

4. Performance & Variable Remuneration Outcomes

Arena's remuneration policy assesses variable remuneration outcomes in the context of performance and change in security holder wealth. The Remuneration and Nomination Committee is responsible for assessing performance against KPIs and determining the STI to be paid and the extent to which the LTI vests. To assist in this process the Committee receives detailed financial reports, data capable of independent confirmation and individual performance assessments.

4.1 Performance Indicators

The table below summarises information on Arena's key financial and performance metrics over the 5 year period to 30 June 2017.

Metric	FY17	FY16	FY15	FY14	FY13
Net Profit (Statutory) ($million)	**96.8**	72.6	61.0	44.6	17.2
Distributable Income ($million)	**28.7**	25.6	22.1	18.5	11.2
Distributable Income per Security (cents)	**12.30**	11.11	10.20	8.85	8.20
Distributions per Security (cents)	**12.00**	10.90	10.00	8.75	8.00
Net Asset Value per Security	**$1.84**	$1.54	$1.33	$1.13	$1.02
ASX Security Price	**$2.25**	$1.99	$1.54	$1.20	$1.02
Gearing	**27.5%**	26.8%	29.1%	33.3%	10.4%
Annual Total Shareholder Return (TSR)	**19.8%**	37.6%	36.3%	26.7%	n/a[1]
Annual TSR of ASX-300 A-REIT Index	**(5.6%)**	24.6%	20.2%	11.1%	n/a[1]

1. Arena listed on ASX in June 2013. Prior data is not available or relates to a period when the fund was unlisted.

Remuneration report (continued)

4.2 FY17 STI Performance Measures

A key measure of Arena's performance and contributor to STI performance assessment is the annual underlying profit and distribution.

STI Financial Objective	Result
Underlying Profit Performance:	
• Deliver a minimum FY17 Distribution of 11.7 cents per security (7% growth on FY16)	• Actual FY17 Distribution of 12.0 cents per security (10% growth on FY16)
• Deliver a target distributable income per security	• Target Exceeded

STI Non-Financial Objectives

The Committee set each Executive KMP relevant KPIs in relation to strategy development & execution, progression of developments, business performance, risk management, leadership, human resources, stakeholder management, funding and liquidity. The achievement of KPIs was assessed by the Committee in the determination of each Executive KMP's STI award.

4.3 FY17 STI Awards

As a result of the performance assessment, the Board awarded STI's in respect of FY17 as set out below.

Executive KMP	STI Award ($)	Award as a % of STI Opportunity[1]
Bryce Mitchelson	227,250	90%
Gareth Winter	120,909	95%
Robert de Vos	147,250	95%

1. Any STI opportunity not awarded is forfeited.

Directors' Report

Remuneration report (continued)

4.4 LTI Performance Measures

No Performance Rights or Recognition Rights were vested or eligible for exercise during FY17. An assessment of the FY15 LTI grant was performed following 30 June 2017 to determine if the relevant vesting conditions were met as set out in the table below.

LTI Year	Performance Measurement Period	LTI Performance Measure	Performance Hurdle	Result	Vesting Outcome
FY15	12 December 2014 to 30 June 2017	Relative TSR[1]	50% of rights vest at the 50th percentile; with pro rata vesting until 100% vesting at the 75th percentile.	Target exceeded. Arena ranked in the top quartile of the comparator group over the Performance Measurement Period.	100%
	FY17	Distributable Income per Security (DIS)	Target range of 11.0 cents to 12.0 cents	Target exceeded. Actual DIS of 12.3 cents	100%
FY16	FY16 – FY18	Relative TSR[1]	50% of rights vest at the 50th percentile; with pro rata vesting until 100% vesting at the 75th percentile.	N/A	
	FY18	Distributable Income per Security (DIS)	Target range of 11.5 cents to 12.5 cents		
FY17	FY17 – FY19	Relative TSR[1]	50% of rights vest at the 50th percentile; with pro rata vesting until 100% vesting at the 75th percentile.	N/A	
	FY19	Distributable Income per Security (DIS)	Target range of 12.5 cents to 13.25 cents		

1. Relative TSR versus a comparator group comprising the members of the ASX300 A-REIT Index at the commencement of each relevant 3 year performance period.

4.5 LTI Grants

LTI Grants to Executive KMP during FY17 are set out in the table below.

Executive KMP	Maximum LTI Award as % of TFR	Type	Grant Date	Vesting Date	Rights Granted	Fair value per Right[2]
Bryce Mitchelson[1]	50%	Performance Rights	1 July 2016	30 June 2019	195,736	$1.29
Gareth Winter[1]	45%	Performance Rights	1 July 2016	30 June 2019	123,326	$1.29
Robert de Vos	50%	Performance Rights	1 July 2016	30 June 2019	120,156	$1.29

1. Grants were approved by security holders at the AGM held on 17 November 2016.
2. Fair Value per Right was determined by an independent valuation. Refer to Note 20 of the financial report for further information on the valuation inputs.

Remuneration report (continued)

4.6 Remuneration Summary (Actual Amounts Received)

The table below is a voluntary disclosure of the remuneration actually received by Executive KMP. It does not align with information required by accounting standards (which is set out in section 4.7) as it does not include accounting accruals for STI awards or LTI grants that may not be received as they are based on performance and other conditions.

		Short Term Benefits			Equity Based Payments		Long Term	Post Employment	
$		Salary	STI[1,2]	Non-Monetary Benefits	Performance Rights	Recognition Rights	Long Service Leave	Superannuation	Total
Executive KMP									
Bryce Mitchelson	**FY17**	**485,384**	**208,250**	**11,329**	**–**	**–**	**–**	**19,616**	**724,579**
	FY16	470,692	111,791	10,361	–	–	–	19,308	612,152
Gareth Winter	**FY17**	**330,384**	**107,667**	**9,961**	**–**	**–**	**–**	**19,616**	**467,628**
	FY16	320,692	60,914	9,201	–	–	–	19,308	410,115
Robert de Vos	**FY17**	**290,384**	**122,715**	**9,961**	**–**	**–**	**–**	**19,616**	**442,676**
	FY16	280,692	69,220	9,201	–	–	–	19,308	378,421

1. The STI represents the payment of the STI earned in the prior financial year.
2. The STI paid in FY16 is for the period from 12 December 2014 to 30 June 2015.

4.7 Remuneration Summary (Statutory)

The following tables disclose the remuneration in respect of the KMP measured in accordance with the requirements of accounting standards.

		Short Term Benefits			Equity Based Payments		Long Term	Post Employment	
$		Salary	STI	Non-Monetary Benefits	Performance Rights	Recognition Rights	Long Service Leave	Superannuation	Total
Non-Executive Director									
David Ross	**FY17**	**160,250**	**–**	**–**	**–**	**–**	**–**	**26,750**	**187,000**
	FY16	148,521	–	–	–	–	–	31,479	180,000
Simon Parsons	**FY17**	**95,890**	**–**	**–**	**–**	**–**	**–**	**9,110**	**105,000**
	FY16	92,237	–	–	–	–	–	8,763	101,000
Dennis Wildenburg	**FY17**	**91,456**	**–**	**–**	**–**	**–**	**–**	**18,544**	**110,000**
	FY16	88,901	–	–	–	–	–	17,099	106,000

Directors' Report

Remuneration report (continued)

$		Short Term Benefits			Equity Based Payments		Long Term	Post Employment	
		Salary	STI	Non-Monetary Benefits	Performance Rights[1,2]	Recognition Rights[1]	Long Service Leave[3]	Superannuation	Total
Executive KMP									
Bryce Mitchelson	**FY17**	**485,384**	**227,250**	**11,329**	**221,566**	**37,205**	**11,077**	**19,616**	**1,013,427**
	FY16	470,692	208,250	10,361	137,776	37,307	9,351	19,308	893,045
Gareth Winter	**FY17**	**330,384**	**120,909**	**9,961**	**116,620**	**17,232**	**7,770**	**19,616**	**622,492**
	FY16	320,692	107,667	9,201	63,765	17,279	3,282	19,308	541,194
Robert de Vos	**FY17**	**290,384**	**147,250**	**9,961**	**111,495**	**15,665**	**6,013**	**19,616**	**600,384**
	FY16	280,692	122,715	9,201	59,992	15,708	1,680	19,308	509,296

1. Represents change in accounting accrual. Entitlement subject to vesting conditions.
2. FY17 amount reflects the amortisation of three separate LTI grants since the management internalisation. By comparison, the FY16 amount reflects the amortisation of two separate LTI grants.
3. Represents change in accounting accrual. Entitlement subject to legislated minimum period of employment.

4.8 Executive KMP Remuneration Mix

The following table summarises the relative proportions of total remuneration based on the FY17 Remuneration Summary (Statutory).

Executive KMP	TFR	STI	LTI
Bryce Mitchelson	51%	22%	27%
Gareth Winter	57%	20%	23%
Robert de Vos	53%	25%	22%

Variation between TMR and total actual remuneration mix occurs as a result of non-vesting of opportunities and timing differences between the granting of an LTI and the accounting recognition of the LTI expense which is generally amortised over the relevant vesting period.

5. Interests in Securities

Interests in Arena securities held by directors and executive KMP is set out below.

Ordinary Securities

Ordinary Securities	Balance 30 June 2016	Acquired	Disposed	Received as Remuneration	Balance 30 June 2017
Independent Directors					
David Ross	200,000	–	–	–	**200,000**
Simon Parsons	200,000	–	–	–	**200,000**
Dennis Wildenburg	150,000	–	–	–	**150,000**

Remuneration report (continued)

Ordinary Securities	Balance 30 June 2016	Acquired	Disposed	Received as Remuneration	Balance 30 June 2017
Executive KMP					
Bryce Mitchelson	753,907	21,000	–	–	**774,907**
Gareth Winter	75,000	–	–	–	**75,000**
Robert de Vos	27,941	1,675	–	–	**29,616**

Performance Rights and Recognition Rights

Executive KMP	Grant Year	Opening Balance	Rights Granted	Rights Vested[1]	Rights Lapsed	Closing Balance[1]	Fair Value at Grant Date[2]	Face Value at Grant Date[3]
Bryce Mitchelson								
Performance Rights	**FY17**	**–**	**195,736**	**–**	**–**	**195,736**	**$252,500**	**$391,472**
Performance Rights	FY16	247,745	–	–	–	247,475	$245,000	$388,536
Performance Rights	FY15	151,596	–	–	–	151,596	$142,500	$224,362
Recognition Rights	FY15	77,869	–	–	–	77,869	$95,000	$115,246
Gareth Winter								
Performance Rights	**FY17**	**–**	**123,326**	**–**	**–**	**123,326**	**$159,091**	**$246,652**
Performance Rights	FY16	114,478	–	–	–	114,478	$113,333	$179,730
Performance Rights	FY15	70,213	–	–	–	70,213	$66,000	$108,128
Recognition Rights	FY15	36,066	–	–	–	36,066	$44,000	$55,542
Robert de Vos								
Performance Rights	**FY17**	**–**	**120,156**	**–**	**–**	**120,156**	**$155,000**	**$240,312**
Performance Rights	FY16	110,192	–	–	–	110,192	$109,090	$173,001
Performance Rights	FY15	63,830	–	–	–	63,830	$60,000	$98,298
Recognition Rights	FY15	32,787	–	–	–	32,787	$40,000	$50,492

1. Testing of the performance and other hurdles in relation to the Rights issued in FY15 did not occur until post 30 June 2017. Vesting of Rights in accordance with the LTI assessment in Section 4.4 of this Remuneration Report will be reflected in the following year.
2. Fair value determined by independent valuation.
3. Number of Rights granted multiplied by the security price on the relevant grant date. If Rights vest (subject to performance and vesting conditions), the actual security price on the date of issue of securities may be higher or lower than at the relevant grant date. The value of the unvested Rights may be nil if the relevant vesting conditions are not met and the Rights lapse or are forfeited.

Directors' Report

Remuneration report (continued)

6. Service Agreements

Executive KMP Service Agreements detail the individual terms and conditions applying to the employment of the Executive KMP. Key employment terms in addition to the remuneration arrangements set out in this report are set out below:

	Managing Director	Other Executive KMP
Contract Term	Ongoing	Ongoing
Termination by the Executive KMP	9 months' notice. Unvested STI or LTI entitlements lapse unless the Board determines otherwise.	6 months' notice. Unvested STI or LTI entitlements lapse unless the Board determines otherwise.
Termination by Arena without cause or mutually agreed resignation	9 months' notice or equivalent payment in lieu of notice based on TFR. Any unvested STI and LTI awards will be governed by the applicable STI or LTI plan rules summarised above.	6 months' notice or equivalent payment in lieu of notice based on TFR. Any unvested STI and LTI awards will be governed by the applicable STI or LTI plan rules summarised above.
Termination by Arena for serious misconduct	No notice period or termination payment unless the board determines otherwise.	No notice period or termination payment unless the Board determines otherwise.
Post-employment restraints	Restrained from soliciting suppliers, customers and staff for a maximum of 9 months post-employment.	Restrained from soliciting suppliers, customers and staff for a maximum of 6 months post- employment.

Indemnification and insurance of officers and auditors

During the year, the Group has paid insurance premiums to insure each of the directors, and officers of the Group against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Group other than conduct involving a wilful breach of duty in relation to the Group.

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

The Group has not, during or since the end of the financial year indemnified or agreed to indemnify an auditor of the Group or of any related body corporate against a liability incurred in their capacity as an auditor.

Non-audit services

Details of the non-audit services provided to the Group by the Independent Auditor during the year ended 30 June 2017 are disclosed in note 5 of the financial statements.

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

Fees paid to the Responsible Entity and its associates out of Group property during the year are disclosed in note 18 of the financial statements.

Interests in the Group

The movement in securities on issue in the Group during the year is disclosed in note 14 of the financial statements.

Corporate governance statement

The board of directors for Arena REIT Limited and Arena REIT Management Limited work together and take a co-ordinated approach to the corporate governance of the Group.

Each Board has a Board Charter which details the composition, responsibilities, and protocols of the Board. In addition, the Boards have a Code of Conduct which sets out the standard of business practices required of the Group's directors and staff.

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

- Arena REIT Continuous Disclosure Policy;
- Arena REIT Diversity Policy;
- Arena REIT Privacy Policy;
- Arena REIT Communications Policy;
- Arena REIT Summary of Risk Management Framework;
- Arena REIT Securities Trading Policy.

In compliance with ASX Listing Rule 4.10.3, Arena has also published 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.arena.com.au/about/governance.

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration

The Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

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

David Ross, **Chairman**

Melbourne, 24 August 2017

Auditor's independence declaration

Auditor's Independence Declaration

As lead auditor for the audit of Arena REIT No. 1 for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Elizabeth O'Brien
Partner
PricewaterhouseCoopers

Melbourne
24 August 2017

Consolidated statement of comprehensive income

For the year ended 30 June 2017

		Consolidated	
	Notes	30 June 2017 $'000	30 June 2016 $'000
Income			
Property rental	9(c)	**38,169**	32,989
Management fee income		**582**	429
Interest		**152**	167
Net gain/(loss) on fair value of derivative financial instruments		**1,805**	(2,915)
Revaluation of investment properties	9	**66,124**	51,062
Total income		**106,832**	81,732
Expenses			
Property expenses	9(c)	**(1,152)**	(1,003)
Management and administration expenses		**(4,061)**	(3,544)
Finance costs	3	**(4,714)**	(4,333)
Other expenses		**(114)**	(231)
Total expenses		**(10,041)**	(9,111)
Net profit for the year		**96,791**	72,621
Other comprehensive income		**–**	–
Total comprehensive income for the year		**96,791**	72,621
Total comprehensive income for the year is attributable to Arena REIT stapled group investors, comprising:			
Unitholders of Arena REIT No. 1		**87,161**	59,155
Unitholders of Arena REIT No. 2 (non-controlling interest)		**10,256**	14,175
Unitholders of Arena REIT Limited (non-controlling interest)		**(626)**	(709)
		96,791	72,621

Earnings per security:		Cents	Cents
Basic earnings per security in Arena REIT No. 1	6	**37.32**	25.70
Diluted earnings per security in Arena REIT No. 1	6	**37.08**	25.59
Basic earnings per security in Arena REIT Group	6	**41.44**	31.55
Diluted earnings per security in Arena REIT Group	6	**41.18**	31.41

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

Consolidated balance sheet

As at 30 June 2017

		Consolidated	
		30 June 2017	30 June 2016
	Notes	$'000	$'000
Current assets			
Cash and cash equivalents	7	**9,082**	9,446
Trade and other receivables	8	**8,613**	969
Total current assets		**17,695**	10,415
Non-current assets			
Receivables	8	**860**	1,062
Plant and equipment		**199**	219
Investment properties	9	**591,712**	491,439
Intangible assets	10	**10,816**	10,816
Total non-current assets		**603,587**	503,536
Total assets		**621,282**	513,951
Current liabilities			
Trade and other payables	11	**9,305**	8,687
Provisions		**288**	250
Distributions payable		**7,221**	6,437
Total current liabilities		**16,814**	15,374
Non-current liabilities			
Derivative financial instruments	13	**1,031**	3,030
Provisions		**337**	467
Interest bearing liabilities	12	**170,624**	137,587
Total non-current liabilities		**171,992**	141,084
Total liabilities		**188,806**	156,458
Net assets		**432,476**	357,493
Equity			
Contributed equity - ARF1	14	**202,179**	197,224
Accumulated profit	15	**161,929**	99,187
Non-controlling interests - ARF2 and ARL	16	**68,368**	61,082
Total equity		**432,476**	357,493

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

Consolidated statement of changes in equity

				Consolidated
	Contributed equity	Accumulated profit	Non-controlling interests - ARL & ARF2	Total equity
	$'000	$'000	$'000	$'000
Balance at 1 July 2015	191,845	61,900	49,746	303,491
Profit for the year	–	59,155	13,466	72,621
Total comprehensive income for the year	**–**	**59,155**	**13,466**	**72,621**
Transactions with owners in their capacity as owners:				
Securities issued under DRP	5,379	–	788	6,167
Employee - LTI Performance Plan	–	–	350	350
Distributions to securityholders	–	(21,868)	(3,268)	(25,136)
Balance at 30 June 2016	**197,224**	**99,187**	**61,082**	**357,493**
Balance at 1 July 2016	197,224	99,187	61,082	357,493
Profit for the year	–	87,161	9,630	96,791
Total comprehensive income for the year	**–**	**87,161**	**9,630**	**96,791**
Transactions with owners in their capacity as owners:				
Securities issued under DRP	4,955	–	744	5,699
Employee - LTI Performance Plan	–	–	561	561
Distributions to securityholders	–	(24,419)	(3,649)	(28,068)
Balance at 30 June 2017	**202,179**	**161,929**	**68,368**	**432,476**

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

Consolidated statement of cash flows

For the year ended 30 June 2017

		Consolidated	
	Notes	30 June 2017 $'000	30 June 2016 $'000
Cash flows from operating activities			
Receipts in the course of operations		**41,664**	37,331
Payments in the course of operations		**(8,290)**	(7,292)
Finance costs paid		**(4,531)**	(4,018)
Interest received		**146**	165
Net cash inflow from operating activities	23	**28,989**	26,186
Cash flows from investing activities			
Acquisition of subsidiaries		**–**	(995)
Net payments/proceeds from sale of investment properties		**(43)**	7,139
Payments for investment properties and capital expenditure		**(40,545)**	(21,579)
Net cash (outflow) from investing activities		**(40,588)**	(15,435)
Cash flows from financing activities			
Payment of transaction costs from issue of securities		**(27)**	(28)
Distributions paid to securityholders		**(21,557)**	(18,325)
Loan establishment costs paid		**(104)**	(491)
Capital receipts from lenders		**33,117**	10,500
Capital payments to lenders		**(194)**	(3,849)
Net cash inflow/(outflow) from financing activities		**11,235**	(12,193)
Net (decrease)/increase in cash and cash equivalents		**(364)**	(1,442)
Cash and cash equivalents at the beginning of the financial year		**9,446**	10,888
Cash and cash equivalents at the end of the financial year	7	**9,082**	9,446

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

Contents

Notes to the financial statements

Notes to the consolidated financial statements

1. General information

These financial statements cover Arena REIT (the 'Group') comprising Arena REIT No. 1, Arena REIT No. 2, Arena REIT Limited, and their controlled entities. Arena REIT is listed on ASX and registered and domiciled in Australia.

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

The financial statements were authorised for issue by the directors on 24 August 2017. The directors 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 also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2016:

- AASB 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation*;
- AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*;
- AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*.

The adoption of these amendments did not result in any adjustments to the values included in the 30 June 2017 financial statements. The disclosure requirements of the above standards have been incorporated into this financial report.

(b) Segment reporting

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

The Board as the Chief Operating Decision Maker is responsible for making strategic decisions about the Group, assessing the financial performance and financial position of the Group, determining the allocation of resources, and risk management.

2. Summary of significant accounting policies (continued)

(c) Principles of consolidation

(i) Stapled entities

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

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

The consolidated financial statements of the Arena REIT Stapled Group incorporate the assets and liabilities of the entities controlled by ARF1 at 30 June 2017, including those deemed to be controlled by ARF1 by identifying it as the parent of the Arena REIT Stapled Group, and the results of those controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full. Non-controlling interests in the results and equity are shown separately in the Statement of Comprehensive Income and Statement of Financial Position respectively. Non-controlling interests are those interests in ARF2 and ARL which are not held directly or indirectly by ARF1.

(ii) Subsidiaries

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

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

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 and ARL

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

(e) Parent entity financial information

Parent entity information has been prepared on the same basis as the rest of the financial report.

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(f) 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.

(g) 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.

Management service fees earned from managed investment schemes or trusts are calculated based on the agreed percentage of funds under management and agreed percentages of schemes or trust acquisitions and disposals. Management fees are recognised on an accruals basis.

Performance fees earned from managed funds are recorded when the Group has a legal or constructive right as a result of past events, and it is probable that an inflow of resources will occur and the amount can be reliably estimated.

Deferred management fees and performance fees are measured at the present value of the Responsible Entity's best estimate of the amount receivable at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the asset.

Other income is recognised when the right to receive the revenue has been established.

All income is stated net of goods and services tax (GST).

2. Summary of significant accounting policies (continued)

(h) Expenses

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

(i) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Security-based payments

For information relating to the Group's Long Term Incentive Plan, refer to note 20.

Employees may receive remuneration in the form of security-based incentives, whereby employees render services as consideration for equity-based incentives (equity-settled transactions). The Group did not have any cash-settled security-based incentives in the financial year.

The cost of equity-settled transactions is recognised, together with a corresponding increase in reserves in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for these transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and for awards subject to non-market vesting conditions, the Group's best estimate of the number of equity instruments that will ultimately vest in respect of the relevant rights. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee expenses.

If the terms of an equity-settled transaction are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the transaction, or is otherwise beneficial to the employee as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(j) Income tax

(i) Trusts

Arena REIT No.1 and Arena REIT No.2 (the Trusts) are not subject to Australian income tax provided their taxable income is fully distributed to securityholders.

(ii) Companies

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(iii) Tax consolidation legislation

Arena REIT Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The head entity, Arena REIT Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Arena REIT Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

All current tax balances are transferred from the controlled entities in the group to Arena REIT Limited. As there is no tax sharing agreement in place the current tax receivable or payable is transferred from each controlled entity to Arena REIT Limited as a contribution to (or distribution from) wholly owned entities.

(k) Distributions

The Group distributes income adjusted for amounts determined by the Group. Provision is made for any distribution amounts declared, being appropriately disclosed and no longer at the discretion of the entity, on or before the end of the reporting date but not distributed at the end of the reporting period. The distributions are recognised within the balance sheet and statement of changes in equity as a reduction in accumulated profit/(losses).

2. Summary of significant accounting policies (continued)

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

(m) 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.

(n) 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.

(o) Assets held for sale

Assets are classified as held-for-sale when a sale is considered highly probable and their carrying amount will be recovered principally through a sale transaction rather than through continued use. Assets classified as held-for-sale are presented separately from the other assets in the consolidated balance sheet.

Assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Changes to fair value are recorded in the consolidated statement of comprehensive income.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the asset (or disposal group) is recognised at the date of derecognition.

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(o) Assets held for sale (continued)

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.

(p) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(q) Investment properties

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

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

(i) Valuation basis

The basis of the valuation of investment properties is fair value, being the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The directors may determine the requirement for a valuation at any time but 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.

(r) Intangible assets - Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

2. Summary of significant accounting policies (continued)

(s) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(t) 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 21(d).

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(t) Financial instruments (continued)

Loans and receivables

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

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

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

(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.

(u) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the Group's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(v) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. 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.

(w) 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.

2. Summary of significant accounting policies (continued)

(x) Goods and Services Tax (GST)

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

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

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

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

(y) 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.

(i) Financial instruments

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 21.

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

(ii) Investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations of each property 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(q) and 9.

(iii) Impairment of intangibles - Goodwill

The Group assesses the recoverability of intangibles and goodwill on at least an annual basis. In determining the recoverability of these assets the Group uses a number of assumptions and estimates. The methodology and assumptions used are disclosed in note 10.

(iv) Income taxes

The Group may be subject to income taxes in Australia. Certain judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax outcomes based on estimates of taxes which may be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which a determination is made.

Notes to the consolidated financial statements

2. Summary of significant accounting policies (continued)

(y) Use of estimates (continued)

(v) Deferred disposal and performance fees

The Group may receive management fees on the sale of property by an investment scheme for which it is the responsible entity. Revenue for deferred disposal and performance fees is recognised for finite life schemes when the performance criteria has been met, and for indefinite life schemes, in the period when the decision to sell a property has been made. The amount of this "deferred" management fee is dependent on the sale price of the property. In the calculation of deferred disposal and performance fees, the sale price is assumed to be the most current valuation as reported in the investment scheme.

(z) Rounding of amounts

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

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 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. For financial liabilities that are measured under the fair value option, entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss. New hedge accounting rules align hedge accounting more closely with common risk management processes. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation. In December 2014, the AASB introduced a new impairment model. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. Management does not expect the above changes to have a significant impact on the Group's financial statements.	1 January 2018	30 June 2019
AASB 15 Revenue from contracts with customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. Management does not expect this to have an impact on the Group's financial statements.	1 January 2018	30 June 2019

2. Summary of significant accounting policies (continued)

(aa) 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
IFRS 16 Leases	In February 2016, the AASB issued AASB 16 Leases. The standard provides a single lessee accounting model, requiring lessees to recognise an asset (the right to use the leased item) and a financial liability to pay rentals. The only exemptions are where the lease term is 12 months or less, or the underlying asset has a low value. Lessor accounting is substantially unchanged under AASB 16. Management does not expect the above changes to have a significant impact on the Group's financial statements on adoption.	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.

Notes to the consolidated financial statements

3. Finance costs

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Finance costs:		
Interest paid or payable	4,496	3,951
Loan establishment and other finance costs	218	181
Write-off of loan establishment costs due to refinancing	–	201
Total finance costs expensed	4,714	4,333
Finance costs capitalised (a)	1,040	1,172
Total finance costs	5,754	5,505

(a) Finance costs are 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.

4. Income taxes

Under current Australian income tax legislation, ARF1 and ARF2 are not liable to Australian income tax, provided that the members are presently entitled to the income of the Trusts. Trust distributions are subject to income tax in the hands of securityholders.

ARL and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. ARL as the head entity in the tax consolidated group, accounts for its own current and deferred tax amounts. ARL also recognises the current and deferred tax liabilities (or assets) of the entities in the tax consolidation group. Where appropriate, deferred tax assets and liabilities are offset.

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

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Profit before income tax	96,791	72,621
Tax at the applicable Australian tax rate of 30% (2016 - 30%)	(29,037)	(21,786)
Profit attributable to entities not subject to tax	29,225	21,999
Deferred tax assets not recognised	(188)	(213)
Income tax expense	–	–

Unrecognised deferred tax assets are $0.2 million (2016: $0.2 million). These have not been recognised as it is not probable that future taxable profit will arise to offset these deductible temporary differences.

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 2017 $	30 June 2016 $
PricewaterhouseCoopers Australian firm		
Audit and other assurance services		
Audit and review of financial statements	**105,550**	104,000
Audit of compliance plans	**10,150**	10,000
Total remuneration for audit and other assurance services	**115,700**	114,000
Taxation services		
Tax compliance services, including review of income tax returns	**42,213**	31,673
Total remuneration for taxation services	**42,213**	31,673
Total remuneration of PricewaterhouseCoopers	**157,913**	145,673

6. Earnings per security ('EPS')

	2017 Cents	2016 Cents
Basic EPS in Arena REIT No. 1	**37.32**	25.70
Diluted EPS in Arena REIT No. 1	**37.08**	25.59
Basic EPS in Arena REIT Group	**41.44**	31.55
Diluted EPS in Arena REIT Group	**41.18**	31.41

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

	2017	2016
	Number of securities '000	Number of securities '000
Weighted average number of ordinary securities used in calculating basic EPS	**233,557**	230,165
Unvested LTI performance rights	**1,506**	1,012
Adjusted weighted average number of ordinary securities used in calculating diluted EPS	**235,063**	231,177

Notes to the consolidated financial statements

6. Earnings per security ('EPS') (continued)

	30 June 2017 $'000	30 June 2016 $'000
Earnings used in calculating basic EPS for Arena REIT No. 1	**87,161**	59,155
Earnings used in calculating diluted EPS for Arena REIT No. 1	**87,161**	59,155
Earnings used in calculating basic EPS for Arena REIT Group	**96,791**	72,621
Earnings used in calculating diluted EPS for Arena REIT Group	**96,791**	72,621

7. Cash and cash equivalents

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Cash at bank	**7,782**	8,146
Term deposits	**1,300**	1,300
Total cash and cash equivalents	**9,082**	9,446

Term deposits are used to secure bank guarantees in respect of development properties.

8. Trade and other receivables

(a) Trade and other receivables - Current

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Trade receivables	**149**	75
Other receivables	**7,758**	391
Prepayments	**459**	503
Deferred performance fees receivable	**247**	-
	8,613	969

Other receivables as at 30 June 2017 includes $6.8 million of sales proceeds payable to the Group following the disposal of two ELC assets in June 2017.

8. Trade and other receivables (continued)

(i) Impairment and ageing

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

	Gross 2017 $'000	Impairment 2017 $'000	Gross 2016 $'000	Impairment 2016 $'000
Not past due	**129**	–	75	–
Past due 0 - 30 days	**20**	–	–	–
Past due 31 - 60 days	**–**	–	–	–
Past due 61 - 90 days	**–**	–	–	–
Past due over 90 days	**–**	–	–	–
	149	–	75	–

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.

(b) Receivables - Non-current

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Deferred management & performance fees receivable	**860**	1,062

(i) Impairment and ageing

None of the non-current receivables are impaired or past due but not impaired.

(ii) Fair values

The fair values and carrying values of non-current receivables are as follows:

	Consolidated 30 June 2017	
	Carrying amount $'000	Fair value $'000
Deferred management & performance fees receivable	**860**	860

Notes to the consolidated financial statements

9. Investment properties

(a) Valuations and carrying amounts

Property Portfolio	Carrying amount		Most recent external valuation	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
ELC properties	**468,627**	391,037	**430,205**	354,388
ELC developments	**38,989**	22,216	**20,930**	13,570
Healthcare properties	**84,096**	78,186	**78,000**	74,128
Total	**591,712**	491,439	**529,135**	442,086

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

Independent valuations were performed on 38 Early Learning Centres ('ELC') as at 31 December 2016, and a further 62 ELCs and 3 healthcare centres as at 30 June 2017. The directors have reviewed these valuations and has determined they are appropriate to adopt during the financial period ending 30 June 2017. Director valuations were performed on investment properties which were not independently valued.

The key inputs into valuations are:

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

The key inputs into the valuation are based on market information for 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 - ELCs

	30 June 2017	30 June 2016
Market rent per licenced place	**$1,500 to $3,900**	$1,400 to $3,900
Capitalisation rates	**5.5% to 8.5%**	6.0% to 8.5%
Passing yields	**4.5% to 10.25%**	5.25% to 10.0%

(ii) Key assumptions - Healthcare properties

	30 June 2017	30 June 2016
Capitalisation rates	**6.0% to 7.0%**	6.5% to 7.5%
Passing yields	**6.0% to 7.75%**	6.25% to 8.0%

9. Investment properties (continued)

(b) Movements during the financial year

	Consolidated	
	30 June 2017 $'000	**30 June 2016 $'000**
At fair value		
Opening balance	**491,439**	420,532
Property acquisitions and capital expenditure	**39,971**	21,277
Disposals	**(6,622)**	(1,150)
Revaluations	**66,124**	51,062
Other IFRS revaluation adjustments	**800**	(282)
Closing balance	**591,712**	491,439

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

	Consolidated	
	30 June 2017 $'000	**30 June 2016 $'000**
Rental income	**37,437**	33,316
Other rental income (recognised on a straight line basis)	**732**	(327)
Direct operating expenses from property that generated rental income	**(765)**	(724)
Direct operating expenses from property that did not generate rental income	**(387)**	(279)
Revaluation gain on investment properties	**66,124**	51,062

(d) Tenancy risk

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

Goodstart Early Learning Ltd ("Goodstart") - representing 40% of the Group's investment property portfolio by income. Like many not-for-profit entities, Goodstart is a company limited by guarantee. It therefore does not have "shareholders," rather, each of the member charities (Mission Australia, Benevolent Society, Brotherhood of St Laurence and Social Ventures Australia) is a member of the company. Goodstart's "capital" is loan capital of varying degrees of risk and subordination.

Primary Health Care Limited ("PRY") - representing 15% of the Group's investment property portfolio by income. 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.

Affinity Education Group Limited ("Affinity") - representing 15% of the Group's investment property portfolio by income. Affinity is a privately held provider of early childhood education, owning and operating over 150 childcare centres throughout Australia. Affinity have provided the Group with a pooled bank guarantee as security against each of the properties leased.

Notes to the consolidated financial statements

9. Investment properties (continued)

Other Tenants

Operator	% of Investment Property Portfolio by Income
Petit Early Learning Journey	5%
Oxanda Education	5%
G8 Education	5%
Green Leaves	4%

All of the above tenants are childcare centre operators. G8 Education is listed on the Australian Securities Exchange. The other tenants are privately owned with experience operating ELCs and their lease obligations are typically secured by bank guarantees and cross defaults.

(e) Assets pledged as security

Refer to note 12 for information on investment properties and other assets pledged as security by the Group.

(f) Contractual obligations

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

	30 June 2017 $'000	30 June 2016 $'000
Investment properties	**12,719**	14,456

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 2017 $'000	30 June 2016 $'000
Minimum lease receivable under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	**37,882**	34,015
Later than one year but not later than 5 years	**157,933**	142,989
Later than 5 years	**383,856**	201,204
	579,671	378,208

10. Intangible assets

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Goodwill	**10,816**	10,816
	10,816	10,816

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

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

The Group tests impairment of goodwill annually by comparing its carrying amount with its recoverable amount. The recoverable amount is determined by a value in use calculation which uses the discounted cash flow methodology based on five years of cash flow projections, based on financial budgets, plus a terminal value.

Key assumptions include:

- growth rates set in the range of 2% to 3% per annum; and
- cash flows are discounted at a rate of 8.33% per annum.

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

11. Trade and other payables

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Prepaid rental income	**2,020**	2,059
Sundry creditors and accruals	**7,285**	6,628
	9,305	8,687

Trade and other payables are non-interest bearing.

12. Interest bearing liabilities

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Non-current:		
Secured		
Syndicated facility	**171,000**	138,000
Unamortised transaction costs	**(376)**	(413)
Total secured non-current borrowings	**170,624**	137,587

Notes to the consolidated financial statements

12. Interest bearing liabilitiess (continued)

(a) Financing arrangements

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Committed facilities available at the end of the reporting period		
Interest bearing liabilities	**205,000**	175,000
Facilities used at the end of the reporting period		
Interest bearing liabilities	**171,000**	138,000

In January 2017, the total facility limit of the Group was extended by $30 million. At 30 June 2017, the Group had $102.5 million of debt facility expiring on 31 December 2018 and $102.5 million of debt facility expiring on 31 December 2020. The facilities are available to both ARF1 and ARF2 and the assets of both Trusts are held as security under the facilities.

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

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

(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 Arena REIT No. 1 and Arena REIT No. 2.

The carrying amounts of assets pledged as security are:

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Financial assets pledged		
Cash and cash equivalents	**6,052**	6,444
Trade and other receivables	**8,171**	613
	14,223	7,057
Other assets pledged		
Investment properties	**591,712**	491,439
	591,712	491,439

(c) Covenants

The covenants over the Group's bank facility require an interest cover ratio of greater than 2.0 times (Actual at 30 June 2017 of 5.6 times) and a loan to market value of investment properties ratio of less than 50% (Actual at 30 June 2017 of 32.0%). The Group was in compliance with its covenants throughout the year.

13. Derivative financial instruments

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Non-current liabilities		
Interest rate swaps	**1,031**	3,030
	1,031	3,030

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 currently in place cover 79% (2016: 72%) of the facility principal outstanding. The weighted average fixed interest swap rate at 30 June 2017 was 2.39% (2016: 2.48%), and the weighted average term was 4.3 years (2016: 4.0 years).

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

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

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Less than 1 year	**–**	–
1 - 2 years	**10,000**	25,000
2 - 3 years	**35,000**	10,000
3 - 4 years	**22,500**	20,000
4 - 5 years	**22,500**	22,500
Greater than 5 years	**45,000**	22,500
	135,000	100,000

14. Contributed equity

(a) Securities

			Consolidated	
	30 June 2017 Securities '000	30 June 2016 Securities '000	30 June 2017 $'000	30 June 2016 $'000
Ordinary Securities				
Fully paid	**234,843**	**231,966**	202,179	197,224

Other contributed equity attributable to securityholders of the Group relating to ARF2 and ARL of $40.4 million is included within Non-controlling interests - ARF2 and ARL (30 June 2016: $39.7 million).

Notes to the consolidated financial statements

14. Contributed equity (continued)

(b) Movements in ordinary securities

Date	Details	Number of securities '000	$'000
1 July 2015	Opening balance	228,290	191,845
	Issue of securities under DRP (i)	3,676	5,379
30 June 2016	Closing balance	231,966	197,224
1 July 2016	Opening balance	**231,966**	**197,224**
	Issue of securities under DRP (i)	**2,877**	**4,955**
30 June 2017	Closing balance	**234,843**	**202,179**

(i) Distribution Re-investment Plan (DRP)

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

(c) Capital management

The objectives of the Stapled Group are to generate attractive and predictable income distributions to investors with earnings growth prospects over the medium to long term.

The Group aims to invest to meet the Group's investment objectives while maintaining sufficient liquidity to meet its commitments. The Group regularly reviews performance, including asset allocation strategies, investment and operational management strategies, investment opportunities, performance review, and risk management.

In order to maintain its capital structure, the Group may adjust the amount of distributions paid to securityholders, return capital to securityholders, issue new securities or sell assets to reduce debt.

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

Gearing Ratio	2017 $'000	2016 $'000
Interest bearing liabilities	**171,000**	138,000
Total assets	**621,282**	513,951
Gearing ratio	**27.5%**	26.8%

15. Accumulated profit

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Movements in accumulated profit were as follows:		
Opening accumulated profit	**99,187**	61,900
Net profit for the year attributable to ARF1	**87,161**	59,155
Distribution paid or payable attributable to ARF1	**(24,419)**	(21,868)
Closing accumulated profit	**161,929**	99,187

Distributions to securityholders

The following table details the distributions to securityholders during the financial year on a consolidated basis, including distributions declared by ARF2 (classified as a non-controlling interest) of $3.6 million (30 June 2016: $3.3 million).

Distributions declared	2017 $'000	2016 $'000	2017 cps	2016 cps
September quarter	**6,807**	6,128	**2.9250**	2.6750
December quarter	**6,834**	6,158	**2.9250**	2.6750
March quarter	**7,205**	6,413	**3.0750**	2.7750
June quarter	**7,222**	6,437	**3.0750**	2.7750
Total distributions to securityholders	**28,068**	25,136	**12.0000**	10.9000

16. Non-controlling interests

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

Movements in non-controlling interests were as follows:

	ARF2 30 June 2016	ARL 30 June 2016	Total 30 June 2016
Opening balance - 1 July 2015	**35,259**	**14,487**	**49,746**
Securities issued under DRP	788	–	**788**
Net profit/(loss) for the year attributable to non-controlling interests	14,175	(709)	**13,466**
Distributions paid or payable attributable to non-controlling interests	(3,268)	–	**(3,268)**
Increase/(decrease) in reserves (i)	–	350	**350**
Closing balance - 30 June 2016	**46,954**	**14,128**	**61,082**

Notes to the consolidated financial statements

16. Non-controlling interests (continued)

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

(i) Reserves

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Opening balance	**462**	112
Security-based benefits expense for the period	**561**	350
Balance 30 June	**1,023**	462

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

17. 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.

18. Related party disclosures

Subsidiaries

Investments in subsidiaries is set out in note 19.

Key management personnel compensation

	30 June 2017 $	30 June 2016 $
Short-term employee benefits	**1,980,409**	1,869,119
Post-employment benefits	**113,251**	115,265
Long-term benefits	**24,860**	14,313
Termination benefits	**–**	–
Security-based benefits expense	**519,783**	331,827
	2,638,303	2,330,524

Detailed remuneration disclosures are provided in the Remuneration report.

18. Related party disclosures (continued)

Stapled group

The Arena REIT Stapled Group comprises ARF1, ARF2, and ARL and its controlled entities.

Arena REIT Management Limited (a wholly owned subsidiary of ARL) is Responsible Entity of the Trusts.

Responsible entity

The Responsible Entity or its related parties are entitled to receive fees in accordance with the Group's constitution, from the Group and its controlled entities.

	30 June 2017 $	30 June 2016 $
The following transactions occurred with related parties:		
Property management income received from other related parties	**50,000**	28,000
Management fees received by the Group from other related parties	**389,089**	344,234
Property income received from other related parties	**46,550**	43,163
Increase/(decrease) in fair value of performance fee receivable by the Group from other related parties	**44,770**	(127,326)
Amounts receivable:		
Amount receivable from other related parties at the end of the reporting period	**71,971**	52,752
Deferred management and performance fees receivable at the end of the reporting period	**1,106,580**	1,061,811
Amounts payable:		
Amounts payable to other related parties at the end of the reporting period	**–**	–

19. Investments in subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2017 %	Equity holding 2016 %
Citrus Investment Services Limited	Australia	Ordinary	**100**	100
Arena REIT Management Limited	Australia	Ordinary	**100**	100
Arena REIT Operations Pty Limited	Australia	Ordinary	**100**	100

The management function of the Group was internalised from 12 December 2014. The internalisation process involved the stapling of each share in Arena REIT Limited ('ARL') to each existing stapled security, as well as the acquisition by ARL of Citrus Investment Services Pty Ltd and Arena REIT Management Limited.

Notes to the consolidated financial statements

20. Security-based benefits expense

(a) Performance Rights and Recognition Rights Plan (Rights)

The performance rights and recognition rights are unquoted securities. Conversion to stapled securities is subject to service and performance conditions which are discussed in the Remuneration Report.

Performance rights	2017 Number	2016 Number	2015 Number	Total Number
Rights issued	523,916	535,655	304,987	**1,364,558**
Performance rights issued	**523,916**	**535,655**	**304,987**	**1,364,558**
Number rights forfeited/lapsed in prior years	–	(4,848)	-	**(4,848)**
Number rights forfeited/lapsed in current year	–	(16,162)	(9,574)	**(25,736)**
Number rights vested in prior years	–	–	–	**–**
Number rights vested in current year	–	–	–	**–**
Closing balance	**523,916**	**514,645**	**295,413**	**1,333,974**

Recognition rights	2017 Number	2016 Number	2015 Number	Total Number
Rights issued	–	–	186,660	**186,660**
Recognition rights issued	**–**	**–**	**186,660**	**186,660**
Number rights forfeited/lapsed in prior years	–	–	(10,000)	**(10,000)**
Number rights forfeited/lapsed in current year	–	–	(4,918)	**(4,918)**
Number rights vested in prior years	–	–	–	**–**
Number rights vested in current year	–	–	–	**–**
Closing balance	**–**	**–**	**171,742**	**171,742**

(b) Rights expense

Total expenses relating to the Rights recognised during the year as part of employee benefit expense was as follows:

	30 June 2017 $'000	30 June 2016 $'000
Performance Rights and Recognition Rights	**561**	350
	561	350

20. Security-based benefits expense (continued)

(c) Rights valuation inputs

Rights issued were independently valued for the purposes of valuation and accounting using a Binomial Tree or Monte Carlo method, as applicable. The model inputs for the Rights issued during FY17 to assess the fair value are as follows:

Performance rights	
Grant date	1 July 2016
Security price at grant date	$2.00
Fair value of right	$1.29
Expected price volatility	20%
Risk-free interest rate	1.53%

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

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 2017 $'000	30 June 2016 $'000
Financial assets		
Cash and cash equivalents (floating interest rate)	**9,082**	9,446
Financial liabilities		
Interest bearing liabilities - floating interest rate	**(171,000)**	(138,000)
Derivative financial instruments (notional principal amount) - fixed rate interest rate swaps	**135,000**	100,000
Net Exposure	**(26,918)**	(28,554)

Notes to the consolidated financial statements

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

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

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Market interest rate increased by 100 basis points (2016: 100 bp)	**(269)**	(286)
Market interest rate decreased by 100 basis points (2016: 100 bp)	**269**	286
Instruments with fair value risk:		
Derivative financial instruments	**135,000**	100,000
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 (2016: 100 bp)	**5,530**	3,571
Market interest rate decreased by 100 basis points (2016: 100 bp)	**(5,530)**	(3,571)

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 securityholders arising from market risk the Group has considered prior period and expected future movements of the portfolio information in order to determine a reasonable possible shift in assumptions.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The Group's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at reporting date.

	Consolidated	
	30 June 2017	**30 June 2016**
	$'000	**$'000**
Cash at bank	**9,082**	9,446
Other receivables	**2,214**	1,528
Less: Allowance for impairment of trade receivables	**–**	–
Maximum exposure to credit risk	**11,296**	10,974

The Group manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank and interest rate swaps are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Before accepting a new tenant, the Group endeavours to obtain financial information from the prospective tenant, and rental guarantees are sought before a tenancy is approved. Third party credit risk is secured by corporate, personal and bank guarantees where possible.

All receivables are monitored by the Group. 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.

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

(c) Liquidity risk

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

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

The 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.

Consolidated	Less than 12 months $'000	1-2 years $'000	Greater than 2 years $'000
30 June 2017			
Trade and other payables	16,526	–	–
Interest rate swaps	1,041	1,020	2,762
Interest bearing liabilities	4,977	106,058	71,688
Contractual cash flows (excluding gross settled derivatives)	**22,544**	**107,078**	**74,450**

Consolidated	Less than 12 months $'000	1-2 years $'000	Greater than 2 years $'000
30 June 2016			
Trade and other payables	15,124	–	–
Interest rate swaps	625	613	1,373
Interest bearing liabilities	3,347	3,347	146,775
Contractual cash flows (excluding gross settled derivatives)	**19,096**	**3,960**	**148,148**

(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.

Notes to the consolidated financial statements

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

(e) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

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

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

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

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

The following table presents the Group's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2017 and 30 June 2016 on a recurring basis:

Consolidated	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2017				
Financial liabilities				
Interest rate swaps	–	1,031	–	**1,031**
Total	**–**	**1,031**	**–**	**1,031**

Consolidated	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2016				
Financial liabilities				
Interest rate swaps	–	3,030	–	**3,030**
Total	**–**	**3,030**	**–**	**3,030**

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 2017.

21. Financial risk management and fair value measurement (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, taking into account any material credit risk.

(f) AFSL financial compliance risk

The Group is exposed to the risk of having inadequate capital and liquidity. Arena REIT Management Limited, a subsidiary of ARL, holds an Australian Financial Services License ('AFSL') and acts as a responsible entity for the Group's managed investment schemes. The AFSL requires minimum levels of net tangible assets, liquid assets, cash reserves and liquidity, which may restrict the Group in paying dividends that would breach these requirements.

The directors regularly review and monitor the Group's balance sheet to ensure ARML's compliance with its AFSL requirements.

22. Parent entity financial information

Summary of financial information

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

Parent	30 June 2017 $'000	30 June 2016 $'000
Income statement information		
Net profit attributable to Arena REIT No. 1	**87,161**	59,155
Comprehensive income information		
Total comprehensive income attributable to Arena REIT No. 1	**87,161**	59,155
Balance Sheet		
Current assets	**12,662**	6,330
Non-current assets	**507,616**	413,253
Total assets	**520,278**	419,583
Current liabilities	**14,347**	13,161
Non-current liabilities	**141,823**	110,010
Total liabilities	**156,170**	123,171
Equity attributable to securityholders of Arena REIT No. 1		
Contributed equity	**202,179**	197,224
Accumulated profit	**161,929**	99,188
	364,108	296,412

Notes to the consolidated financial statements

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

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Profit for the year	**96,791**	72,621
Amortisation of borrowing costs	**141**	103
Net increase in fair value of investment properties	**(66,124)**	(51,062)
Straight lining adjustment on rental income	**(732)**	327
Net (gain)/loss on sale of direct property	**–**	121
Net (gain)/loss on derivative financial instruments	**(1,805)**	2,915
Security-based payments expense	**561**	350
Other	**81**	174
Asset transaction costs	**–**	201
Changes in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	**(47)**	79
(Decrease)/increase in trade and other payables	**215**	303
(Decrease)/increase in provisions	**(92)**	54
Net cash inflow from operating activities	**28,989**	26,186

24. Contingent assets and liabilities and commitments

There are no material outstanding contingent assets or liabilities as at 30 June 2017 and 30 June 2016. For details of commitments of the Group as at 30 June 2017, refer to note 9.

25. Events occurring after the reporting period

On 28 July 2017, the Group announced the acquisition of a portfolio of nine ELC properties under development for a total cost of $65 million. In conjunction with this acquisition, the Group undertook a fully underwritten Institutional Placement of $55 million.

On 7 August 2017, the Group issued a Security Purchase Plan for eligible Australian and New Zealand investors to raise up to $10 million. This offer remains open as at the date of this report.

Other than those matters identified above, 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 2017 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:

(a) the financial statements and notes set out on pages 23 to 60 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 2017 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.

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

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

David Ross, **Chairman**

Melbourne, 24 August 2017

Independent auditor's report

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

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Arena REIT No. 1 (ARF1) and its controlled entities (together the Group or the Arena REIT Stapled Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

Our audit approach

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

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

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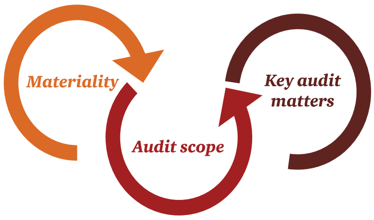

Materiality	Audit scope	Key audit matters
• For the purpose of our audit we used overall group materiality of $1.44 million which represents approximately 5% of the Group's profit before tax adjusted for significant non-cash fair value movements. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose profit before tax adjusted for significant non-cash fair value movements because, in our view, it is the key performance measure used by shareholders to measure the performance of the Group and it underpins the basis of distributable income. We adjusted Group profit before tax for fair value movements in investment properties and fair value changes in derivatives.	• Our audit focused on areas where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.	Amongst other relevant topics, we communicated the following key audit matter to the Audit Committee: • Fair value of investment properties This is further described in the *'key audit matters'* section of our report.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Fair value of investment properties *(Refer to note 9 in the financial report)* The Group's portfolio of investment properties was recognised as an asset in the financial report at $591.7m at 30 June 2017 and comprised of 205 properties in the Early Learning Centres (ELC) and healthcare sectors in Australia. The investment properties are recognised at fair value, with changes in the fair values recognised in the profit and loss. The estimation of fair value for investment properties was a key audit matter because of: • the magnitude of the investment properties asset balance relative to the net assets of the Group	As at 30 June 2017, the Group obtained independent valuations on 62 ELC properties and 3 healthcare centres. We checked that investment properties were valued by external experts as required by the Group's valuation program. For a sample of investment properties with external valuations, we assessed the objectivity, competency, and independence of the external experts. In addition, for a sample of the investment properties where the Group involved external valuation experts, we: • considered the external valuer's terms of engagement and checked for factors such as caveats or limitations that may have influenced the outcomes. We did not note any such factors • agreed the passing rents and lease terms applied in the valuations to the underlying leases

Independent auditor's report

Key audit matter	How our audit addressed the key audit matter
• the level of judgement involved in the underlying assumptions used in the models determining the fair value of investment properties (the fair value models) • the sensitivity of fair value to any changes in key inputs and assumptions used in the models • the potential impact to profit as a result of the revaluation of investment properties. The fair value of investment properties is influenced by: • the valuation methodology adopted • key judgemental assumptions used in the fair value models, such as capitalisation rate, market rent per licensed place (ELC properties) and passing yields • other key inputs in the fair value models, such as passing rent and lease terms.	• assessed the external experts' valuations against our industry and market knowledge • inspected the final valuation reports and agreed the fair value to the Group's accounting records noting no exceptions. In respect to other investment properties, we: • checked that Group staff with relevant professional qualification assisted in estimating the fair value • on a sample basis, agreed the passing rent and lease terms applied in the fair value models to the underlying leases • on a sample basis, compared key assumptions (e.g. capitalisation rates, market rent per licensed place, passing yields) applied in the fair value models to independent sources and similar sized properties in the market, with consideration of historical data and known external factors. In instances where key assumptions fell outside of our anticipated ranges, we challenged the rationale supporting the assumptions applied in the fair value models by discussing with management and obtaining supporting evidence. We note that the reasons provided by management were appropriate. • considered the independent valuers report on the directors' valuation assessment and checked for indicators that may suggest the director valuations are outside a reasonable range

Other information

The directors are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2017 comprises the Directors' report, ASX additional information and Corporate directory (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect other information to be made available to us after the date of this auditor's report, including the Highlights, Letter from the Chairman, Managing Director's Report, Portfolio Summary, Corporate Governance and Investor Information.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

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

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

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

Responsibilities of the directors for the financial report

The directors of Arena REIT Management Limited (the responsible entity of the ARF1) 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 controls as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 9 to 20 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Arena REIT No. 1 for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of Arena REIT Management Limited (the responsible entity of the ARF1) are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Elizabeth O'Brien
Partner

Melbourne
24 August 2017

ASX additional information

Additional Securities Exchange Information as at 17 August 2017

There were 262,431,895 fully paid ordinary securities on issue, held by 4,296 securityholders. There were 170 holders holding less than a marketable parcel.

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

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

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

Distribution of securityholders

Number of securities held	Number of securityholders	Total securities held	% of total securities on issue
1-1,000	559	239,289	0.09
1,001-5,000	864	2,552,422	0.97
5,001-10,000	703	5,656,678	2.16
10,001-100,000	2,069	62,791,438	23.93
100,000 and over	101	191,192,068	72.85
Total	**4,296**	**262,431,895**	**100.00**

Substantial securityholders

Name of substantial securityholder	Number of securities	Fully Paid (%)
Australian Unity Funds Management Limited	27,677,037	12.08
The Vanguard Group, Inc	16,352,388	8.10
Commonwealth Bank of Australia	15,907,988	6.94
BT Investment Management Limited	11,748,203	5.00

Twenty largest securityholders

Holder Name	Number of securities	Fully Paid (%)
HSBC Custody Nominees (Australia) Limited	48,920,540	18.64
BNP Paribas Noms Pty Ltd <DRP>	34,305,895	13.07
J P Morgan Nominees Australia Limited	28,045,434	10.69
Citicorp Nominees Pty Limited	18,601,644	7.09
National Nominees Limited	18,025,519	6.87
The Trust Company Limited <Folkstone Education A/c>	10,370,309	3.95
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/c>	6,754,755	2.57
Sandhurst Trustees Ltd <AIMS PSF A/c>	2,664,364	1.02
HSBC Custody Nominees (Australia) Limited - A/c 2	2,509,977	0.96
Mr David Calogero Loggia	1,127,260	0.43
Brispot Nominees Pty Ltd <House Head Nominee A/c>	808,699	0.31
Keith David Kirk	722,195	0.28
Navigator Australia Ltd <MLC Investment Sett A/c>	627,684	0.24
Austral Capital Pty Ltd <Austral Equity Fund A/c>	600,000	0.23
Mr Jiebo Huang	547,030	0.21
Mr David Stewart Field	545,780	0.21
Norcad Investments Pty Ltd	495,050	0.19
National Nominees Limited <DB A/c>	475,882	0.18
Mr Philippe Denis Georges Perez	470,251	0.18
Netwealth Investments Limited <Wrap Services A/c>	463,008	0.18
Totals	**177,081,276**	**67.48**

Corporate Directory

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Directors

David Ross (Independent, Non-Executive Chairman)

Simon Parsons (Independent, Non-Executive Director)

Dennis Wildenburg (Independent, Non-Executive Director)

Bryce Mitchelson (Managing Director)

Gareth Winter (Executive Director)

Company Secretary

Gareth Winter

Auditor

PricewaterhouseCoopers
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Southbank VIC 3006

Registry

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Stock exchange listing

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

Arena