

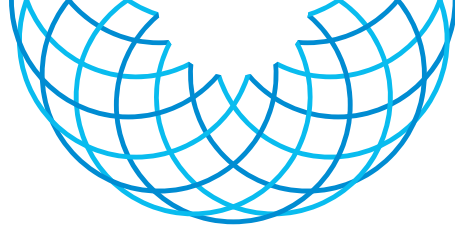
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Arena

ARENA REIT

2021 ANNUAL REPORT



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

ABOUT THIS REPORT

The financial statements in this report cover Arena REIT (the 'Group') comprising Arena REIT Limited, Arena REIT No. 1, Arena REIT No. 2, and their controlled entities for the period 1 July 2020 to 30 June 2021. The financial statements are presented in Australian currency.

The Responsible Entity of Arena REIT No.1 and Arena REIT No.2 (the 'Trusts') is Arena REIT Management Limited (ACN 600 069 761, AFSL 465754).



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

IMPORTANT NOTICE

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

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This report contains forward-looking statements including certain forecast financial information. The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "outlook", "upside", "likely", "intend", "should", "could", "may", "target", "plan", and other similar expressions are intended to identify forward-looking statements.

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



FY21 HIGHLIGHTS

Arena REIT is an ASX300 listed group that develops, owns and manages social infrastructure property across Australia.

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

\$1.15b

Total Assets

Up 14% on 30 June 2020

\$1.24b

Market capitalisation

As at 30 June 2021

\$165.4m

Statutory Net Profit

Up 116% on FY20

\$51.9m

Net Operating Profit

Up 18.5% on FY20

15.2¢

Earnings per security (EPS)

Up 4.5% on FY20

14.8¢

Distributions per security (DPS)

Up 6% on FY20

18.8%

**Per annum five year total
ASX return performance¹**

\$2.56

**Net Asset Value (NAV)
per security**

Up 15% on 30 June 2020

1. UBS, UBS Australian REIT month in review, June 2021; ASX total return includes security price growth and reinvestment of distributions.



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19.9%

Gearing
3.7 years weighted average
facility term

3.3%

**Average like-for-like
rental growth**

\$107.6m

Revaluation uplift
Up 11.8% on FY20

81%

Interest rate hedge cover
4.4 years weighted average
hedge term

20.1 yrs

**Weighted average
lease expiry (WALE)²**

\$106m

**Acquisitions and development
completions in FY21**

2. Pro-forma WALE as at 30 June 2021. Post balance date portfolio lease renegotiation with Goodstart included an increase of 25 years of lease term on 87 ELC properties.

CHAIR AND MANAGING DIRECTOR'S REPORT



Left to Right: David Ross, Rob de Vos.

We acknowledge the challenges that the COVID-19 pandemic presented, but also highlight the resilience and support of our stakeholders during the period. On behalf of the board of Arena REIT we express our gratitude to our tenant partners for their tenacity and ability to continue delivering essential services to Australian communities. Despite ongoing uncertainty, we remain confident in Arena's strategy, the strength of our portfolio and the important contribution the services we accommodate will make in aiding economic recovery and improving future community outcomes.

In a period affected by the direct and indirect challenges of COVID-19, Arena has produced strong earnings, distribution and capital growth, successfully delivered acquisitions and development completions, replenished the development pipeline, further extended the portfolio's existing long WALE through a post balance date portfolio lease renegotiation and further improved our progress with regard to sustainability outcomes.

These positive outcomes are a result of the quality of Arena's property portfolio, the proactive approach of Arena's management team and the strong macro-economic themes

that support investment in social infrastructure property. It is also an endorsement of Arena's disciplined strategy and ability to deliver against our investment objectives.

Arena has delivered a three year ASX total return of 25% per annum compound and five year ASX total return of 18.8% per annum compound to 30 June 2021¹.

FINANCIAL RESULTS

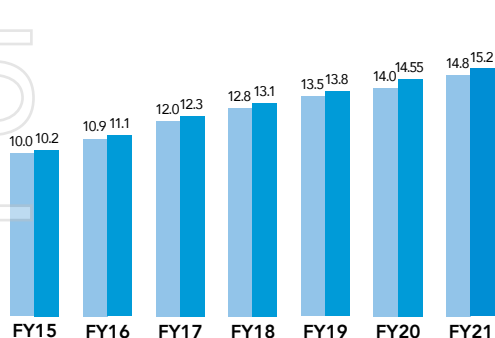
Arena's net operating profit increased by 18.5% to \$51.9 million in financial year 2021 (FY21).

Key contributors to higher operating income include contracted annual

rent growth and positive outcomes on market rent reviews, acquisition of operating early learning centre (ELC) properties and development projects completed during financial year 2020 (FY20) and FY21. The result represents earnings per security (EPS) of 15.2 cents, an increase of 4.5% over the prior year. Arena has paid a full-year distribution per security (DPS) of 14.8 cents, up 6% on the prior year. Statutory net profit for the year was \$165.4 million, an increase of 116% on the prior year primarily due to the revaluation uplift during FY21.

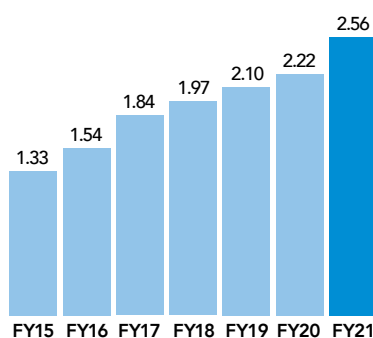
Arena's total assets increased by 14% to \$1,151.5 million as a result of acquisitions, development

● DPS
● EPS



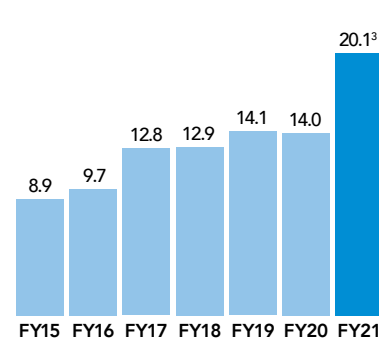
Earnings & distributions per security (cents)

3 year CAGR EPS 5.1% DPS 5.0%
5 year CAGR EPS 6.5% DPS 6.3%



NAV per security (\$)

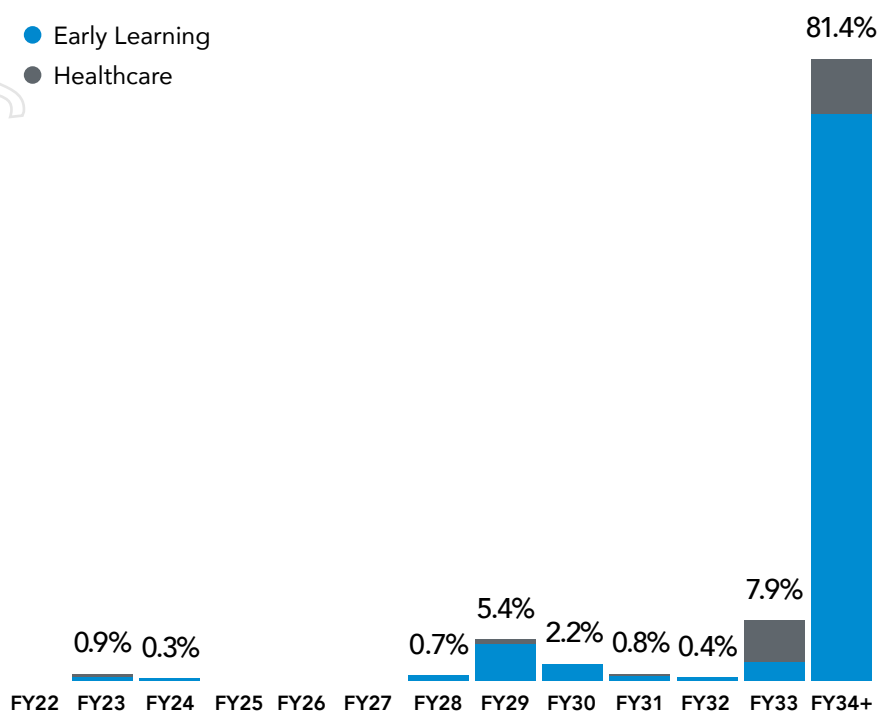
3 year CAGR 9.1%
5 year CAGR 10.7%



Portfolio WALE (years)

¹ UBS, UBS Australian REIT month in review, June 2021; ASX total return includes security price growth and reinvestment of distributions, Index is S&P ASX300 (GICS) AREIT accumulation index.

- Early Learning
- Healthcare



Lease expiry profile by income (%)

“Despite a challenging external environment, Arena has achieved strong portfolio and investment outcomes in FY21. Our portfolio of social infrastructure property has also facilitated positive outcomes for the Australian communities that access our properties to utilise the essential services provided by our tenant partners.”

capital expenditure and the positive revaluation of the portfolio. The revaluation uplift was the primary contributor to the 15% increase in net asset value (NAV) per security to \$2.56 at 30 June 2021.

PORTFOLIO OVERVIEW

Like-for-like rent review increase of 3.3%

Rent reviews during the year resulted in an average like-for-like rent increase of 3.3%. Contributing to this result were 25 market rent reviews from FY20 which were resolved during FY21 at an average increase of 6.5%.

COVID-19 update

100% of contracted rent has been receipted for the period 1 July 2020 to 30 June 2021 and Arena's origination and development programs remain largely unaffected by COVID-19.

Arena's medical centre properties are assisting in the national COVID-19 vaccination program and there is precedent for a strong recovery in elective procedures following easing of any COVID-19 related restrictions.

The essential nature of the services provided by the ELC

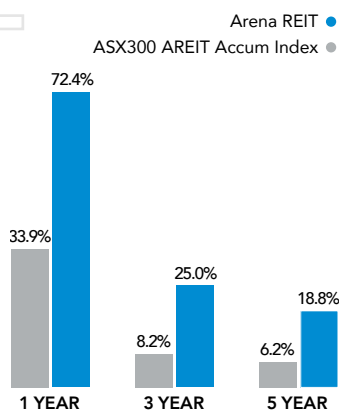
sector was reinforced through the various COVID-19 related federal government funding support² over the last 12 months.

Existing long WALE further increased to 20.1³ years

Occupancy was maintained at 100% and the portfolio's existing long WALE was further increased to 20.1 years following the acquisition of seven operating ELC properties with initial weighted average lease expiry of 27.3 years, the completion of 14 ELC developments with an initial weighted average lease expiry of 20.8 years and a post balance date portfolio lease renegotiation with Goodstart which included an increase of 25 years of lease term on 87 ELC properties.

Investment proposition and approach drives sustainability and commercial outcomes

Sustainability is fundamental to Arena's investment approach and we believe that approach best positions



Annual compound returns to 30 June 2021¹

2. <https://www.dese.gov.au/covid-19/childcare>; <https://ministers.dese.gov.au/>.

3. Post balance date portfolio lease renegotiation with Goodstart included an increase of 25 years of lease term on 87 ELC properties.

CHAIR AND MANAGING DIRECTOR'S REPORT

CONTINUED

Arena to achieve positive long term commercial outcomes.

Arena develops, owns and manages social infrastructure property which facilitates access to essential education and healthcare services provided by our tenant partners across multiple local communities. We have a proven track record in securing and executing on high quality opportunities which provide efficient, flexible and well located accommodation at sustainable initial and ongoing rents, and our disciplined investment process has delivered ongoing EPS, DPS and NAV growth.

During the year, Arena released its 2020 Sustainability Report which provides detail on our commitment to strategies that address sustainability challenges faced by Arena and Arena's stakeholders and identifies opportunities to progress positive sustainability initiatives. Arena has made good progress throughout the year on these strategies, including:

- ▶ A material increase in the use of renewable energy, reducing our tenant partners' utility costs and reducing negative impacts on the environment;
- ▶ Increased our stakeholder engagement, which has allowed

us to collaborate and create partnerships for positive change; and

- ▶ Identifying new sustainability priorities for the business which are outlined in Arena's 2021 Sustainability Report.

Asset recycling underpins ongoing quality of portfolio

Six ELC properties were divested during FY21 at an average premium of 16% to book value with proceeds reinvested into the development pipeline.

Acquisitions and development project completions in FY21

Seven operating ELC properties were acquired at an average net initial yield of 6.1% on total cost, with an initial weighted average lease expiry of 27.3 years. 14 ELC developments were completed at an average net initial yield on total cost of 6.6%, with an initial weighted average lease expiry of 20.8 years.

Portfolio composition

At 30 June 2021, Arena's property portfolio comprised 238 ELC properties and development sites (86% of portfolio by value) and 11 healthcare properties (14% of portfolio by value).

Portfolio revaluation uplift of \$107.6 million

84 ELC properties and seven healthcare properties were independently valued and the balance of the portfolio was subject to directors' valuations during FY21. A revaluation uplift of \$107.6 million was recorded for the period, equivalent to an increase of 11.8%. The portfolio's weighted average passing yield firmed 45 basis points to 5.77%. The weighted average passing yield on the ELC portfolio firmed 40 basis points to 5.84% and the healthcare portfolio firmed 78 basis points to 5.34%.

Development pipeline of \$91 million⁴

The development pipeline comprises 15⁴ ELC projects with a forecast total cost of \$91 million, with \$57 million of capital expenditure outstanding as at balance date. The forecast weighted average initial yield on total anticipated cost for the development pipeline is 6.2%.

CAPITAL MANAGEMENT

Extension of facility tranche

Post balance date, Arena extended a \$130 million facility tranche of its \$330 million total facility capacity from 31 March 2023 to 31 March 2026,

PORTFOLIO VALUATIONS

	Number of assets	30 June 2021 valuation	Net valuation movement versus 30 June 2020	30 June 2021 passing yield	Change versus 30 June 2020
	No.	\$m	\$m	%	bps
ELC portfolio	238	959	+92.0	+11.8	5.84 (40)
Healthcare portfolio	11	153	+15.6	+11.4	5.34 (78)
Total portfolio	249	1,112	+107.6	+11.8	5.77 (45)

ACQUISITIONS AND DEVELOPMENT COMPLETIONS

	Number of properties	Total cost	Initial yield on total cost	Initial weighted average lease term
	No.	\$m	%	years
Operating ELC acquisitions	7	40.4	6.1	27.3
ELC development completions	14	74.7	6.6	20.8
Total/weighted average	21	115.1	6.4	23.0

increasing the weighted average remaining facility term to 3.7 years at 30 June 2021 with no debt expiry until March 2024. Arena's weighted average cost of debt fell to 2.65% as at 30 June 2021 compared with 3.15% as at 30 June 2020. 81% of borrowings are hedged for an average term of 4.4 years at 1.67% p.a. incorporating interest rate hedging completed post 30 June 2021.

Capacity to fund new opportunities

At 30 June 2021, Arena's gearing was 19.9%⁵ with \$90 million of undrawn debt capacity as at balance date to fund the balance of the development capital expenditure of \$57 million and future growth opportunities.

OUTLOOK

ELC sector and portfolio update

Government support was improved by the introduction of the Childcare Subsidy in July 2018 and the essential nature of the services provided by the ELC sector was reinforced through the various COVID-19 related funding commitments⁶ over the last 12 months.

The Federal Government has recently committed a further investment of \$1.7 billion⁷ to the sector to:

- ▶ Support ongoing economic recovery in the short term; and
- ▶ Improve workforce participation, gender equality, women's financial security and economic activity over the medium to long term⁸.

Strong structural demand for services and a record female workforce participation rate continue to drive increased long day care participation rates over the medium to long term^{9,10}.

Arena's healthcare portfolio continues to perform well

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

Healthcare properties remain strongly sought after, with increased domestic and international interest in Australian healthcare property and increasing interest in social infrastructure property more generally.

Partnership approach

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

Arena's management team has specialist asset management and development expertise and a strong track record that includes the successful delivery of 54 development projects for our tenant partners over the past nine years at a total cost of \$262 million.

FY22 remuneration review

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

An independent review of Arena's remuneration framework was completed in FY21 for implementation in FY22; details of the review are provided in the Remuneration Report. In the four

years since the previous independent review, Arena has experienced significant growth, including a 60% increase in property income, an 85% increase in total assets and a 134% increase in market capitalisation.

The key decisions to be implemented with respect to FY22 remuneration reflect contemporary market practice, talent retention in an increasingly competitive market, the progression of Arena's strategy and individual and collective employee performance.

In summary, Arena remains well positioned to navigate the ongoing and emerging challenges arising from COVID-19 and to consider new opportunities that are consistent with strategy and Arena's investment objective of delivering an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

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

We encourage you to join us and look forward to welcoming you at our Annual General Meeting being held on 25 November 2021.

Yours sincerely,



David Ross
Chair



Rob de Vos
Managing Director

4. Includes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.

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

6. <https://www.dese.gov.au/covid-19/childcare>; <https://ministers.dese.gov.au/>.

7. <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/making-child-care-more-affordable-and-boosting>

8. <https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf>

9. ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).

10. Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.





PORTFOLIO SUMMARY

AS AT 30 JUNE 2021

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

249

Total Properties

- 226 Early Learning Centres
- 11 Healthcare
- 12 ELC developments

\$1.112b

Total Portfolio Value

- \$959.1m Early Learning Centres
- \$153.3m Healthcare

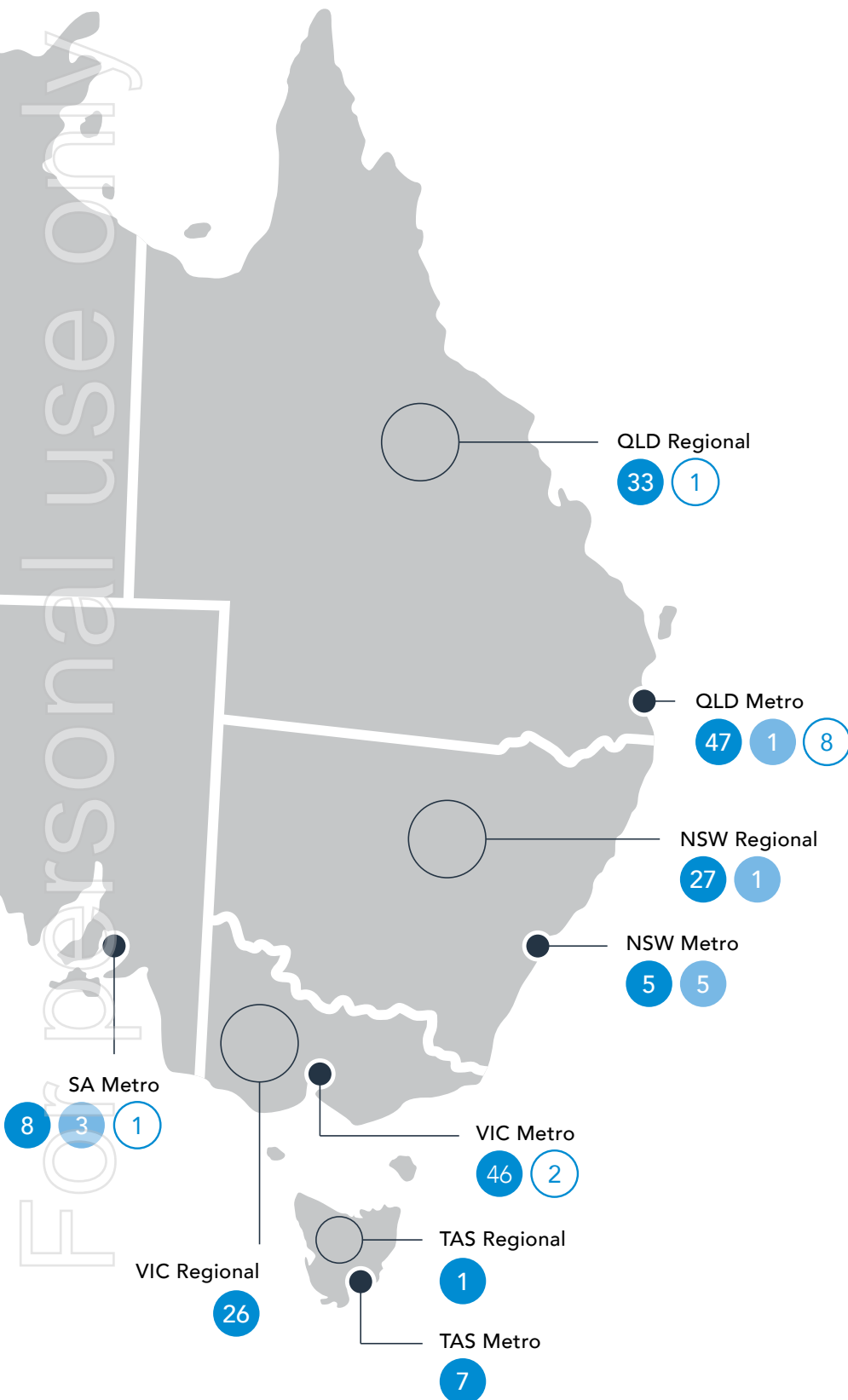
20.1yrs

WALE

- 21.4 years Early Learning Centres
- 11.9 years Healthcare

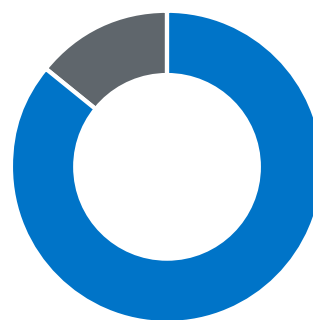


- Early Learning Centres (226 properties)
- Healthcare (11 properties)
- ELC development sites (12 properties)



Sector Diversification

By value (%)

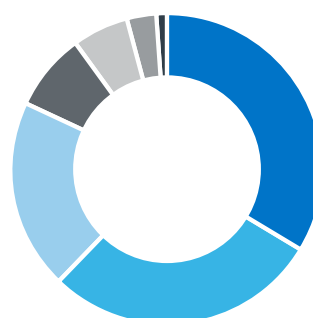


● Early Learning **86%**

● Healthcare **14%**

Geographic Diversification

By value (%)*



● QLD **34%**

● VIC **29%**

● NSW **20%**

● WA **8%**

● SA **6%**

● TAS **3%**

● NT **1%**

**Totals may not sum due to rounding*

Tenant Diversification

By income (%)



● Goodstart **27%**

● Green Leaves **17%**

● BGH Fund **10%**

● Affinity **7%**

● G8 Education **6%**

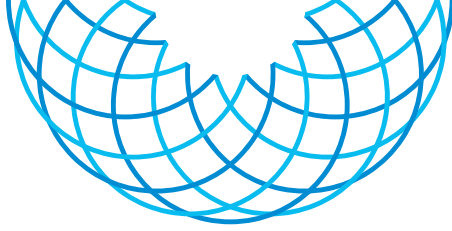
● Edge **6%**

● Petit **4%**

● Oxanda **3%**

● SACare **2%**

● Other **18%**



SUSTAINABILITY

Sustainability is fundamental to Arena's investment approach and we believe that approach best positions Arena to achieve positive long term commercial outcomes.

Arena's Sustainability Report provides detail on our commitment to strategies that address sustainability challenges faced by Arena and Arena's stakeholders and identifies opportunities to progress positive change. It outlines goals and targets over the short and medium term for ongoing action and future reporting.

Due to the nature of Arena's triple net leases, tenant partners maintain operational control of Arena's properties. Given the environmental and social footprint of its assets, Arena has an opportunity to leverage its own sustainability initiatives to create a multiplier effect on its sustainability impacts by partnering with its tenants to achieve mutually beneficial goals. Accordingly, Arena's overarching approach to sustainability is to actively seek out '*Partnerships for Change*.' Our partnership approach delivers mutually beneficial outcomes for our team, tenant partners and ultimately our investors.

PARTNERSHIPS FOR CHANGE

Arena is committed to collaborative business partnerships and strives to be an 'accommodation provider of choice.' This is done by pursuing mutually beneficial outcomes, maintaining productive working relationships, being empathetic to the challenges faced by tenant partners, being quick to respond to requests and acting fairly and with integrity in commercial negotiations.

Arena's focus is then directed to topics that are most material to Arena, which are classified under the following three pillars:

ENVIRONMENT – environmental commitments and programs.

SOCIAL – employee, tenant partner and community topics.

GOVERNANCE – best practice corporate governance.

Arena has an Environmental, Social and Governance (ESG) working group that meets regularly to integrate and progress ESG initiatives across the business. Arena's board is responsible for setting the strategic objectives for Arena and for overseeing management in the implementation of Arena's sustainability initiatives.

2021 HIGHLIGHTS

PARTNERSHIPS FOR CHANGE

INCREASED OUR STAKEHOLDER ENGAGEMENT

which has allowed us to collaborate and progress partnerships for positive change

Arena's annual tenant survey results indicate our tenant partners view Arena as a

**VALUABLE
BUSINESS PARTNER**



2021 HIGHLIGHTS CONTINUED

ENVIRONMENT

A material increase in the use of renewable energy, which reduces our tenant partners' utility costs and reduces negative impacts on the environment.

>21% OF ARENA'S PROPERTIES CURRENTLY USING SOLAR ENERGY

ADDITIONAL 45% OF PROPERTIES ARE IN THE PROCESS OF INSTALLING SOLAR ENERGY ARRAYS



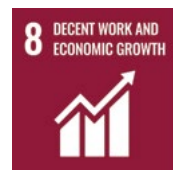
SOCIAL

Arena develops, owns and manages social infrastructure property which facilitates access to essential education and healthcare services provided by our tenant partners across multiple local communities.

IMPROVED DISCLOSURE
as to the various community benefits derived from Arena's social infrastructure property portfolio

COMMENCED INAUGURAL COMMUNITY PARTNERSHIP

60% of Arena's team are **VERY SATISFIED** and 40% of staff are **EXTREMELY SATISFIED** with Arena's **WORKPLACE CULTURE**



GOVERNANCE

The board of directors of Arena REIT Limited and Arena REIT Management Limited work together and take a coordinated approach to corporate governance. The composition, responsibilities and protocols of each Board are documented in Board Charters which are published to Arena's website, along with Arena's Code of Conduct and other key policies.

COMMISSIONED INDEPENDENT REVIEW OF ESG FRAMEWORK
implementing improved disclosure for FY21 and formation of a longer-term governance action plan to address other appropriate matters

Reviewed and made **IMPROVEMENTS TO SUPPORT WORKPLACE CULTURE** in line with Arena's Code of Conduct and Values

- Improved parental leave provisions;
- Support for employees experiencing family and domestic violence; and
- Support for appropriate disclosure of complaints related to workplace culture

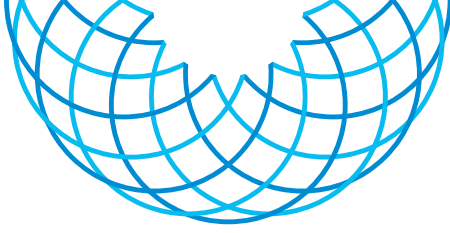


In compliance with ASX Listing Rule 4.10.3, Arena has also published on its website a statement disclosing the extent to which Arena has followed the recommendations for good corporate governance set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 4th Edition)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



View Arena's key policies and the Corporate Governance Statement for the 2021 Financial Year at: www.arena.com.au/about/governance

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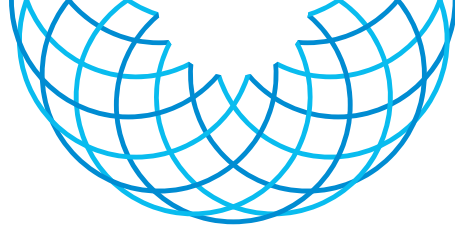
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2021 FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2021





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ABOUT THIS REPORT

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

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

Level 32, 8 Exhibition Street
Melbourne VIC 3000



DIRECTORS' REPORT

DIRECTORS' REPORT

The directors of Arena REIT Limited ('ARL') and Arena REIT Management Limited ('ARML'), the Responsible Entity of Arena REIT No. 1 and Arena REIT No. 2 (the 'Trusts'), present their report together with the financial statements of Arena REIT for the year ended 30 June 2021. 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 for which the units and shares have been stapled together to enable trading as one security. The units of ARF1, ARF2 and shares of ARL cannot be traded separately. None of the stapled entities controls any of the other stapled entities, however for the purposes of statutory financial reporting the entities form a consolidated group.

DIRECTORS

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

- ▶ **David Ross** (Chair) (Independent, non-executive)
- ▶ **Rosemary Hartnett** (Independent, non-executive)
- ▶ **Simon Parsons** (Independent, non-executive)
- ▶ **Dennis Wildenburg** (Independent, non-executive)
- ▶ **Rob de Vos** (Executive)

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

- ▶ **David Ross** (Chair) (Independent, non-executive)
- ▶ **Rosemary Hartnett** (Independent, non-executive)
- ▶ **Simon Parsons** (Independent, non-executive)
- ▶ **Dennis Wildenburg** (Independent, non-executive)
- ▶ **Rob de Vos** (Executive)
- ▶ **Gareth Winter** (Executive)

PRINCIPAL ACTIVITIES

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

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

DISTRIBUTIONS TO SECURITYHOLDERS

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

	2021	2020	2021	2020
	\$'000	\$'000	cps	cps
September quarter	12,363	10,694	3.625	3.575
December quarter	12,735	10,726	3.725	3.575
March quarter	12,772	-	3.725	-
June quarter	12,801	22,419	3.725	6.850
Total distributions to securityholders	50,671	43,839	14.800	14.000

DIRECTORS' REPORT

CONTINUED

OPERATING AND FINANCIAL REVIEW

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

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

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

In preparing its financial statements, the Group has considered the current and ongoing impact the COVID-19 pandemic has on its business operation and key estimates.

During the year, the COVID-19 pandemic did not have a material impact on the Group as all of the Group's properties remained open and in operation and Government support was provided to the tenants. The introduction of the National Cabinet Mandatory Code of Conduct created a set of guiding principles for the Group to support eligible tenants whose operations were negatively impacted by COVID-19 in the form of rental relief in proportion to the reduction in trade resulting from COVID-19. Rent relief agreements with tenant partners were agreed where justified. Refer to note 7 for more information on the Group's receivables balance.

The uncertainty of the impact of COVID-19 has been considered in the valuation of investment properties. Refer to note 8 for more information on the Group's valuation approach. The Group has also assessed the impact of COVID-19 on its carrying values of other assets and liabilities. Specific areas of assessment include the measurement and classification of trade receivables (note 7), recoverability of the carrying amount of goodwill (note 9) and associated disclosures within the financial statements.

KEY FINANCIAL METRICS

	30 June 2021	30 June 2020	Change
Net profit (statutory)	\$165.4 million	\$76.6 million	116%
Net operating profit (distributable income)	\$51.9 million	\$43.8 million	18.5%
Distributable income per security	15.20 cents	14.55 cents	4.5%
Distributions per security	14.80 cents	14.00 cents	6%
Total assets	\$1,151.5 million	\$1,012.6 million	14%
Investment properties	\$1,112.4 million	\$914.0 million	22%
Borrowings	\$240.0 million	\$215.0 million	12%
Net assets	\$878.9 million	\$751.9 million	17%
NAV per security	\$2.56	\$2.22	15%
Gearing *	19.9%	14.8%	34%

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

FY21 HIGHLIGHTS

- ▶ Net statutory profit was \$165.4 million, up 116% on the prior year. This is primarily due to the increased gain from revaluation of investment properties and straight-lining of rent (FY21: \$107.6 million; FY20: \$36.9 million), increased property income (FY21: \$59.8 million; FY20: \$53.8 million) and gain from revaluation of interest rate hedge derivatives compared to the prior year (FY21: \$4.9 million; FY20: loss of \$4.1 million);
- ▶ Net operating profit was \$51.9 million, up 18.5% on the previous year, primarily driven by the increase in rental income and lower finance costs;
- ▶ COVID-19 rent relief agreements were reached with tenants where appropriate. In accordance with arrangements agreed in FY20, during the year 2.6% of contracted rent was deferred for future collection. 72% of rent deferred in FY20 was collected during FY21. Negligible rent abatement was required during the year. All tenants are in compliance with rent relief arrangements including the collection of deferred rent;
- ▶ Distributions for the year were 14.8 cents per security, up 6% on the prior year;
- ▶ NAV per security at 30 June 2021 was \$2.56, an increase of 15% on 30 June 2020. This was primarily due to an increase in the value of investment property;
- ▶ Gearing was 19.9% at 30 June 2021, up from 14.8% at 30 June 2020;
- ▶ The property portfolio increased with the addition of 9 Early Learning Centre ('ELC') development sites and 7 operational ELCs. During the year, 14 ELC developments reached practical completion; 6 operating ELCs were sold during the year with sale proceeds of \$17.4 million.

FINANCIAL RESULTS

	30 June 2021	30 June 2020
	\$'000	\$'000
Property income	59,808	53,844
Other income	541	559
Total operating income	60,349	54,403
Property expenses	(602)	(530)
Operating expenses	(4,382)	(4,291)
Finance costs	(3,422)	(5,738)
Net operating profit (distributable income) *	51,943	43,844
Non-distributable items:		
Investment property revaluation and straight-lining of rent	107,651	36,926
Change in fair value of derivatives	4,949	(4,104)
Profit/(loss) on sale of investment properties	1,909	1,303
Transaction costs	(39)	(144)
Amortisation of equity-based remuneration (non-cash)	(983)	(1,155)
Other	(79)	(29)
Statutory net profit	165,351	76,641

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

DIRECTORS' REPORT

CONTINUED

FINANCIAL RESULTS SUMMARY

	30 June 2021	30 June 2020
Net operating profit (distributable income) (\$'000)	51,943	43,844
Weighted average number of ordinary securities ('000)	341,774	301,421
Distributable income per security (cents)	15.20	14.55

- ▶ 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 ELC developments completed during the year;
 - Commencement of rental income following the acquisition of 7 operational ELCs during the year; and
 - The full year effect of acquisitions and developments completed during FY20.
- ▶ Non-distributable items primarily increased due to a higher gain on revaluation of investment property and gain on revaluation of interest rate hedges compared to the prior year.

INVESTMENT PROPERTY PORTFOLIO

Key Property Metrics

	30 June 2021	30 June 2020
Total value of investment properties	\$1,112.4 million	\$914.0 million
Number of properties under lease	237	222
Development sites	12	17
Properties available for lease or sale	-	-
Total properties in portfolio	249	239

Portfolio occupancy	100%	100%
Weighted average lease expiry (WALE)	14.4 years	14.0 years

- ▶ The increase in the value of investment properties is primarily due to the addition of:
 - Property acquisition, development and capital expenditure of \$105.7 million; and
 - A net revaluation increment to the portfolio of \$107.6 million for the year, inclusive of straight-lining of rent accrual.
- ▶ Offset by the following investment property disposals during the year:
 - 6 operating ELCs were sold during the year with sale proceeds of \$17.4 million.

CAPITAL MANAGEMENT

Equity

- ▶ During the year, 4.4 million securities were issued at an average price of \$2.58 to raise \$11.4 million of equity pursuant to the Distribution Re-investment Plan (DRP).

Bank facilities & gearing

- ▶ The Group's debt facility of \$330 million has a weighted average maturity of 3.7 years with no expiry before 31 March 2024. This incorporates the extension of a \$130 million facility tranche in July 2021 to an expiry of March 2026 (previously March 2023);
- ▶ The balance drawn increased by \$25 million to fund acquisitions and development capital expenditure;
- ▶ Gearing was 19.9% at 30 June 2021 (30 June 2020: 14.8%);
- ▶ The Group was fully compliant with all bank facility covenants throughout FY21 and as at 30 June 2021. At 30 June 2021 the Loan to Valuation Ratio was 21.6% (Covenant: 50%) and the Interest Cover Ratio was 8.9 times (Covenant: 2.0 times).

Interest rate management

- ▶ 81% of borrowings are presently hedged for a weighted average term of 4.4 years (2020: 80% for 4.7 years) incorporating hedging transactions completed post 30 June 2021. The average swap fixed rate at 30 June 2021 is 1.67% (2020: 2.20%).

FY22 OUTLOOK

The Group has provided FY22 distribution guidance of 15.8 cents per security, which represents an increase of 6.8% on FY21.

FY22 distribution guidance is estimated on a status quo basis, assuming no new acquisitions or disposals, all developments in progress are completed in line with forecast assumptions, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of the COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.

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

In July 2021, the Group renegotiated the leases with its largest tenant partner Goodstart Early Learning (Goodstart) that resulted in:

- ▶ Installation of solar renewable energy systems across all Arena owned Goodstart properties that will lead to a reduction of energy costs and CO2 emissions by approximately 1,000 tonnes per annum.
- ▶ Increase of Renegotiated Portfolio lease term (87 properties) by 25 years that increases Arena's portfolio pro-forma WALE as at 30 June 2021 to 20.1 years compared with 14.7 years at HY21.

Other than the matter identified above, no matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

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

DIRECTORS' REPORT

CONTINUED

MATERIAL BUSINESS RISKS

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

COVID-19

The COVID-19 pandemic has significantly impacted the Australian and global economy and the ability of individuals, companies and governments to operate. Notwithstanding the Commonwealth Government's recently updated National Plan to transition Australia's National COVID-19 Response and the vaccination targets therein, there is uncertainty as to the duration, and further impact of COVID-19 on the ASX and wider securities markets, the Group and the tenants of the Group's properties.

These factors could have a major impact on the Group's operations, performance and growth. The Government's measures to limit the transmission of the virus (including, but not limited to, the aforementioned social distancing and quarantine policies, and restrictions on the operation of non-essential services) have resulted in major disruptions to business, the Australian and wider global economy.

The extent of the impact on the Group's operations, financial performance and cash flow is dependent on future factors which are uncertain and outside of the control of the Group. These factors could have a material adverse effect on the overall economy and impact upon the Group's business and financial performance.

The significance of the impact of COVID-19 on the Group will largely depend upon the extent to which the Group's tenants, and their ability to pay rent, is impacted by COVID-19.

Concentration risk

The Group's property portfolio is presently 86% invested in ELCs and ELC development sites and 14% in healthcare assets. Adverse events to the early learning and/or healthcare property sectors may result in general deterioration of tenants' ability to meet their lease obligations and the future growth prospects of the portfolio.

As at 30 June 2021, 54% of the portfolio by income (excluding developments) is leased to the largest three tenants (Goodstart Early Learning Ltd 27%, Green Leaves Group Ltd 17%, and Idameneo (No. 123) Pty Ltd 10% (a controlled entity of BGH Capital Fund No. 1 formerly owned by Healius Ltd)). Any material deterioration in the operating performance of the Group's tenants may result in them not meeting their lease obligations which could reduce the Group's income and portfolio value if a suitable replacement cannot be found.

Tenant risk

The Group relies on tenants to generate its revenue. Tenants may be not-for-profit companies, private entities or listed public companies. If a tenant is affected by financial difficulties they may default on their rental or other contractual obligations which may result in loss of rental income and loss in value of the Group's properties. Typically, tenants are required to provide an unconditional and irrevocable bank guarantee, which must not expire until at least six months after the ultimate expiry date of the lease, as security for their performance under the lease. Refer to note 8(d) for further details on tenancy risk for the portfolio.

Macroeconomic risk

The operations and performance of the Group is influenced by the macroeconomic condition of the Australian and the wider global economy. A prolonged economic downturn and its related effects, including increasing rates of unemployment, could have a material adverse impact on the Group's business or financial performance.

Government policy risk and change in law

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

Property valuations

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

INFORMATION ON DIRECTORS



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

The directors at the date of this report are:

David Ross, Independent Non-Executive Chair

David has over 30 years' ASX listed company and corporate experience in the property and property funds management industries in Australia and overseas, including Global and US Chief Executive Officer Real Estate Investments and Chief Executive Officer Asia Pacific for Lend Lease, Chief Executive Officer for General Property Trust and Chief Operating Officer for Babcock and Brown. He is currently an independent non-executive Director at Charter Hall Group and was formerly a non-executive Director of Sydney Swans Foundation Limited.

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

Other current directorships: Charter Hall Group.

Former directorships in last 3 years: None.

Rosemary Hartnett, Independent Non-Executive Director

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

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

Other current directorships: ISPT Pty Ltd, International Property Funds Management Pty Ltd, Fanplayr Inc.

Former directorships in last 3 years: None.

Dr Simon Parsons, Independent Non-Executive Director

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

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

Other current directorships: None.

Former directorships in last 3 years: None.



DIRECTORS' REPORT

CONTINUED

INFORMATION ON DIRECTORS CONTINUED

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

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

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

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

Other current directorships: None.

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

Rob de Vos, Executive Director

Rob was appointed Managing Director of Arena on 19 February 2019.

Rob has over 20 years' experience in the real estate and property funds management industry including acquisitions, developments, funds management, portfolio management and strategy, with expertise across both traditional and specialised property assets. Rob's experience in social infrastructure property investment spans over 15 years, and he is recognised as a market leader in the development and management of high performing specialised property investment funds. Prior to joining Arena, Rob held senior roles with Jones Lang LaSalle, Becton Property Group and Ceramic Funds Management.

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

Other current directorships: None.

Former directorships in last 3 years: None.

Gareth Winter, Executive Director and Company Secretary

Gareth was appointed Chief Financial Officer of Arena in March 2012 and Executive Director of Arena REIT Management Limited in December 2014. Gareth was formerly a partner at PricewaterhouseCoopers and has over 25 years' professional experience.

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

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

Other current directorships: None.

Former directorships in last 3 years: None.

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 2021, and the number of meetings attended by each director were:

	ARL Board		ARML Board		Audit Committee		Remuneration & Nomination Committee**		Culture & Remuneration Committee**	
	A	B	A	B	A	B	A	B	A	B
David Ross	14	14	15	15	9	9	4	4	4	4
Rosemary Hartnett	14	14	15	15	9	9	4	4	4	4
Simon Parsons	14	13	15	14	9	8	4	4	4	3
Dennis Wildenburg	14	14	15	15	9	9	4	4	4	4
Rob de Vos	14	14	15	15	*	*	*	*	*	*
Gareth Winter	*	*	15	15	*	*	*	*	*	*

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

B - Number of meetings attended.

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

** = The Committee structure changed on 1 January 2021. Remuneration & Nomination Committee was reorganised into Culture & Remuneration and Nomination Committees. There have been no stand-alone Nomination Committee meetings since 1 January 2021.

REMUNERATION REPORT

Introduction from the Chair of the Culture and Remuneration Committee

On behalf of the Culture and Remuneration Committee (Committee) and the Board, I am pleased to present the Remuneration Report for the financial year ended 30 June 2021. The Report sets out our remuneration strategy and outcomes for Key Management Personnel (KMP) and has been prepared and audited in accordance with the requirements of the Corporations Act and Regulations.

The COVID-19 pandemic has presented an unprecedented and challenging environment throughout FY21. In response, Arena's leadership team and staff have demonstrated outstanding performance and resilience in delivering growth and the progression of Arena's strategy. Arena has continued to work closely with its tenant partners and other stakeholders throughout the pandemic period in delivering support and sustainable outcomes.

The Committee has also focused on the health and well-being of our team members as they have all spent a significant portion of the year working remotely under lockdown conditions. The Committee recognises the contribution and positivity of all team members in these difficult circumstances.

FY21 Remuneration Framework

There were no changes to the remuneration framework in FY21. Executive KMP remuneration and target remuneration mix was maintained at FY20 levels and there were no changes to Board fees.

The Committee intended to undertake an independent review of Arena's remuneration framework in FY20 with the most recent independent review performed in FY17. Due to the onset of the COVID-19 pandemic, the Committee deferred the review. The review was completed during FY21 for implementation in FY22.

FY21 Remuneration Outcomes

The remuneration outcomes in FY21 reflect Arena's strong financial performance of 4.5% earnings per security growth and 5.7% distribution per security growth and strong operational outcomes achieved notwithstanding the COVID-19 pandemic.

Executive KMP were awarded 95% of their target Short Term Incentive (STI) which reflects:

- ▶ the delivery of above target distribution and earnings growth in FY21; and
- ▶ the performance of Executive KMP in respect of non-financial objectives.

The FY19 Long Term Incentive (LTI) was tested as at 30 June 2021 and will fully vest as the FY21 Distributable Income (DIS) of 15.2 cents per security (representing a 5.1% compound annual growth rate (CAGR) over the three year performance period) exceeded the high hurdle of 15.0 cents per security (target of 4.6% CAGR) and Arena's TSR of 83% (equivalent to a 22% CAGR) for the 3 year period ended 30 June 2021 ranked at the 89th percentile of the ASX300 REIT's comparator group.

Approach to FY22 Remuneration

The Committee engaged an independent advisor in the second half of FY21 to undertake a comprehensive review of Arena's remuneration framework, including:

- ▶ benchmarking key elements of remuneration policy;
- ▶ the structure of incentive plans and performance hurdles;
- ▶ remuneration mix; and
- ▶ benchmarking Executive KMP and Board remuneration against comparable roles and organisations identified by the independent advisor.

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

Accordingly, it is Arena's practice to set fixed remuneration at or near the median of comparable roles and set total target remuneration, including at risk performance based short term and long term incentives, around the 75th percentile of comparable roles. In the four years since the previous independent review (FY17 for implementation in FY18), Arena has experienced significant growth across various measures including a 60% increase in property income, an 85% increase in total assets and a 134% increase in market capitalisation.

DIRECTORS' REPORT

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REMUNERATION REPORT CONTINUED

The comparator group identified by the independent advisor for the purposes of the Executive KMP benchmark review comprised 16 industry peers with similar market capitalisation.

The review confirmed that Arena's remuneration policies and practices were largely in accordance with expectations of contemporary market practice and that of comparable organisations. However, the benchmarking review identified matters for the Committee to further consider:

- ▶ The remuneration of the CEO / Managing Director was below benchmark;
- ▶ Transition the allocation of LTI Performance Rights to a face value methodology to be consistent with typical contemporary market practice, with an adjustment to the LTI remuneration amount to ensure an LTI recipient was neither advantaged or disadvantaged as a result of the change in methodology;
- ▶ The Board Chair's fee and Board Committee fees were below benchmark; and
- ▶ The total approved remuneration pool for Independent Directors set in 2014 was below benchmark and does not provide capacity to allow for the orderly succession of directors, board diversity or future fee growth.

The Committee undertook a thorough review of the independent advisors reports and benchmarking data and has adopted changes to remuneration in-line with that benchmarking to apply from FY22 as described in this Report.

Looking forward, the Committee will remain focused on the development of our team and maintaining remuneration structures that equitably reward and incentivise the achievement of sustainable business outcomes and behaviours that reflect community expectations to create long-term value for our stakeholders. We welcome your feedback in respect of this Report.



Rosemary Hartnett
Chair, Culture and Remuneration Committee

Governance

Who are the members of the Committee?	The Committee is comprised of the independent directors and is chaired by Ms Rosemary Hartnett. Ms Hartnett was appointed Chair of the Committee from 1 January 2021.
What does the Committee do?	Advises the Board on remuneration policy and practices, sets and monitors standards of business behaviour and culture and has oversight of team development and wellness, succession planning and conflict management. The Committee also appoints remuneration advisers to review and advise on aspects of a remuneration policy and associated frameworks.
Who is included in the remuneration report?	<p>The independent non-executive directors (NED):</p> <ul style="list-style-type: none">▶ Mr David Ross (Chair);▶ Ms Rosemary Hartnett;▶ Mr Simon Parsons; and▶ Mr Dennis Wildenburg <p>The Executive KMP:</p> <ul style="list-style-type: none">▶ Mr Rob de Vos – CEO and Managing Director (CEO); and▶ Mr Gareth Winter – Executive Director and Chief Financial Officer (CFO)

REMUNERATION REPORT CONTINUED

Key Committee Decisions and remuneration outcomes in FY21

Governance	<p>The Committee engaged AON Rewards Solutions (AON) in the second half of FY21 to undertake a comprehensive review of Arena's remuneration framework including:</p> <ul style="list-style-type: none"> ▶ a market review of Executive Remuneration Structure and Design; ▶ a CEO and Executive Remuneration Benchmarking Report; and ▶ a NED Remuneration Benchmarking Report (collectively the AON Reports). <p>The AON Reports were considered by the Committee as part of the annual remuneration review with changes to remuneration for adoption in FY22 as summarised in this Report.</p>
Total Fixed Remuneration (TFR)	There was no change in Executive KMP fixed remuneration or Board fees in FY21.
Remuneration Mix	There was no change in the weighting of at-risk remuneration for Executive KMP in FY21.
Short Term Incentive (STI)	<ul style="list-style-type: none"> ▶ Executive KMP were awarded 95% of their FY21 STI opportunity based on the assessment of financial targets and performance in respect of non-financial objectives throughout FY21. ▶ 50% of an STI award to Executive KMP is deferred for 12 months with payment delivered in equity. The FY20 Deferred STI fully vested in August 2021.
Long Term Incentive (LTI)	<p>The testing of hurdles and other conditions in relation to the FY19 LTI Grant occurred as at 30 June 2021. The FY19 LTI Grant will fully vest:</p> <ul style="list-style-type: none"> ▶ Arena's FY21 DIS of 15.2 cents per security (representing CAGR of 5.1%) exceeded the upper performance hurdle range of 15.0 cents per security (target 4.6% CAGR); and ▶ Arena's 3 year Total Securityholder Return (TSR) of 83% (equivalent to 22% CAGR) ranked at the 89th percentile of the comparator group comprising the members of the ASX300 A-REIT Index over the performance period.

Key Decisions in respect to FY22 Remuneration

CEO Remuneration

It has been four years since the CEO remuneration was subject to an independent benchmarking review. Arena has experienced significant growth over that period as evidenced by a 60% increase in property income, an 85% increase in total assets and a 134% increase in market capitalisation.

The Committee reviewed the AON Report in relation to the CEO role and benchmarking data and has determined that Mr de Vos' Total Target Remuneration (TTR) will be adjusted for FY22 as set out in the comparison with FY21 below.

	FY21	FY22
TFR	\$500,000	\$700,000
STI	\$333,333	\$450,000
LTI	\$432,749	\$550,000
Total	\$1,266,082	\$1,700,000

- ▶ This will bring Mr de Vos' fixed remuneration in-line with the median and TTR in-line with the 75th percentile of the comparable roles identified by AON in the benchmarking review.
- ▶ 59% of Mr de Vos' FY22 TTR comprises at risk remuneration subject to short term and long term performance hurdles.
- ▶ The FY21 LTI amount in the comparison above has been stated at the equivalent face value of the LTI grant for consistency with the FY22 face value allocation methodology. LTI grant allocations were previously made on the basis of fair value.

DIRECTORS' REPORT

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REMUNERATION REPORT CONTINUED

CFO Remuneration	Mr Winter's TTR will increase by 4% from 1 July 2021 to \$1,008,313 (FY21 \$969,531). 56% of Mr Winter's FY22 TTR comprises at risk remuneration subject to short term and long term performance hurdles.
Short Term Incentive (STI)	There are no changes proposed to the structure of the STI in FY22.
Long Term Incentive (LTI)	<p>AON identified that:</p> <ul style="list-style-type: none">▶ Transitioning the issue price for the annual LTI grant to a face value methodology would be more consistent with typical contemporary market practice; and▶ as a consequence of changing the allocation methodology from fair value to face value, the LTI remuneration amount of the LTI participants should be adjusted so they are neither advantaged or disadvantaged from the change in methodology. <p>The Committee has determined:</p> <ul style="list-style-type: none">▶ The FY22 LTI Performance Rights will be issued at a face value calculated as the Volume Weighted Average Price (VWAP) of the 15 trading days in Arena securities to 30 June (ex-div). This is the existing method used to price the issue of Deferred STI Rights.▶ The remuneration value of the LTI for all participants will be adjusted using a factor of the average of the percentage differential between face value and fair value of a performance right over the previous three LTI grant years. The fair value has averaged approximately 64% of face value over the past three years. <p>There are no other changes proposed to the structure of the LTI in FY22.</p>
Non-Executive Director (NED) Board Fees	<p>Board fees are set at a level to attract and retain suitably qualified and experienced Directors having regard to appropriate benchmarks for comparable listed entities, the size and complexity of operations, responsibilities and time commitments.</p> <p>It has been four years since Board fees were subject to an independent benchmarking review. Arena has experienced significant growth over that period as evidenced by a 60% increase in property income, an 85% increase in total assets and a 134% increase in market capitalisation.</p> <p>The Committee reviewed the AON Report in relation to NED remuneration and the benchmarking data. The Committee has determined the following with effect from 1 July 2021 to bring annual fees in-line with market benchmarks:</p> <ul style="list-style-type: none">▶ The Board Chair fee (inclusive of all committee fees) will be set at \$230,000 per annum (previously \$207,000). This represents a ratio of 2.2x the base NED fee and 1.7x the average total NED fees which is also in line with benchmark data.▶ There will be no change to the base Board member fee of \$105,000 per annum.▶ The fee for the Chair of the Audit Committee and the Culture and Remuneration Committee will increase to \$20,000 per annum (previously \$10,000).▶ The fee for a member of the Audit Committee and the Culture and Remuneration Committee will increase to \$10,000 per annum (previously \$5,000).▶ The fees for the Chair and a member of the Nomination Committee will be set respectively at \$5,000 and \$2,500. <p>The Board intends to seek securityholder approval at the 2021 AGM to increase the Director fee pool (set in 2014) from the current limit of \$650,000 to \$1 million. This will provide flexibility for the orderly succession of directors, board diversity and future fee growth.</p>

REMUNERATION REPORT CONTINUED

Executive KMP Remuneration Framework linked to strategy and performance

Objective and Strategy	
Generate an attractive and predictable distribution for securityholders with earnings growth prospects over the medium to long term through developing, owning and managing social infrastructure property that meets Arena's preferred property characteristics	
Executive KMP Remuneration Framework Objectives	
Attract, retain and incentivise Executive KMP	Align remuneration to performance and the successful execution of strategy
Remuneration Principles	
<ul style="list-style-type: none"> ▶ Market competitive rewards to attract and retain high calibre talent capable of executing strategy. ▶ Total remuneration opportunity to include a significant proportion of at risk performance based pay. ▶ Guide the behaviour and actions of Executive KMP in-line with community expectations. 	<ul style="list-style-type: none"> ▶ Generate market competitive returns for securityholders. ▶ Assess incentives against financial and non-financial measures aligned with strategy and values. ▶ Deliver a meaningful component of Executive KMP remuneration in the form of equity subject to performance hurdles to align Executive KMP with outcomes in the best interests of securityholders over the medium to long term.

REMUNERATION REPORT CONTINUED

Executive KMP Remuneration Framework linked to strategy and performance *continued*

Remuneration Components		
Fixed Remuneration	STI (variable at risk)	LTI (variable at risk)
<ul style="list-style-type: none"> ▶ Base level of annual remuneration. ▶ Generally set around the median of comparable organisations with reference to complexity of the role and the skills and experience necessary for success in the role. ▶ Independently benchmarked on a periodic basis against comparable organisations. ▶ Generally reviewed annually. 	<ul style="list-style-type: none"> ▶ Performance based remuneration focused on business plan objectives including delivery of distributions to securityholders. ▶ Opportunity based on a percentage of fixed remuneration. ▶ Payable 50% in cash and 50% in equity with vesting of equity component deferred for 12 months. 	<ul style="list-style-type: none"> ▶ Performance based remuneration aligned directly with securityholder returns. ▶ Opportunity based on a percentage of fixed remuneration. ▶ Three year performance period. ▶ Payable in equity to align Executive KMP and securityholders. ▶ LTI participation is offered to all Arena staff to align their interests with securityholders. ▶ From FY22, a face value method will be used to allot the LTI opportunity (previously used an independently assessed fair value).
What are the STI and LTI performance hurdles?	<ul style="list-style-type: none"> ▶ Financial performance measures (50% weighting) based on Distribution and DIS targets. ▶ Non-financial objectives (50% weighting) based on, strategy and operations, team and culture and financial and risk. 	<ul style="list-style-type: none"> ▶ Vesting determined by performance against a DIS target range (50% weighting) and Relative TSR ranking (50% weighting) against the members of the ASX300 AREIT Index. ▶ DIS targets will be set at 3-5% CAGR as representing through-the-cycle growth expectations and stretch targets.
Why are these performance hurdles used and the link to Performance?	<ul style="list-style-type: none"> ▶ Aligns Executive KMP with immediate strategic objectives and the sound management of financial and non-financial business priorities required to deliver the annual business plan. ▶ Aligns with securityholder expectations of earnings growth targets. 	<ul style="list-style-type: none"> ▶ DIS is a key driver of securityholder returns with sustained growth in earnings over the medium to long term a key value driver for securityholder wealth. ▶ Relative TSR aligns Executive KMP with overall securityholder returns and reduces the effect of economic cycles by measuring performance relative to peers.
Can the Board cancel or vary incentives?	<ul style="list-style-type: none"> ▶ The Board has full discretion to reduce, cancel or increase STI and LTI incentives, including if information in respect of past awards arises that would otherwise have meant an award would not have been made. 	

REMUNERATION REPORT CONTINUED

Executive KMP Remuneration Mix

There was no change in Executive KMP remuneration mix in FY21.

Executive KMP	TFR	At Risk Performance Based Remuneration		
		Cash	Equity	
		STI	Deferred STI	LTI
	%	%	%	%
Rob de Vos	45	15	15	25
Gareth Winter	50	12.5	12.5	25

Executive KMP Employment Agreements

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

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

Performance & Variable Remuneration Outcomes

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

5 Year Performance Indicators						
Metric		FY21	FY20	FY19	FY18	FY17
Net Profit (Statutory)	\$million	165.4	76.6	59.3	64.4	96.8
Distributable Income	\$million	51.9	43.8	37.7	34.7	28.7
Distributable Income per Security	cents	15.2	14.55	13.8	13.1	12.3
Distributions per Security	cents	14.8	14.0	13.5	12.8	12.0
Net Asset Value per Security	\$	2.56	2.22	2.10	1.97	1.84
ASX Security Price at 30 June	\$	3.60	2.19	2.74	2.15	2.25
Gearing	%	19.9	14.8	22.1	24.7	27.5
Annual Total Shareholder Return (TSR)	%	72.4	(15.6)	34.3	1.2	19.8
Annual TSR of ASX-300 A-REIT Index	%	33.9	(20.7)	11.4	13.2	(5.6)

REMUNERATION REPORT CONTINUED

FY21 STI Scorecard Performance and Outcomes

The Board set the Executive KMP threshold and target financial performance hurdles and non-financial objectives required to deliver strategic priorities that create long term value for securityholders at the beginning of FY21. The Committee's assessment of the Executive KMP FY21 performance is set out in the scorecard below.

Financial Objectives (50%)			
Category	Measurement	Rating	Comments
Distributions and Earnings			
Threshold (25%)	FY21 Distributions in the range of 14.4 to 14.6 cents per security	E	Actual FY21 Distribution of 14.8 cents per security (6% growth)
Target (25%)	FY21 DIS of 15.0 cents	E	Actual FY21 DIS of 15.2 cents (4.5% growth)
Non-Financial Objectives (50%)			
Category	Key Components	Rating	Comments
Strategy & Operations	Investment and developments	E	<ul style="list-style-type: none"> 14 ELC development projects reached practical completion with a value of \$75 million and average net yield of 6.6%.
	Portfolio management		<ul style="list-style-type: none"> 7 ELCs acquired with a value of \$40 million at an average net yield of 6.1%.
	Tenant partners		<ul style="list-style-type: none"> 6 ELCs divested at a 16% premium to book value.
	Lease management		<ul style="list-style-type: none"> 9 ELC development projects with a forecast total cost on completion of \$54 million added to the development pipeline.
	Sustainability		<ul style="list-style-type: none"> Improved tenant engagement survey scores.
			<ul style="list-style-type: none"> WALE extended from 14.0 years to 14.4 years.
			<ul style="list-style-type: none"> 100% tenant occupancy.
			<ul style="list-style-type: none"> Market rent reviews of 6.5% achieved at upper end of target range.
			<ul style="list-style-type: none"> Data analytics project rolled out to tenants.
			<ul style="list-style-type: none"> Inaugural Sustainability Report published.
			<ul style="list-style-type: none"> Solar arrays installed at 21% of portfolio with an additional 45% in process.
Team & Culture	Safety & Wellbeing	T	<ul style="list-style-type: none"> No safety or injury incidents.
	Culture & Values		<ul style="list-style-type: none"> Improved team engagement scores.
	Development & Succession		<ul style="list-style-type: none"> Remote working protocols enacted and operating effectively.
			<ul style="list-style-type: none"> 100% staff retention.
Financial & Risk	Business risk priority & mitigation	T	<ul style="list-style-type: none"> Key business risk mitigations enacted.
	Liquidity		<ul style="list-style-type: none"> Business funding, liquidity and gearing maintained within approved parameters.
	Funding		<ul style="list-style-type: none"> Positive capital market engagement.
	Capital Markets		

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

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

The Committee reviewed the scorecard of Arena's performance throughout FY21, including the unprecedented circumstances created by the COVID-19 pandemic, and determined that the assessment of outcomes is consistent with the objective of the STI.

Noting that the Committee does not weight individual non-financial objectives, the Committee determined that based on a balanced assessment of the scorecard, the Executive KMP would be awarded 90% of their non-financial objectives component resulting in an overall award of 95% of their STI opportunity. The Committee also consulted with Arena's Audit Committee which confirmed that there were no adverse risk management or financial matters relevant to the assessment of Executive KMP performance.

The STI awards for Executive KMP based on their performance in FY21 are set out below.

Executive KMP FY21 STI Awards

Executive KMP	STI Award	Award as a % of STI Opportunity ¹	Cash Component	Equity Component ^{2,3}
	\$	%	\$	\$
Rob de Vos	316,666	95	158,333	158,333
Gareth Winter	201,876	95	100,938	100,938

1. The Board awards STI's based on a performance assessment of financial and non-financial objectives. An STI opportunity not awarded is forfeited.

2. Number of Deferred STI Rights which convert into Arena Stapled Securities on meeting vesting conditions. The number of rights is based on dividing the value of the award by the ex-div VWAP of Arena Stapled Securities in the 15 days prior to the end of the financial year (FY21: \$3.4422).

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

LTI Performance Measures and Assessment

Distributable Income per Security and Relative TSR were established as performance measures in 2014 at the commencement of Arena's LTI Plan. The Committee has considered whether these measures are appropriate in conjunction with AON's review of Arena's remuneration structure in FY21. The Committee confirmed that the hurdle measures remain aligned with business strategy and are metrics that align the Executive KMP with securityholders and drive long term sustainable performance and returns and are consistent with community expectations of Executive KMP behaviour.

REMUNERATION REPORT CONTINUED

LTI Year	Performance Measurement Period	LTI Performance Measure ⁴	Performance Hurdle	Result	Vesting Outcome ^{5,6}
FY19	FY19-FY21	Relative TSR ¹	50% of rights vest at the 50 th percentile; with pro rata vesting until 100% vesting at the 75 th percentile.	Arena's TSR of 83% (equivalent to a 22% CAGR) ranked at the 89 th percentile of the comparator group over the three year performance period.	100%
	FY21	DIS ^{2,3}	Target range of 14.3 cents to 15.0 cents ⁵ .	Target range exceeded. Actual DIS of 15.2 cents (equivalent to 5.1% CAGR over the three year performance period).	100%
				Overall Vesting ⁴	100%
FY20	FY20-FY22	Relative TSR ¹	50% of rights vest at the 50 th percentile; with pro rata vesting until 100% vesting at the 75 th percentile.	N/A	
	FY22	DIS ^{2,3}	Target range of 15.1 cents to 16.0 cents ⁵ .		
FY21	FY21-FY23	Relative TSR ¹	50% of rights vest at the 50 th percentile; with pro rata vesting until 100% vesting at the 75 th percentile.	N/A	
	FY23	DIS ^{2,3}	Target range of 15.9 cents to 16.9 cents ⁵ .		

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

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

3. The DIS target range for each LTI grant is set at earnings growth of 3% to 5% pa CAGR over the three year performance period. The target range is considered by the Committee to provide an appropriate through the cycle balance between risk and performance relative to earnings growth of the ASX300 A-REIT constituents. The DIS performance hurdle is assessed in the final year of a three year performance period.

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

5. 50% vesting at the threshold of the target range plus progressive pro-rata vesting between 50% and 100% (ie on a straight-line basis) with 100% vesting at or above the upper target.

6. The Board retains full discretion in respect of the LTI award including adjusting the conditions and / or performance outcomes to ensure that executive KMP are neither advantaged nor disadvantaged by matters that affect the conditions, for example the timing of a material equity raising or excluding the effects of one-off items.

DIRECTORS' REPORT

CONTINUED

REMUNERATION REPORT CONTINUED

Executive KMP Remuneration Summary (Actual Amounts Received)¹

Executive KMP		Short Term Benefits			Equity Based Payments ³		Total
		Salary ²	Cash STI	Non-Monetary Benefits	Deferred STI Rights	LTI Performance Rights	
		\$	\$	\$	\$	\$	\$
Rob de Vos	FY21	500,000	156,863	13,559	119,281	276,271	1,065,974
	FY20	500,000	121,667	12,893	124,799	343,646	1,103,005
Gareth Winter	FY21	425,000	100,000	11,849	91,911	279,725	908,485
	FY20	425,000	93,750	12,893	105,299	352,712	989,654

1. Voluntary disclosure of actual remuneration received by Executive KMP is aligned with contemporary market practice, however, the information does not align with disclosures required by accounting standards.

2. Salary includes mandatory superannuation guarantee contributions.

3. The value of vested equity based payments is based on the ASX price of an Arena Stapled Security on the date of issue of a stapled security following vesting.

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

Executive KMP		Short Term Benefits			Equity Based Payments		Long Service Leave	Total
		Salary ¹	Cash STI	Non-Monetary Benefits	Deferred STI Rights	LTI Performance Rights		
		\$	\$	\$	\$	\$	\$	\$
Rob de Vos	FY21	500,000	158,333	13,559	157,598	247,222	37,120	1,113,832
	FY20	500,000	156,863	12,893	139,265	214,280	12,993	1,036,294
Gareth Winter	FY21	425,000	100,938	11,849	100,469	204,166	8,965	851,387
	FY20	425,000	100,000	12,893	96,875	193,686	10,594	839,048

1. Salary includes mandatory superannuation guarantee contributions.

Executive KMP Statutory Remuneration Mix¹

Executive KMP	TFR	STI	LTI
	%	%	%
Rob de Vos	46	28	26
Gareth Winter	51	24	25

1. Variation between the total remuneration opportunity mix and actual remuneration mix is a result of non-vesting of opportunities and timing differences between granting an LTI and the amortisation for accounting of the LTI expense over the performance period.

REMUNERATION REPORT CONTINUED

Executive KMP Interests in Securities

Ordinary Stapled Securities						
Executive KMP	Balance 30 June 2020	Acquired	Disposed	Received as Remuneration	Other Changes	Balance 30 June 2021
	No.	No.	No.	No.	No.	No.
Rob de Vos	416,649	13,565	-	146,328	-	576,542
Gareth Winter	467,666	13,565	-	137,060	-	618,291

Deferred STI Rights								
Executive KMP	Year ¹	Opening Balance	Rights Granted ²	Rights Vested	Rights Lapsed	Closing Balance	Grant Value ⁴	Expected Vesting Date ⁵
		No.	No.	No.	No.	No.	\$	
Rob de Vos	FY21	-	45,998	-	-	45,998	158,333	Aug 22
	FY20	68,469	3,358 ³	-	-	71,827	156,863	Aug 21
	FY19	43,375	2,491 ³	(45,866)	-	-	121,667	Aug 20
Gareth Winter	FY21	-	29,324	-	-	29,324	100,938	Aug 22
	FY20	43,649	2,142 ³	-	-	45,791	100,000	Aug 21
	FY19	33,422	1,920 ³	(35,342)	-	-	93,750	Aug 20

1. Represents the period in respect of which the STI was awarded. The actual grant of Deferred STI Rights occurs in the following financial year with vesting in the financial year thereafter if vesting conditions are met.

2. 50% of the STI award divided by the 15 day VWAP (ex-div) to the end of the relevant financial year (FY21: \$3.4422; FY20: \$2.291; FY19: \$2.805).

3. Rights granted in respect to distribution equivalents.

4. Represents the face value of the Deferred STI award. This also represents a reasonable estimation of the fair value of the grant as Deferred STI Rights are entitled to distribution equivalents during the 12 month vesting period.

5. If all vesting conditions are met.

DIRECTORS' REPORT

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REMUNERATION REPORT CONTINUED

LTI Performance Rights ^{5,6,7,8}								
Executive KMP	Grant Year	Opening Balance	Rights Granted ^{1,2}	Rights Vested ³	Rights Lapsed	Closing Balance	Fair Value at Grant Date ²	Face Value at Grant Date ⁴
		No.	No.	No.	No.	No.	\$	\$
Rob de Vos	FY21	-	194,932	-	-	194,932	277,777	432,749
	FY20	157,828	-	-	-	157,828	277,777	429,292
	FY19	139,410	-	-	-	139,410	186,112	299,732
	FY18	119,314	-	(100,462)	(18,852)	-	177,779	268,457
Gareth Winter	FY21	-	149,123	-	-	149,123	212,500	331,053
	FY20	120,739	-	-	-	120,739	212,500	328,410
	FY19	140,450	-	-	-	140,450	187,500	301,968
	FY18	120,805	-	(101,718)	(19,087)	-	180,000	271,811

1. LTI opportunity divided by the independent valuation of the fair value of an LTI Performance Right at the grant date.
2. FY21 Grants have a grant date of 1 July 2020. The Fair Value per Right of \$1.425 was determined by an independent valuation. Refer to Note 23 of the financial report for information on the valuation inputs.
3. Testing of the performance and other hurdles in relation to the Rights issued in FY18 occurred post 30 June 2020. Vesting of Rights in accordance with the FY19 LTI assessment will be reflected in FY22.
4. Number of Rights granted multiplied by the security price on the relevant grant date. If Rights vest (subject to performance and other conditions), the security price on the date of issue of securities may be higher or lower than grant date. The value of the unvested Rights may be nil if the vesting conditions are not met and the rights lapse.
5. Distributions are not paid on unvested LTI awards.
6. No payment is required on issue of Rights or stapled securities in respect of a vested Right.
7. In the event of an actual or proposed change of control event that the Board in its discretion determines should be treated as a change of control, a pro-rata number of unvested grants will vest at the time of the relevant event, based on the performance period elapsed and the extent to which performance hurdles have been achieved at the time (unless the Board determines another treatment in its discretion).
8. Executive KMP are restricted 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.

Non-Executive Director Remuneration Framework

How are Non-Executive Director (NED) fees set?	Fees are set to ensure NEDs are remunerated fairly for their services, recognising the level of skill, expertise and experience required to perform the role. The fees are periodically benchmarked against a comparable group of listed entities.
Who approves the fees?	Each NED is paid an amount determined by the Board. NEDs do not receive any equity based payments, retirement benefits or incentive payments.
Is there a maximum fee?	NED fees are subject to a maximum aggregate amount approved by securityholders of \$650,000 per annum.
Are NEDs required to have a minimum security holding?	Arena's minimum security holding policy requires NEDs to build (over three years from date of appointment) and maintain a minimum holding of Arena securities equivalent to 50% of their annual Board Fee.

FY21 Board and Committee Fees³

	Board Fee ¹	Audit Committee	Culture & Remuneration Committee ²	Nomination Committee ²
	\$	\$	\$	\$
Chair	207,000	10,000	10,000	5,000
Member	105,000	5,000	5,000	2,500

1. The Board fee received by the Chair of the Board is inclusive of all Committee fees.
2. On 1 January 2021, the Remuneration & Nomination Committee was split into two separate committees, being the Culture & Remuneration Committee and the Nomination Committee.
3. All Fees are inclusive of Superannuation.

REMUNERATION REPORT CONTINUED

Non-Executive Director Reported Remuneration (statutory)

		Fee ¹
		\$
David Ross (Chair)	FY21	207,000
	FY20	207,000
Rosemary Hartnett ²	FY21	120,000
	FY20	101,803
Simon Parsons	FY21	117,500
	FY20	115,000
Dennis Wildenburg	FY21	122,500
	FY20	120,000

1. Fees include mandatory superannuation guarantee contributions.

2. Ms Hartnett was appointed to the Board on 13 August 2019.

Non-Executive Director Security Holdings

Ordinary Securities	Balance 30 June 2020	Acquired	Disposed	Balance 30 June 2021
	No.	No.	No.	No.
David Ross	200,000	13,565	-	213,565 ¹
Rosemary Hartnett	9,800	9,705	-	19,505 ¹
Simon Parsons	204,079	13,565	-	217,644 ¹
Dennis Wildenburg	159,769	13,565	-	173,334 ¹

1. Compliant with minimum security holding policy.

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 2021 are disclosed in note 24 of the financial statements.

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

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

DIRECTORS' REPORT

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INTERESTS IN THE GROUP

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

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

ENVIRONMENTAL REGULATION

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

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

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

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 41.

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



David Ross, Chair
Melbourne, 11 August 2021

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 2021, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
11 August 2021

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

			Consolidated	
For the year ended 30 June 2021			30 June 2021	30 June 2020
	Notes		\$'000	\$'000
Income				
Property income	8(c)		68,360	59,801
Management fee income			510	527
Interest			31	84
Revaluation of investment properties	8		99,099	30,969
Profit/(loss) on sale of direct properties			1,909	1,303
Total income			169,909	92,684
Expenses				
Property expenses	8(c)		(682)	(610)
Management and administration expenses			(5,172)	(5,262)
Net gain/(loss) on change in fair value of derivative financial instruments			4,949	(4,104)
Finance costs	3		(3,423)	(5,738)
Other expenses			(230)	(329)
Total expenses			(4,558)	(16,043)
Net profit for the year			165,351	76,641
Other comprehensive income			-	-
Total comprehensive income for the year			165,351	76,641
Total comprehensive income for the year is attributable to Arena REIT stapled group investors, comprising:				
Unitholders of Arena REIT No. 1			143,270	69,937
Unitholders of Arena REIT No. 2 (non-controlling interest)			23,222	7,819
Unitholders of Arena REIT Limited (non-controlling interest)			(1,141)	(1,115)
			165,351	76,641
		Notes	Cents	Cents
Earnings per security:				
Basic earnings per security in Arena REIT No. 1		5	41.92	23.20
Diluted earnings per security in Arena REIT No. 1		5	41.73	23.08
Basic earnings per security in Arena REIT Group		5	48.38	25.43
Diluted earnings per security in Arena REIT Group		5	48.16	25.30

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

CONSOLIDATED BALANCE SHEET

		Consolidated	
For the year ended 30 June 2021		30 June 2021	30 June 2020
	Notes	\$'000	\$'000
Current assets			
Cash and cash equivalents	6	14,018	76,330
Trade and other receivables	7	11,887	9,687
Total current assets		25,905	86,017
Non-current assets			
Receivables	7	1,372	1,531
Property, plant and equipment		987	209
Investment properties	8	1,112,431	914,007
Intangible assets	9	10,816	10,816
Total non-current assets		1,125,606	926,563
Total assets		1,151,511	1,012,580
Current liabilities			
Trade and other payables	10	12,801	10,713
Provisions		413	268
Distributions payable		12,801	22,419
Lease liabilities		215	125
Total current liabilities		26,230	33,525
Non-current liabilities			
Derivative financial instruments	12	6,174	13,110
Provisions		335	237
Interest bearing liabilities	11	239,163	213,828
Lease liabilities		691	-
Total non-current liabilities		246,363	227,175
Total liabilities		272,593	260,700
Net assets		878,918	751,880
Equity			
Contributed equity - ARF1	13	406,736	396,825
Accumulated profit		335,143	235,956
Non-controlling interests - ARF2 and ARL		137,039	119,099
Total equity		878,918	751,880

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Consolidated			
For the year ended 30 June 2021	Contributed equity	Accumulated profit	Non-controlling interests - ARL & ARF2	Total equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	306,368	204,155	99,783	610,306
Profit for the year	-	69,937	6,704	76,641
Total comprehensive income for the year	-	69,937	6,704	76,641
Transactions with owners in their capacity as owners:				
Issue of securities under the DRP	6,665	-	1,001	7,666
Issue of securities under the Institutional Placement	49,304	-	9,485	58,789
Issue of securities under the Security Purchase Plans*	34,488	-	6,697	41,185
Distributions to securityholders	-	(38,136)	(5,703)	(43,839)
Equity-based remuneration	-	-	1,132	1,132
Balance at 30 June 2020	396,825	235,956	119,099	751,880
Balance at 1 July 2020	396,825	235,956	119,099	751,880
Profit for the year	-	143,270	22,081	165,351
Total comprehensive income for the year	-	143,270	22,081	165,351
Transactions with owners in their capacity as owners:				
Issue of securities under the DRP	9,911	-	1,487	11,398
Distributions to securityholders	-	(44,083)	(6,588)	(50,671)
Equity-based remuneration	-	-	960	960
Balance at 30 June 2021	406,736	335,143	137,039	878,918

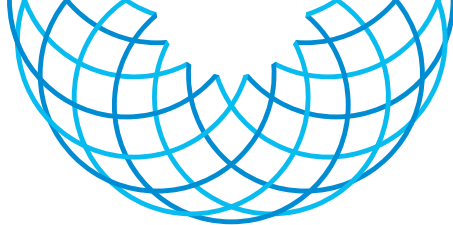
* Includes Security Purchase Plans settled on 1 July 2019 and 30 June 2020. Refer to note 13 (b).

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Consolidated	
For the year ended 30 June 2021		30 June 2021	30 June 2020
	Notes	\$'000	\$'000
Cash flows from operating activities			
Receipts in the course of operations		69,005	57,929
Payments in the course of operations		(14,479)	(10,522)
Finance costs paid		(3,127)	(5,427)
Interest received		31	83
Net cash inflow from operating activities	16	51,430	42,063
Cash flows from investing activities			
Proceeds from sale of investment properties		18,575	10,713
Payments for investment properties and capital expenditure		(106,063)	(86,610)
Net cash (outflow) from investing activities		(87,488)	(75,897)
Cash flows from financing activities			
Net proceeds from issue of securities		-	99,938
Distributions paid to securityholders		(48,818)	(23,550)
Loan establishment costs paid		-	(545)
Capital receipts from lenders		50,000	91,500
Capital payments from lenders		(27,436)	(65,313)
Net cash (outflow)/inflow from financing activities		(26,254)	102,030
Net (decrease)/increase in cash and cash equivalents		(62,312)	68,196
Cash and cash equivalents at the beginning of the financial year		76,330	8,134
Cash and cash equivalents at the end of the financial year	6	14,018	76,330

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



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

These financial statements cover Arena REIT (the 'Group') comprising Arena REIT No. 1, 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 11 August 2021. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

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

The financial report has been prepared on an accruals and historical cost basis except for investment properties, financial assets at fair value through profit or loss, derivative financial instruments which are measured at fair value, and 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.

Going Concern

As at 30 June 2021, the Group is in net current liability position of \$0.3 million. The deficiency is due to working capital management within the Group, and the difference in the timing of drawdowns from the Group's debt facility and the timing of expenditure. As at the date of this report, the Group has in excess of \$90 million of unused debt facility which can be drawn to fund cashflow requirements.

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

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

(i) New and amended standards adopted by the Group

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

(ii) New accounting standards and interpretations not yet adopted

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

(b) Critical accounting estimates and judgements

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements which are material to the financial report are found in the following notes:

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

FINANCIAL RESULTS, ASSETS AND LIABILITIES

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

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

2. SEGMENT INFORMATION

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

3. FINANCE COSTS

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Finance costs:		
Interest paid or payable	2,994	5,343
Loan establishment and other finance costs	429	395
Total finance costs expensed	3,423	5,738
Finance costs capitalised (a)	3,605	2,069
Total finance costs	7,028	7,807

(a) Accounting policy - Finance costs

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

4. INCOME TAXES

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

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

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Profit before income tax	(165,351)	(76,641)
Tax at the applicable Australian tax rate of 26.0% (2020 - 27.5%)	42,991	21,076
Profit attributable to entities not subject to tax	43,606	21,383
Deferred tax assets not recognised	(615)	(307)
Income tax expense	-	-

Unrecognised deferred tax assets are \$0.6 million (2020: \$0.3 million). These have not been recognised as it is not probable that future taxable profit will arise to offset these deductible temporary differences.

(b) Accounting policy - income tax

(i) Trusts

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

(ii) Companies

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. INCOME TAXES CONTINUED

(iii) Tax consolidation legislation

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

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

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

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

5. EARNINGS PER SECURITY ('EPS')

	2021	2020
	Cents	Cents
Basic EPS in Arena REIT No. 1	41.92	23.20
Diluted EPS in Arena REIT No. 1	41.73	23.08
Basic EPS in Arena REIT Group	48.38	25.43
Diluted EPS in Arena REIT Group	48.16	25.30

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

	2021	2020
	Number of securities	Number of securities
	'000	'000
Weighted average number of ordinary securities used in calculating basic EPS	341,774	301,421
Rights granted under employee incentive plans	1,538	1,545
Adjusted weighted average number of ordinary securities used in calculating diluted EPS	343,312	302,966

	30 June 2021	30 June 2020
	\$'000	\$'000
Earnings used in calculating basic EPS for Arena REIT No. 1	143,270	69,937
Earnings used in calculating diluted EPS for Arena REIT No. 1	143,270	69,937
Earnings used in calculating basic EPS for Arena REIT Group	165,351	76,641
Earnings used in calculating diluted EPS for Arena REIT Group	165,351	76,641

5. EARNINGS PER SECURITY ('EPS') CONTINUED

(a) Accounting policy - earnings per security

(i) Basic earnings per security

Basic earnings per security is calculated by dividing:

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

(ii) Diluted earnings per security

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

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

6. CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Cash at bank	14,018	76,330
Total cash and cash equivalents	14,018	76,330

(a) Accounting policy - Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. TRADE AND OTHER RECEIVABLES

(a) Trade and other receivables - Current

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Trade receivables	1,003	1,707
Expected credit loss provision	(154)	(315)
Other receivables	7,441	7,569
Prepayments	3,257	726
Deferred management fees receivable	340	-
	11,887	9,687

Other receivables as at 30 June 2021 includes \$5 million of sales proceeds payable to the Group following the disposal of ELC assets during the year ended 30 June 2021 (30 June 2020: \$6.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. TRADE AND OTHER RECEIVABLES CONTINUED

(i) Impairment and ageing

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

	Gross	Expected credit loss provision	Gross	Expected credit loss provision
	2021	2021	2020	2020
	\$'000	\$'000	\$'000	\$'000
Not past due	1,003	(154)	1,336	(194)
Past due 0 - 30 days	-	-	208	(67)
Past due 31 - 60 days	-	-	163	(54)
Past due 61 - 90 days	-	-	-	-
Past due over 90 days	-	-	-	-
	1,003	(154)	1,707	(315)

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.

(b) Receivables - Non-current

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Trade receivables	1,097	876
Deferred RE Management & Exit Fees Receivable	275	655
Total	1,372	1,531

(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:

	30 June 2021		30 June 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
Trade receivables	1,097	1,097	876	876
Deferred management & performance fees	275	275	655	655
	1,372	1,372	1,531	1,531

7. TRADE AND OTHER RECEIVABLES CONTINUED

(c) Accounting policy - Receivables

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

Receivables are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Group measures the loss allowance on receivables at an amount equal to the lifetime expected credit losses. Expected credit losses are measured using probability of default, exposure at default and loss given default. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An expected credit loss provision is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the expected credit loss provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Non-current trade receivables include deferred rent receivables from tenants that are not expected to be settled within twelve months after the reporting date. Cash flows relating to 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 expected credit loss provision had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

8. INVESTMENT PROPERTIES

(a) Valuations and carrying amounts

Property Portfolio	Carrying amount		Latest valuation	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
ELC properties	906,760	722,015	802,420	722,015
ELC developments	52,407	55,361	27,882	55,361
Healthcare properties	153,264	136,631	143,187	136,631
Total	1,112,431	914,007	973,489	914,007

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') and 3 healthcare properties as at 31 December 2020, and a further 46 ELCs and 4 healthcare properties as at 30 June 2021. The directors have reviewed these valuations and has determined they are appropriate to adopt during the financial period ending 30 June 2021. Director valuations were performed on investment properties not independently valued.

Development properties have been subject to a Director valuation and are carried at the lower of cost or fair value on completion less cost to complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8. INVESTMENT PROPERTIES CONTINUED

(a) Valuations and carrying amounts (continued)

The key inputs into valuations are:

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

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

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

Investment properties have been reclassified from Level 2 during the year for disclosure consistency with comparable entities.

(i) Key assumptions - ELCs

	30 June 2021	30 June 2020
Market rent per licenced place	\$1,300 to \$5,400	\$1,300 to \$5,300
Capitalisation rates	5.00% to 7.50%	5.00% to 7.50%
Passing yields	4.00% to 7.50%	4.00% to 7.50%

(ii) Key assumptions - Healthcare properties

	30 June 2021	30 June 2020
Capitalisation rates	4.75% to 6.25%	5.25% to 7.00%
Passing yields	5.00% to 6.25%	5.50% to 7.00%

(iii) Sensitivity analysis

For ELC properties, if the capitalisation rate expanded by 25 basis points, fair value would reduce by \$38 million from the fair value as at 30 June 2021 and if the capitalisation rate compressed by 25 basis points, fair value would increase by \$41 million from the fair value as of 30 June 2021.

For Healthcare properties, if the discount rates or capitalisation rates expanded by 25 basis points, fair value would reduce by \$7 million from the fair value as at 30 June 2021 and if the capitalisation rate or discount rate compressed by 25 basis points, fair value would increase by \$7 million from the fair value as of 30 June 2021.

8. INVESTMENT PROPERTIES CONTINUED

(b) Movements during the financial year

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
At fair value		
Opening balance	914,007	798,318
Property acquisitions and capital expenditure	105,762	90,702
Disposals	(14,914)	(11,930)
Revaluations	99,099	30,969
Other IFRS revaluation adjustments	8,477	5,948
Closing balance	1,112,431	914,007

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

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Property income	59,808	53,844
Other property income (recognised on a straight line basis)	8,552	5,957
Direct operating expenses from property that generated property income	(682)	(610)
Revaluation gain on investment properties	99,099	30,969

(d) Tenancy risk

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

- ▶ Goodstart Early Learning Ltd ('Goodstart') - representing 27% of the Group's investment property portfolio by income. Like many not-for-profit entities, Goodstart is a company limited by guarantee. It therefore does not have "shareholders", rather, each of the member charities (Mission Australia, Benevolent Society, Brotherhood of St Laurence and Social Ventures Australia) is a member of the company. Goodstart's "capital" is loan capital of varying degrees of risk and subordination.
- ▶ Green Leaves Group Limited ('Green Leaves') - representing 17% of the Group's investment property portfolio by income. Green Leaves is a privately held provider of early childhood education, owning and operating approximately 30 ELCs throughout Australia.
- ▶ Idameneo (No. 123) - representing 10% of the Group's investment property portfolio by income. Idameneo is a company controlled by BGH Capital and a major operator of multi-disciplinary medical clinics throughout Australia. Idameneo leases property from the Group through a wholly-owned subsidiary, providing a corporate guarantee from its parent company and a bank guarantee as security for their performance under the leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8. INVESTMENT PROPERTIES CONTINUED

Other Tenants

Operator	% of Investment Property Portfolio by Income
Affinity	7%
G8 Education	6%
Edge Early Learning	6%
Petit Early Learning Journey	4%
Oxanda Education	3%
SACare	2%

All of the above tenants are ELC or healthcare operators. G8 Education is listed on the Australian Securities Exchange. The other tenants are privately owned with experience operating ELCs or healthcare businesses. Typically, tenants are required to provide an unconditional and irrevocable bank guarantee, which must not expire until at least six months after the ultimate expiry of the lease.

(e) Assets pledged as security

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

(f) Contractual obligations

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

	30 June 2021	30 June 2020
	\$'000	\$'000
Investment properties	25,741	38,326

The above commitments include the costs associated with developments, and the acquisition of early learning properties.

(g) Leasing arrangements

Investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Minimum lease receivable under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within 1 year	61,683	53,593
1 - 2 years	62,856	54,864
2 - 3 years	64,116	55,674
3 - 4 years	65,549	56,581
4 - 5 years	67,174	57,057
Greater than 5 years	779,062	625,008
	1,100,440	902,777

8. INVESTMENT PROPERTIES CONTINUED

(h) Accounting policy - Investment properties

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

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

(i) Valuation basis

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

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

9. INTANGIBLE ASSETS

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Goodwill	10,816	10,816
	10,816	10,816

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

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

The Group tests impairment of goodwill annually by comparing its carrying amount with its recoverable amount. The recoverable amount is determined 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 6.50% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. INTANGIBLE ASSETS CONTINUED

(a) Accounting policy - Goodwill

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

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

10. TRADE AND OTHER PAYABLES

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Prepaid rental income	3,475	2,060
Sundry creditors and accruals	9,326	8,653
	12,801	10,713

Trade and other payables are non-interest bearing.

11. INTEREST BEARING LIABILITIES

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Non-current:		
Secured		
Syndicated facility	240,000	215,000
Unamortised transaction costs	(837)	(1,172)
Total secured non-current borrowings	239,163	213,828

(a) Financing arrangements

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Committed facilities available at the end of the reporting period		
Interest bearing liabilities	330,000	330,000
Facilities used at the end of the reporting period		
Interest bearing liabilities	240,000	215,000

11. INTEREST BEARING LIABILITIES CONTINUED

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 ARF1 and ARF2.

The carrying amounts of assets pledged as security are:

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Financial assets pledged		
Cash and cash equivalents	8,938	71,223
Trade and other receivables	15,639	10,394
	24,577	81,617

	30 June 2021	30 June 2020
	\$'000	\$'000
Other assets pledged		
Investment properties	1,112,431	914,007
	1,112,431	914,007

(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 2021 of 8.9 times) and a loan to market value of investment properties ratio of less than 50% (actual at 30 June 2021 of 21.6%). The Group was in compliance with its covenants throughout the year.

(d) Accounting policy - Borrowings

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Non-current liabilities		
Interest rate swaps	6,174	13,110
	6,174	13,110

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

Swaps in place as at 30 June 2021 cover 69% (2020: 80%) of the facility principal outstanding. The weighted average fixed interest swap rate at 30 June 2021 was 1.86% (2020: 2.20%), and the weighted average term was 4.4 years (2020: 4.7 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 2021	30 June 2020
	\$'000	\$'000
Less than 1 year	-	10,000
1 – 2 years	30,000	15,000
2 – 3 years	15,000	30,000
3 – 4 years	15,000	15,000
4 – 5 years	30,000	27,500
Greater than 5 years	75,000	75,000
	165,000	172,500

(a) Accounting policy - Derivative financial instruments

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

(b) Key estimate - Fair value of financial instruments

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

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

13. CONTRIBUTED EQUITY

(a) Securities

	Consolidated			
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
	Securities '000	Securities '000	\$'000	\$'000
Ordinary Securities				
Fully paid	343,644	327,278	406,736	396,825

Other contributed equity attributable to securityholders of the Group relating to ARF2 and ARL of \$82 million is included within Non-controlling interests - ARF2 and ARL (30 June 2020: \$79.2 million).

(b) Movements in ordinary securities

Date	Details	Number of securities	
		'000	\$'000
1 July 2019	Opening balance	291,325	306,368
1 July 2019	Issue of securities under the Security Purchase Plan (iv)	6,211	13,621
	Issue of securities under the DRP (i)	2,743	6,665
	Vesting of equity-based remuneration (ii)	683	-
5 June 2020	Issue of securities under the Institutional Placement (iii)	26,316	49,304
30 June 2020	Issue of securities under the Security Purchase Plan (iv)	-	20,867
30 June 2020	Closing balance	327,278	396,825
1 July 2020	Opening balance	327,278	396,825
	Issue of securities under the Security Purchase Plan (iv)	11,270	-
	Issue of securities under the DRP (i)	4,449	9,911
	Vesting of equity-based remuneration (ii)	647	-
30 June 2021	Closing balance	343,644	406,736

(i) Distribution Re-investment Plan (DRP)

The Group has a Distribution Reinvestment Plan (DRP) under which securityholders may elect to have all or part of their distribution entitlements satisfied by the issue of new securities rather than being paid in cash.

(ii) Equity-based remuneration

In September 2020, 474,217 performance rights granted to employees of a related party of the Responsible Entity in FY18 vested as a result of performance conditions being fulfilled. In addition, 173,265 deferred short-term incentive rights granted to employees of a related party of the Responsible Entity in FY19 vested.

(iii) Institutional Placement

The Group completed a fully underwritten placement to institutional and professional investors in June 2020 which raised \$60 million through the issue of 26,315,790 stapled securities at a price of \$2.28 per stapled security. Settlement of the new stapled securities under the placement occurred on 5 June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13. CONTRIBUTED EQUITY CONTINUED

(iv) Security Purchase Plan (SPP)

In conjunction with the Institutional Placement in May 2019, the Stapled Group offered a Security Purchase Plan (SPP) to eligible investors in June 2019. \$16.37 million was raised through the issue of 6,211,244 stapled securities at a price of \$2.63625 per stapled security. Settlement of the new stapled securities under the SPP occurred on 1 July 2019.

In conjunction with the Institutional Placement in June 2020, the Group offered a Security Purchase Plan (SPP) to eligible investors. \$24.92 million was raised through the issue of 11,269,908 stapled securities at a price of \$2.2115 per stapled security. New stapled securities under the SPP were issued on 1 July 2020.

14. ACCUMULATED PROFIT

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000

Movements in accumulated profit were as follows:

Opening accumulated profit	235,956	204,155
Net profit for the year attributable to ARF1	143,270	69,937
Distribution paid or payable attributable to ARF1	(44,083)	(38,136)
Closing accumulated profit	335,143	235,956

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 \$6.6 million (30 June 2020: \$5.7 million).

Distributions declared	2021	2020	2021	2020
	\$'000	\$'000	cps	cps
September quarter	12,363	10,694	3.625	3.575
December quarter	12,735	10,726	3.725	3.575
March quarter	12,772	-	3.725	-
June quarter	12,801	22,419	3.725	6.850
Total distributions to securityholders	50,671	43,839	14.800	14.000

15. NON-CONTROLLING INTERESTS

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

Movements in non-controlling interests were as follows:

	ARF2	ARL	Total
	30 June 2020	30 June 2020	30 June 2020
	\$'000	\$'000	\$'000
Opening balance - 1 July 2019	81,703	18,080	99,783
Issue of securities under the DRP	1,001	-	1,001
Issue of securities under the Institutional Placement	7,843	1,642	9,485
Issue of securities under the Security Purchase Plan	5,508	1,189	6,697
Vesting of equity-based remuneration	-	1,049	1,049
Net profit/(loss) for the year attributable to non-controlling interests	7,819	(1,115)	6,704
Distributions paid or payable attributable to non-controlling interests	(5,703)	-	(5,703)
Increase/(decrease) in reserves (i)	-	83	83
Closing balance - 30 June 2020	98,171	20,928	119,099

	ARF2	ARL	Total
	30 June 2021	30 June 2021	30 June 2021
	\$'000	\$'000	\$'000
Opening balance - 1 July 2020	98,171	20,928	119,099
Issue of securities under the DRP	1,487	-	1,487
Issue of securities under the Institutional Placement	-	-	-
Vesting of equity-based remuneration	-	1,322	1,322
Net profit/(loss) for the year attributable to non-controlling interests	23,222	(1,141)	22,081
Distributions paid or payable attributable to non-controlling interests	(6,588)	-	(6,588)
Increase/(decrease) in reserves (i)	-	(362)	(362)
Closing balance - 30 June 2021	116,292	20,747	137,039

(i) Reserves

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Opening balance	2,113	2,030
Vesting of equity-based remuneration	(1,322)	(1,049)
Equity-based remuneration expense	960	1,132
Balance 30 June	1,751	2,113

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. CASHFLOW INFORMATION

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

	Consolidated	
	30 June 2021	30 June 2020
	\$'000	\$'000
Profit for the year	165,351	76,641
Amortisation of borrowing costs	335	303
Net increase in fair value of investment properties	(99,099)	(30,969)
Straight lining adjustment on rental income	(8,552)	(5,957)
Net (gain)/loss on sale of direct property	(1,909)	(1,303)
Net (gain)/loss on derivative financial instruments	(4,949)	4,104
Equity-based remuneration expense	960	1,132
Other	171	548
Changes in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	(1,540)	(2,596)
(Decrease)/increase in trade and other payables	432	87
(Decrease)/increase in provisions	230	73
Net cash inflow from operating activities	51,430	42,063

(b) Net debt reconciliation

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

	Cash and cash equivalents	Interest bearing liabilities	Derivative financial instruments	Total
	\$'000	\$'000	\$'000	\$'000
Net debt as at 1 July 2019	8,134	(187,570)	(9,180)	(188,616)
Cash flows	68,196	(25,955)	174	42,415
Other non-cash movements	-	(428)	(4,104)	(4,532)
Net debt as at 30 June 2020	76,330	(213,953)	(13,110)	(150,733)
Net debt as at 1 July 2020	76,330	(213,953)	(13,110)	(150,733)
Cash flows	(62,312)	(24,838)	1,987	(85,163)
Other non-cash movements	-	(1,278)	4,949	3,671
Net debt as at 30 June 2021	14,018	(240,069)	(6,174)	(232,225)

RISK

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

17. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group's 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 2021	30 June 2020
	\$'000	\$'000
Financial assets		
Cash and cash equivalents (floating interest rate)	14,018	76,330
Financial liabilities		
Interest bearing liabilities - floating interest rate	(240,000)	(215,000)
Derivative financial instruments (notional principal amount) - fixed rate interest rate swaps	165,000	172,500
Net Exposure	(60,982)	33,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. 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	
	30 June 2021	30 June 2020
	\$'000	\$'000
Market interest rate increased by 100 basis points (2020: 100 bp)	(610)	338
Market interest rate decreased by 100 basis points (2020: 100 bp)	610	(338)
Instruments with fair value risk:		
Derivative financial instruments	165,000	172,500
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 (2020: 100 bp)	6,823	7,945
Market interest rate decreased by 100 basis points (2020: 100 bp)	(6,823)	(7,945)

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 2021	30 June 2020
	\$'000	\$'000
Cash at bank	14,018	76,330
Trade and other receivables	9,541	10,152
Less: Expected credit loss provision	(154)	(315)
Maximum exposure to credit risk	23,405	86,167

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, expected credit losses provision is made for debts that are doubtful.

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

17. 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	1-2 years	Greater than 2 years
30 June 2021	\$'000	\$'000	\$'000
Trade and other payables	12,801	-	-
Interest rate swaps	3,050	2,834	6,703
Interest bearing liabilities	3,573	133,183	111,895
Contractual cash flows (excluding gross settled derivatives)	19,424	136,017	118,598

Consolidated	Less than 12 months	1-2 years	Greater than 2 years
30 June 2020	\$'000	\$'000	\$'000
Trade and other payables	10,713	-	-
Interest rate swaps	2,584	2,431	6,502
Interest bearing liabilities	4,739	4,739	220,555
Contractual cash flows (excluding gross settled derivatives)	18,036	7,170	227,057

(d) Fair value estimation

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

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

(e) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT CONTINUED

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 2021 and 30 June 2020 on a recurring basis:

Consolidated	Level 1	Level 2	Level 3	Total
30 June 2021	\$'000	\$'000	\$'000	\$'000
Financial liabilities				
Interest rate swaps	-	6,174	-	6,174
Total	-	6,174	-	6,174

Consolidated	Level 1	Level 2	Level 3	Total
30 June 2020	\$'000	\$'000	\$'000	\$'000
Financial liabilities				
Interest rate swaps	-	13,110	-	13,110
Total	-	13,110	-	13,110

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 2021.

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

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

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

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

(f) AFSL financial compliance risk

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

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

18. CAPITAL MANAGEMENT

The objectives of the 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.

Consistent with others in the industry, the Group monitors capital through the analysis of a number of financial ratios, including the Gearing ratio.

Gearing Ratio	30 June 2021	30 June 2020
	\$'000	\$'000
Net Interest bearing liabilities	225,982	138,670
Total assets less cash	1,137,493	936,250
Gearing ratio	19.9%	14.8%

GROUP STRUCTURE

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

19. INVESTMENTS IN CONTROLLED ENTITIES

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2021	2020
			%	%
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

UNRECOGNISED ITEMS

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

20. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

There are no material outstanding contingent assets or liabilities as at 30 June 2021 and 30 June 2020. For details of commitments of the Group as at 30 June 2021, refer to note 8.

21. EVENTS OCCURRING AFTER THE REPORTING PERIOD

In July 2021, the Group renegotiated the leases with its largest tenant partner Goodstart Early Learning (Goodstart) that resulted in:

- ▶ Installation of solar renewable energy systems across all Arena owned Goodstart properties that will lead to a reduction of energy costs and CO2 emissions by approximately 1,000 tonnes per annum.
- ▶ Increase of Renegotiated Portfolio lease term (87 properties) by 25 years that increases Arena's portfolio pro-forma WALE as at 30 June 2021 to 20.1 years compared with 14.7 years at HY21.

Other than the matter identified above, no significant events have occurred since the end of the reporting period which would impact on the financial position of the Group disclosed in the consolidated balance sheet as at 30 June 2021 or on the results and cash flows of the Group for the year ended on that date.

FURTHER DETAILS

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

22. RELATED PARTY DISCLOSURES

Subsidiaries

Investments in controlled entities is set out in note 19.

Key management personnel compensation

	30 June 2021	30 June 2020
	\$	\$
Short term employee benefits	1,684,098	1,662,266
Post-employment benefits	92,580	89,185
Long term benefits	46,085	23,587
Termination benefits	-	-
Equity-based remuneration	709,455	644,106
	2,532,218	2,419,144

Detailed remuneration disclosures are provided in the Remuneration report.

Stapled group

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

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

Responsible entity

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

	30 June 2021	30 June 2020
	\$	\$
The following transactions occurred with related parties:		
Property management income received from other related parties	41,997	41,626
Management fees received by the Group from other related parties	238,833	230,000
Property income received from other related parties	16,122	11,550
Increase/(decrease) in fair value of performance fee receivable by the Group from other related parties	20,510	51,499
Amounts receivable:		
Amount receivable from other related parties at the end of the reporting period	39,887	30,041
Deferred management and performance fees receivable at the end of the reporting period	614,823	652,292
Amounts payable:		
Amounts payable to other related parties at the end of the reporting period	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23. EQUITY-BASED REMUNERATION

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

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

Performance rights	2021	2020	2019	2018	Total
	No.	No.	No.	No.	No.
Rights issued	475,774	377,023	604,596	658,098	2,115,491
Performance rights issued	475,774	377,023	604,596	658,098	2,115,491
Number rights forfeited/lapsed in prior years	-	-	(111,319)	(94,895)	(206,214)
Number rights forfeited/lapsed in current year	-	-	-	(88,986)	(88,986)
Number rights vested in prior years	-	-	-	-	-
Number rights vested in current year	-	-	-	(474,217)	(474,217)
Closing balance	475,774	377,023	493,277	-	1,346,074

Deferred Short Term Incentive Rights	2021	2020	2019	2018	Total
	No.	No.	No.	No.	No.
Rights issued	191,677	161,034	171,120	-	523,831
Deferred Short Term Incentive rights issued	191,677	161,034	171,120	-	523,831
Number rights forfeited/lapsed in prior years	-	-	-	-	-
Number rights forfeited/lapsed in current year	-	-	-	-	-
Number rights vested in prior years	-	-	(171,120)	-	(171,120)
Number rights vested in current year	-	(161,034)	-	-	(161,034)
Closing balance	191,677	-	-	-	191,677

(b) Rights expense

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

	30 June 2021	30 June 2020
	\$'000	\$'000
Performance Rights	530	656
Deferred Short Term Incentive Rights	430	476
	960	1,132

23. EQUITY-BASED REMUNERATION CONTINUED

(c) Rights valuation inputs

(i) Performance Rights

Performance Rights issued were independently valued for the purposes of valuation and accounting using a Binomial Tree or Monte Carlo method, as applicable. The model inputs for the Rights issued during FY21 to assess the fair value are as follows:

Grant date	1 July 2020
Security price at grant date	\$2.22
Fair value of right	\$1.425
Expected price volatility	24%
Risk-free interest rate	0.29%

(ii) Deferred Short Term Incentive Rights

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

(d) Accounting policy - Equity-based remuneration

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Group:

	Consolidated	
	30 June 2021	30 June 2020
	\$	\$
PricewaterhouseCoopers Australian firm		
Audit and other assurance services		
Audit and review of financial statements	142,200	119,996
Audit of compliance plans	15,200	14,420
Total remuneration for audit and other assurance services	157,400	134,416
Taxation services		
Tax compliance services, including review of income tax returns	47,632	32,443
Total remuneration for taxation services	47,632	32,443
Total remuneration of PricewaterhouseCoopers	205,032	166,859

25. PARENT ENTITY FINANCIAL INFORMATION

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

(a) Summary of financial information

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

Parent	30 June 2021	30 June 2020
	\$'000	\$'000
Income statement information		
Net profit attributable to Arena REIT No. 1	143,270	69,937
Comprehensive income information		
Total comprehensive income attributable to Arena REIT No. 1	143,270	69,937
Balance Sheet		
Current assets	14,208	76,407
Non-current assets	960,264	779,129
Total assets	974,472	855,536
Current liabilities	22,836	34,233
Non-current liabilities	209,757	188,521
Total liabilities	232,593	222,754
Equity attributable to securityholders of Arena REIT No. 1		
Contributed equity	406,736	396,825
Accumulated profit	335,143	235,957
	741,879	632,782

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of consolidation

(i) Stapled entities

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

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

The consolidated financial statements of the Arena REIT Stapled Group incorporate the assets and liabilities of the entities controlled by ARF1 at 30 June 2021, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Non-controlling interests in the results and equity are shown separately in the Statement of Comprehensive Income and Statement of Financial Position respectively. Non-controlling interests are those interests in ARF2 and ARL which are not held directly or indirectly by ARF1.

(ii) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the group (refer to note 26(c)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(iii) Changes in ownership interests

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(b) Presentation of members interests in ARF2 and ARL

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

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition-date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(d) Revenue

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

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

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

Interest income is recognised in the consolidated statement of comprehensive income on a time-proportionate basis using the effective interest rate method.

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

Management service fees earned from managed investment schemes or trusts are calculated based on the agreed percentage of funds under management and agreed percentages of schemes or trust acquisitions and disposals. Management fees are received for performance obligations fulfilled over time with revenue recognised accordingly.

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

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

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

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

(e) Expenses

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

(f) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(g) Distributions

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

(h) Assets held for sale

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

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

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

Assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

(i) Property, plant and equipment

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

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

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

(j) Impairment of assets

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

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

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(k) Financial instruments

(i) Classification

The Group's investments are classified as at fair value through profit or loss. They comprise:

► Financial instruments held for trading

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification. The Group does not designate any derivatives as hedges in a hedging relationship.

► Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts and commercial paper.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Group's documented investment strategy. The Group's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

Financial assets and financial liabilities are recognised on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Group has transferred substantially all risks and rewards of ownership.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

At initial recognition, financial assets are recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

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

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

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

Further detail on how the fair values of financial instruments are determined is disclosed in note 17(d).

Loans and receivables

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(iv) Offsetting financial instruments

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

(l) Provisions

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

(m) Goods and Services Tax (GST)

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

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

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

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

(n) 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.

DIRECTORS' DECLARATION

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 42 to 80 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 2021 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, and
- (c) Note 1(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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



David Ross, Chair
Melbourne, 11 August 2021



INDEPENDENT AUDITOR'S REPORT



Independent auditor's report

To the unitholders of Arena REIT No. 1

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2021 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 2021
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the Directors' declaration.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

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

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



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall group materiality of \$2.6 million which represents approximately 5% of the Group's profit before tax adjusted for fair value movements in investment properties and derivatives, and straight-lining adjustment of rent. 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 fair value movements in investment properties and derivatives, and straight-lining adjustment of rent, because in 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matter to the Audit and Risk Committee: <ul style="list-style-type: none"> Fair value of investment properties This is further described in the <i>Key audit matters</i> section of our report.



our view, it is the metric against which the performance of the Group is commonly measured and an accepted benchmark.

- We utilised a 5% threshold based on our professional judgement, noting that it is within the range of commonly acceptable thresholds.

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 matter was 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 this matter. 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
<p>Fair value of investment properties (Refer to note 8) [\$1,112.43m]</p> <p>The Group's portfolio of investment properties was recognised as an asset in the financial report at \$1,112.4m as at 30 June 2021 with a revaluation of \$99.1m. The portfolio comprised of 226 Early Learning Centres (ELC) properties, 12 ELC development sites and 11 healthcare properties in Australia.</p> <p>As at 30 June 2021, the Group obtained independent external valuations for their operating portfolio of 46 ELC and 4 healthcare centres. Director valuations were performed on investment properties which were not independently valued.</p> <p>Investment properties (ELC and healthcare) are recognised at fair value, with changes in the fair values recognised in profit and loss. Development properties are carried at the lower of cost or fair value on completion less cost to complete.</p> <p>The estimation of fair value for investment properties was a key audit matter because of the:</p> <ul style="list-style-type: none"> • financial significance of the investment property balance. 	<p>For investment properties that had external valuations obtained, we performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • assessed the scope, competence, capability and objectivity of the external valuer engaged by the Group. • considered the external valuer's terms of engagement and assessed for caveats or limitations that may have influenced the outcomes. • together with PwC's real estate valuation specialist, we held discussions with the external valuation experts to develop an understanding of the approach and underlying assumptions adopted and how they have considered the impacts of COVID – 19. • together with input from PwC real estate valuation specialist and on a sample basis, we assessed the appropriateness of the valuation approach and reasonableness of significant assumptions used in the valuations by reference to available market evidence, where relevant. • for a sample of the investment properties, we checked the data (e.g. rent, lease terms and property information) provided to the external valuer to the underlying lease



Key audit matter

- level of judgement required by the Group in estimating the underlying assumptions used in the valuation models (the models).
- sensitivity of fair value to any changes in key inputs and assumptions used in the models, including capitalisation and discount rates.
- potential impact to profit as a result of the revaluation of investment properties.

How our audit addressed the key audit matter

- agreements and available market information.
- agreed the fair value determined by the external valuer to the Group's accounting records.

For investment properties which were internally valued by the directors, we performed the following procedures, amongst others:

- met with the head of property and directors to discuss the valuation approach, data and significant assumptions used in the valuation.
- assessed the competence and capabilities of the internal valuation experts.
- for a sample of the investment properties, we checked the data (e.g. rent, lease terms and property information) used by the directors to the underlying leases and available market information.
- compared approach, data and significant assumptions in the valuation performed by external valuations for similar properties to look for unusual trends or anomalies in the valuation outcomes.
- agreed the fair value determined by the directors to the Group's accounting records.
- for development properties, we considered if the assets carried at cost on 30 June 2021 remain appropriate.

In addition, we have performed the following procedures, amongst others:

- assessed the Group's approach to the valuation of investment properties, including consideration of the impacts of COVID – 19 on the valuation process.
- through inquiry of management and observation of the valuation process, developed an understanding and evaluated the Group's control activities for the valuation of investment properties.
- assessed the reasonableness of the Group's disclosures in the financial report in light of the requirements of Australian Accounting Standards.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report and Corporate directory. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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



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

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 25 to 39 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Arena REIT No. 1 for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

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

Charles Christie
Partner

Melbourne
11 August 2021



ASX ADDITIONAL INFORMATION

ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 17 AUGUST 2021

There were 344,327,927 fully paid ordinary securities on issue, held by 5,829 securityholders. There were 319 holders holding less than a marketable parcel.

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

- (i) on a show of hands every person present who is a securityholder has one vote; and
- (ii) on a poll each securityholder present in person or by proxy or attorney has one vote for each security they have in the Group.

DISTRIBUTION OF SECURITYHOLDERS

Number of securities held	Number of securityholders	Total securities held	% of total securities on issue
	No.	No.	%
1-1,000	1,090	399,536	0.12
1,001-5,000	1,391	4,027,199	1.17
5,001-10,000	1,015	7,672,934	2.23
10,001-100,000	2,234	63,018,381	18.30
100,001 and over	99	269,209,877	78.18
Total	5,829	344,327,927	100.00

SUBSTANTIAL SECURITYHOLDERS

Name of substantial securityholder	Number of securities	Fully Paid (%)
	No.	%
The Vanguard Group, Inc	26,562,449	7.71
Australian Unity Funds Management Limited	25,669,831	7.46

TWENTY LARGEST SECURITYHOLDERS

Holder Name	Number of securities	Fully Paid (%)
	No.	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	86,998,480	25.266
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	61,948,066	17.991
BNP PARIBAS NOMS PTY LTD <DRP>	31,647,995	9.191
CITICORP NOMINEES PTY LIMITED	27,969,056	8.123
NATIONAL NOMINEES LIMITED	24,005,016	6.972
THE TRUST COMPANY LIMITED <FOLKESTONE EDUCATION A/C>	12,050,909	3.500
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,909,354	0.555
CARBRY INVESTMENTS PTY LTD <CARBRY FAMILY A/C>	1,444,295	0.419
MR DAVID STEWART FIELD	925,780	0.269
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	923,726	0.268
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	922,519	0.268
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	912,166	0.265
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	888,248	0.258
BNP PARIBAS NOMINEES PTY LTD <IOOF INSTMT MGT LTD DRP>	631,762	0.183
MR GARETH WINTER <WINTER FAMILY A/C>	618,291	0.180
DE VOS NOMINEES PTY LTD <DE VOS FAMILY A/C>	576,542	0.167
LOTO JADE PTY LTD <LOTO JADE A/C>	400,775	0.116
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	397,666	0.115
NUSHAPEMALLCOM PTY LTD <THE MICHAEL BENJAMIN S/F>	373,000	0.108
NABE PTY LTD <THE GLASS A/C>	364,083	0.106
Total Securities of Top 20 Holdings	255,907,729	74.321



INVESTOR INFORMATION

ASX LISTING

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

ARENA REIT SECURITIES

A stapled security in Arena REIT comprises:

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

stapled and traded together as one security.

ACCESSING INFORMATION ON ARENA

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

RECEIVING INFORMATION ELECTRONICALLY

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

MANAGING YOUR INVESTMENT ONLINE

You can manage your holding online at the Investor Centre on the Arena website www.arena.com.au/Investor-Centre, please click on 'Investor Login' to register, or call 1800 008 494.

DISTRIBUTION PAYMENTS

Arena generally makes distribution payments on a quarterly basis, typically within six weeks of the quarter end. Details of the 2021 financial year distributions are provided in the table below.

FY21 distributions

Period ended	Payment date	Distribution amount (cps)
30 September 2020	5 November 2020	3.625
31 December 2020	4 February 2021	3.725
31 March 2021	6 May 2021	3.725
30 June 2021	5 August 2021	3.725

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

Direct credit

Arena encourages investors to receive distribution payments by direct credit to their nominated bank account. If you wish to register for direct credit or update your payment details you can log in and amend your details online, download the form from the registry website at boardroomlimited.com.au/investor-forms or call 1800 008 494 to request a form.

Dividend and distribution reinvestment plan

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

Tax File Number (TFN) notification

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

AMIT Member Annual Statement (AMMA Statement) and 2021 annual tax guide

An AMMA statement is generally dispatched to investors in August each year. To assist in completion of your tax return, Arena also publishes an annual tax guide each year. The 2021 tax guide is available for download from the Investor Centre www.arena.com.au/Investor-Centre.

INVESTOR FEEDBACK OR COMPLAINTS

If you have any complaints or feedback, please direct these in writing to:

Arena Investor Relations

Locked Bag 32002
Collins Street East
Melbourne VIC 8003

Telephone: 1800 008 494

Email: complaints@arena.com.au

If you make a complaint and do not receive a satisfactory outcome you may refer the complaint to the Australian Financial Complaints Authority (AFCA):

Online: www.afca.org.au

Email: info@afca.org.au

Phone: 1800 931 678 (free call)

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

PRIVACY POLICY

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



CORPORATE DIRECTORY

Arena REIT Limited
ACN 602 365 186

Arena REIT Management Limited (ARML)
ACN 600 069 761 AFSL 465754

PRINCIPAL PLACE OF BUSINESS

Level 32, 8 Exhibition Street
Melbourne Vic 3000

Phone: +61 3 9093 9000

Email: info@arena.com.au

Website: www.arena.com.au

DIRECTORS

David Ross (Independent, Non-Executive Chair)

Rosemary Hartnett (Independent, Non-Executive Director)

Simon Parsons (Independent, Non-Executive Director)

Dennis Wildenburg (Independent, Non-Executive Director)

Rob de Vos (Managing Director)

Gareth Winter (Executive Director of ARML)

COMPANY SECRETARY

Gareth Winter

AUDITOR

PricewaterhouseCoopers
2 Riverside Quay
Southbank VIC 3006

REGISTRY

Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000

Telephone: 1300 737 760

INVESTOR ENQUIRIES AND CORRESPONDENCE

Arena REIT
Locked Bag 32002
Collins Street East
Melbourne VIC 8003

Telephone: 1800 008 494

Website: www.arena.com.au

Email: info@arena.com.au

STOCK EXCHANGE LISTING

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