Vicinity Centres[1]
Appendix 4D - Results for announcement to the market

For the six months ended 31 December 2017

	Six months to 31-Dec-17	Six months to 31-Dec-16	Increase/ (Decrease)	
	$m	$m	$m	%
Revenue from ordinary activities	662.7	637.9	24.8	3.9
Net profit from ordinary activities after tax attributable to securityholders	755.9	908.8	(152.9)	(16.8)
Funds from operations[2]	357.7	360.7	(3.0)	(0.8)

	As at 31-Dec-17	As at 30-Jun-17	Increase/ (Decrease)	
Net tangible assets per security	$ per security	$ per security	$ per security	%
Total	2.93	2.82	0.11	3.9
Net assets per security	$ per security	$ per security	$ per security	%
Total	3.09	2.97	0.12	4.0

Distribution per stapled security	Cents[3]	Record date	Payment date
Half Year	8.10	29-Dec-17	28-Feb-18

Review of results

For further commentary on the half year results refer to the following documents released on the ASX today: Half year financial report, FY18 interim results announcement and FY18 interim results presentation.

Details of associates and joint venture entities (equity accounted investments)

Refer to Note 2(e) of the half year financial report.

The information presented above is based upon the half year financial report for the six months ended 31 December 2017 which has been reviewed. The independent auditor's report is included within the half year financial report.

MBrady

Michelle Brady
Company Secretary

Date: 14 February 2018

Notes

1. Vicinity Centres is a stapled group comprising Vicinity Limited ABN 90 114 757 783 and Vicinity Centres Trust ARSN 104 931 928 (the **Trust**). The Responsible Entity of the Trust is Vicinity Centres RE Ltd ABN 88 149 781 322.

2. A reconciliation between funds from operations (FFO) and net profit from ordinary activities after tax attributable to securityholders is provided in Note 1(b) of the half year financial report. Prior to 1 July 2017, Vicinity Centres reported Underlying Earnings which was calculated as FFO plus rent lost from undertaking developments. Accordingly, the comparative information for the period ended 31 December 2016 has been restated from Underlying Earnings to FFO.

3. The taxation components for distributions paid for the 12 months to 30 June 2018 will be sent to securityholders in late August 2018.

Vicinity Centres

Financial report for the half year ended
31 December 2017

Vicinity Centres comprising:
Vicinity Limited – ABN 90 114 757 783
Vicinity Centres Trust – ARSN 104 931 928
and their controlled entities

VICINITY CENTRES

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Directors' Report

The Directors of Vicinity Limited present the Financial Report of Vicinity Centres (Vicinity or the Group) for the half year ended 31 December 2017.

Vicinity is a stapled group comprising Vicinity Limited (the Company) and Vicinity Centres Trust (the Trust). Although separate entities, the Stapling Deed entered into by the Company and the Trust ensures that shares in the Company and units in the Trust are 'stapled' together and are traded collectively on the Australian Securities Exchange, under the code 'VCX'.

Directors

The Board of Directors of the Company and Vicinity Centres RE Ltd, as Responsible Entity (RE) of the Trust (together, the Vicinity Board) consist of the same Directors. The following persons were members of the Vicinity Board from 1 July 2017 and up to the date of this report unless otherwise stated:

(i) Chairman

Peter Hay (Independent)

(ii) Non-executive Directors

Charles Macek (Independent) (Retired 16 November 2017)

David Thurin

Debra Stirling (Independent) (Retired 16 November 2017)

Janette Kendall (Independent) (Appointed 1 December 2017)

Karen Penrose (Independent)

Peter Kahan (Independent)

Tim Hammon (Independent)

Trevor Gerber (Independent)

Wai Tang (Independent)

(iii) Executive Directors

Angus McNaughton (CEO and Managing Director) (Retired 31 December 2017)

Grant Kelley (CEO and Managing Director) (Appointed 1 January 2018)

Company Secretaries

Carolyn Reynolds

Michelle Brady

Rohan Abeyewardene (Appointed 13 February 2018)

Principal activities

The Group has its principal place of business at Level 4, Chadstone Tower One, 1341 Dandenong Road, Chadstone, Victoria 3148.

The principal activities of the Group during the period were property investment, property management, property development, leasing and funds management.

Distributions

On 14 December 2017 the Directors declared a distribution for the half year ended 31 December 2017 of 8.1 cents per VCX stapled security, which equates to a total half year distribution payable to securityholders of $313.6 million.

The payment date of the half year distribution will be 28 February 2018.

Review of operations

A summary of the Group's operations for the six months to 31 December 2017 is contained within this section. This report should be read in conjunction with the 30 June 2017 Annual Report which provides further information on Vicinity's strategy, operations and risks.

(a) Highlights

The Group delivered a solid result for the six month period ended 31 December 2017. Statutory net profit was $755.9 million and funds from operations (FFO) grew 0.3% on a per security basis. Adjusting for the impact of acquisitions and divestments, comparable FFO was up 2.2% reflecting growth delivered by the development pipeline, underlying portfolio performance and capital management initiatives including the on-market security buy-back.

The portfolio's operational metrics for Vicinity's 74 directly owned assets remains strong with occupancy at 99.5% and positive releasing spreads of 0.8%. However, moving annual turnover (MAT) growth was only up marginally at 0.5%, reflecting speciality store MAT growth of -0.7%. These retail sales metrics reflect the economy's soft wages growth, higher household debt levels and the number of Vicinity's centres in pre-development. These challenging retail sales conditions are expected to continue in the short term.

Vicinity's focus remains on building a stronger and more resilient business through our development pipeline, ongoing portfolio improvement and capital management initiatives.

Developments

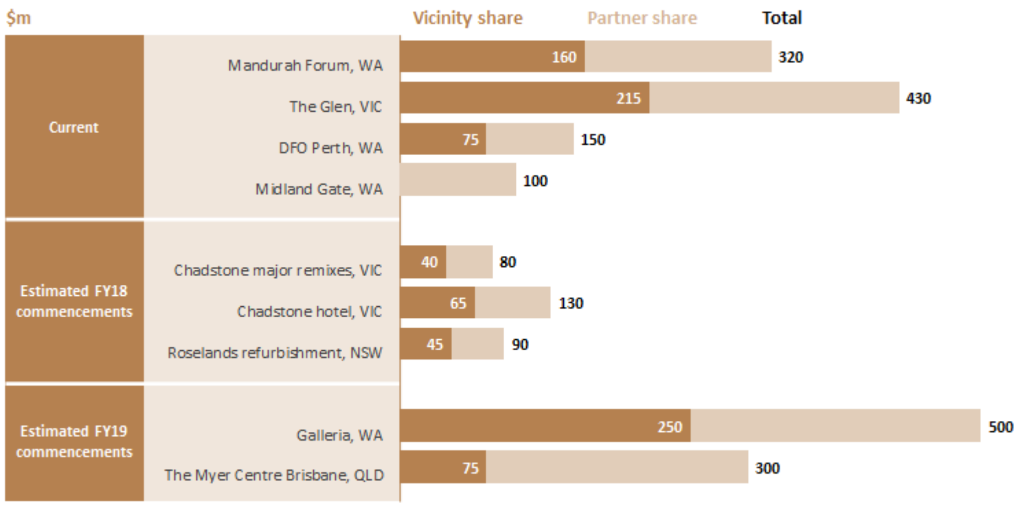
The Group continues to have an extensive development pipeline of $2.1 billion ($0.9 billion Vicinity share).

The first stage of the The Glen redevelopment ($215 million Vicinity share) successfully opened in October 2017 delivering a new fresh food precinct including Aldi, latest format Woolworths and over 60 specialty stores. The stage two food gallery is on track for completion in the first quarter of 2018 with final completion in 2020.

Mandurah Forum ($160 million Vicinity share) remains on track for completion in mid-2018 including a new David Jones, H&M, new food court with adjoining play area, fresh food market hall and alfresco dining precinct.

The Glen, VIC – Artist's impression

DFO Perth ($75 million Vicinity share) is well underway and progressing to planned completion in the third quarter of 2018.



The Chadstone hotel project ($65 million Vicinity share) has been approved and AccorHotels Group appointed as operator under premium brand MGallery by Sofitel, with a 10 year operating lease.

The Group continues to advance the planning of a number of other developments across the portfolio with the current development pipeline as represented to the left[i].

[i] Timing and costs of identified projects are indicative only and may change as projects advance. Development project costs now exclude loss of rent.

Portfolio improvement

Sydney CBD asset swap

As announced on 6 November 2017, the Group has entered into contracts to exchange a 49% interest in Chatswood Chase Sydney for 50% interests in GIC Private Limited's (GIC) Queen Victoria Building, The Galeries and The Strand Arcade (together, the Sydney CBD Centres). The Sydney CBD asset swap remains subject to approvals by Sydney City Council and RailCorp, with settlement expected in early 2018.

The Strand Arcade, NSW

Subject to necessary approvals, the interests in the Sydney CBD Centres will be acquired on a 5.1% blended capitalisation rate and Chatswood Chase Sydney will be sold on a 4.75% capitalisation rate. Vicinity will continue to manage Chatswood Chase Sydney and will assume management of the Sydney CBD Centres. The Sydney CBD Centres will add more than $1.1 billion to the Group's retail assets under management.

Intensive asset management

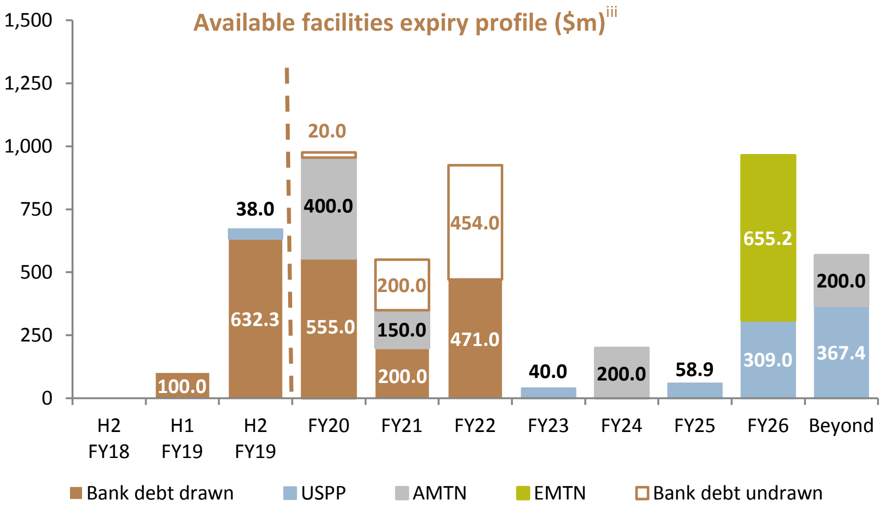
The continued focus on consumer demands has seen a re-weighting of retailers across the portfolio through the centre remixing program. This has seen a significant expansion in international retailers, mini majors, mens apparel, retail services, cafes, restaurants, leisure and cosmetics. A corresponding reduction has been seen in department stores, general retail and other apparel categories. Remixing is providing a more resilient retailer base across the portfolio.

Additionally, a continued focus on cost control through investment in technology remains a key focus to create long-term value within the Group. During the period the Group also completed the sale of Terrace Central (November 2017) and entered into a contract for the sale of Toormina Gardens.

Capital management

Distribution policy

As announced as part of the 30 June 2017 results, the Group revised its distribution policy to harmonise with broadly accepted market practice. Accordingly, effective from 1 July 2017, the Group has adopted an earnings measure of funds from operations (FFO)[i] and a distribution payout ratio range of 95%-100% of adjusted funds from operations (AFFO). AFFO represents the Group's FFO adjusted for maintenance capital and static lease incentives paid during the period in accordance with the guidelines published by the Property Council of Australia (PCA). These policy changes have resulted in a reduction to the distribution per security of approximately 0.55 cents for the half year period.



On-market security buy-back

During the six months ended 31 December 2017, the Group bought back 87.0 million securities at an average price of $2.65 (for total consideration of $230.8 million). This delivered an estimated benefit to FFO per security for the period of 0.07 cents[ii].

Well diversified funding sources

The Group continues to maintain a diverse range of funding sources. The near term focus is to extend tenor and replace FY19 expiring bank debt.

[i] FFO is calculated as statutory net profit, adjusted for fair value movements, certain unrealised and non-cash items, and other items that are not in the ordinary course of business or capital in nature.

[ii] Benefit determined by comparing actual FFO per security for the period to FFO per security calculated using the opening number of securities and adjusting for finance costs incurred on the total value of securities bought back.

[iii] Available facilities shown exclude adjustments for fair value items and foreign exchange translation. Refer to Note 3(a) for further information.

(b) Key performance metrics

Key financial performance and position metrics discussed below are extracted from the summarised financial information included in Section (c) below and the financial statements.

Financial performance

	31-Dec-17	31-Dec-16	Commentary on the financial performance for the six month period
Statutory net profit	$755.9m	$908.8m	Statutory net profit has been driven by underlying funds from operations (FFO) of $357.7 million and revaluation gains of $417.0 million. Refer below for further commentary on FFO and investment properties as well as summarised financial information.
FFO per security	9.14 cents	9.11 cents	FFO per security increased by 0.3%. Adjusting for net acquisitions and divestments, the comparable FFO per security growth was 2.2%. This comparable growth was driven by the completion of a major development at Chadstone, continuing focus on operational cost control and the successful execution of the on-market security buy-back (as outlined above in capital management). These favourable growth factors were offset by an increase in interest expense. The Group's cost of debt has increased by $7.0 million driven by a higher weighted average cost of debt as well as increased drawn debt (as outlined below in key debt metrics).
Distribution per security	8.1	8.7	The reduction of 0.6 cents per security is primarily reflective of the change to the Group's distribution policy (as outlined above in capital management).

Financial position

	31-Dec-17	30-Jun-17	Commentary on key financial position metrics as at 31 December 2017
Segment investment properties[i]	$16,099.6m	$15,548.7m	At 31 December 2017, 42 of the Group's 74 directly-owned retail properties (56% by value) were independently valued, with the remaining properties subject to internal valuations. This valuation review resulted in a revaluation gain for directly owned properties of $417.0 million, a 2.7% increase for the six month period. Additionally, capital expenditure for the period was $155.5 million, primarly relating to the ongoing developments at The Glen, Mandurah Forum, DFO Perth and Chadstone (as outlined above in developments section of operational update). These valuation and capital increases were partially offset by the disposal of Terrace Central ($33.1 million).
Drawn debt[ii]	$4,376.8m	$3,924.8m	This increase during the half is due to development capital expenditure incurred and the on-market security buy-back program.
Net tangible assets per security	$2.93	$2.82	NTA per security increased by 3.9% over the six month period, driven primarily by the revaluation gains of $417.0 million. Additionally, the on-market security buy-back had a favourable impact on NTA as the securities were purchased at an average discount to 31 December 2017 NTA of 9.6%.
Gearing[iii]	26.6%	24.7%	Gearing is 26.6% as at 31 December 2017, up from 24.7% at 30 June 2017. This increase is as a result of the increase in drawn debt partly offset by valuation gains.

[i] Refer to Note 1(c).

[ii] Drawn debt excludes adjustments for fair value items and foreign exchange translation. Refer to Note 3(c) for a reconciliation of drawn debt to total interest bearing liabilities.

[iii] Calculated as drawn debt at Note 3(c), net of cash divided by total tangible assets excluding cash, finance lease assets and derivative financial instruments.

Financial position – key debt metrics

	31-Dec-17	30-Jun-17	Commentary on key debt metrics
Weighted average interest rate[i]	4.3%	4.2%	Modest increase of 0.1% mainly due to higher fixed and floating interest rates.
Proportion of debt hedged	82%	90%	The proportion of debt hedged has decreased to 82% in the current period due to the increases in drawn debt as discussed above.
Debt duration [ii]	4.8 years	5.3 years	Reflects that no new funding or financing activities were undertaken in the current period.
Interest coverage ratio	5.4 times	5.6 times	The modest 0.2 times decrease is due to the higher levels of debt drawn to fund development capital expenditure and the on-market security buy-back.
Credit ratings - **Moody's** - **S&P**	A2/stable A/stable	A2/stable A/stable	No changes since the upgrade to A/stable from S&P in January 2017.

Portfolio metrics

	31-Dec-17	30-Jun-17	Commentary on key portfolio metrics
Assets under management	$26,110.5m	$25,274.0m	Vicinity manages 82 centres valued at $26.1bn across all states in Australia.
Portfolio MAT growth[iii]	0.5%	0.4%	Moving annual turnover (MAT) growth of 0.5% was recorded through to December 2017. Specialty retailers, which contribute 55% of total portfolio gross rent, recorded a slight decline in MAT of 0.7%. Categories reporting the highest rate of growth included retail services, leisure and food catering. MAT growth rates for Major tenants were 0.9%, increasing from -0.2% at June 2017. Supermarkets, which represent 9% of total portfolio gross rent, recorded MAT growth of 1.5%.
Portfolio occupancy	99.5%	99.5%	Portfolio leasing activity during the half year period resulted in occupancy being maintained at 99.5%.
Leasing spreads[iv]	0.8%	1.9%	At December 2017, there were approximately 7,500 tenants across the directly owned portfolio. During the half year period 449 lease transactions were completed with average rents on these transactions increasing by 0.8%. Chadstone and the Direct Factory Outlet centres continued to outperform with particularly strong leasing spread results.

[i] Represents average for the reporting period and is inclusive of margins, drawn line fees and establishment fees.

[ii] Based on facility limits.

[iii] On a comparable basis. Excludes divestments and development-impacted centres in accordance with Shopping Centre Council of Australia guidelines.

[iv] Growth from the passing rent to the achieved rent for expiries over the same space, on deals greater than 18 months (excludes project impacted lease deals and divestments).

(c) Summary financial information

Financial performance

The below information has been extracted and summarised from Note 1 of the financial statements.

For the six months to:	31-Dec-17 $m	31-Dec-16 [i] $m
Property Investment segment		
Net property income	447.9	446.4
Strategic Partnerships segment		
Property management, development, leasing and funds management fees	35.5	34.1
Total income	**483.4**	**480.5**
Corporate overheads (net of internal property management fees)	(36.0)	(37.1)
Net interest expense	(89.7)	(82.7)
Funds from operations	**357.7**	**360.7**
Property revaluation increments for directly owned properties	417.0	546.8
Net movement on mark-to-market of derivatives and foreign exchange	(11.8)	37.2
Amortisation of intangible assets	(2.2)	(1.6)
Integration costs	-	(20.5)
Other non-distributable items	(4.8)	(13.8)
Net profit after tax	**755.9**	**908.8**

Financial position

The following table outlines a summarised balance sheet for Vicinity based on the financial report.

As at:	31-Dec-17 $m	30-Jun-17 $m
Cash and cash equivalents	45.4	42.2
Investment properties held for sale	41.7	33.5
Investment properties[ii]	16,165.3	15,633.5
Intangible assets	597.2	599.4
Other assets	382.4	350.2
Total assets	**17,232.0**	**16,658.8**
Borrowings	4,343.5	3,893.7
Other liabilities	928.3	1,017.4
Total liabilities	**5,271.8**	**4,911.1**
Net assets	**11,960.2**	**11,747.7**

(d) Outlook

FFO guidance for the year ending 30 June 2018 remains unchanged at 18.0 to 18.2 cents per stapled security[iii].

[i] Restated to reflect funds from operations, previously the Group assessed financial performance based on Underlying Earnings. Refer to Note 1 for further information.

[ii] Includes non-current assets held for sale – Sydney CBD asset swap. Refer to Note 2(f) for further information on the Sydney CBD asset swap

[iii] Subject to no unforeseen circumstances in the second half of the financial year.

Events occurring after the end of the reporting period

No matters have arisen since the end of the period which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Rounding of amounts

The Company is an entity of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Accordingly, amounts in the Directors' Report have been rounded off to the nearest tenth of a million dollars ($m) in accordance with that Legislative Instrument, unless stated otherwise.

Signed in Melbourne on 14 February 2018 in accordance with a resolution of Directors.

Peter Hay
Chairman

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Melbourne VIC 3000 Australia
GPO Box 67
Melbourne VIC 3001

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Fax: +61 3 8650 7777
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Auditor's Independence Declaration to the Directors of Vicinity Limited

As lead auditor for the review of Vicinity Centres for the half year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Vicinity Limited and the entities it controlled during the financial period.

Ernst & Young

David Shewring
Partner
14 February 2018

Statement of Comprehensive Income

for the half year ended 31 December 2017

	Note	31-Dec-17 $m	31-Dec-16 $m
Revenue			
Property ownership revenue		626.9	603.4
Management fee revenue from strategic partnerships		35.8	34.5
Interest and other income		2.9	4.9
Total revenue and income		**665.6**	**642.8**
Share of net profit of equity accounted investments		4.4	7.5
Property revaluation increment for directly owned properties	2(b)	417.0	546.8
Direct property expenses		(164.7)	(156.2)
Borrowing costs	3(b)	(86.7)	(75.4)
Employee benefits expense		(48.8)	(49.1)
Other expenses from ordinary activities		(16.9)	(20.6)
Net foreign exchange movement on interest bearing liabilities		0.5	3.1
Net mark-to-market movement on derivatives		(12.3)	34.1
Amortisation of intangible assets	4(a)	(2.2)	(1.6)
Integration costs		-	(20.5)
Stamp duty and other costs written off on acquisition of investment properties		-	(2.1)
Profit before tax for the half year		**755.9**	**908.8**
Income tax expense		-	-
Net profit for the half year		**755.9**	**908.8**
Other comprehensive income		-	-
Total comprehensive income for the half year		**755.9**	**908.8**
Total profit/(loss) and total comprehensive income/(loss) for the half year attributable to stapled securityholders as:			
Securityholders of Vicinity Limited	6	17.7	(9.6)
Securityholders of other stapled entities of the Group		738.2	918.4
Net profit and total comprehensive income for the half year		**755.9**	**908.8**
Earnings per security attributable to securityholders of the Group:			
Basic earnings per security (cents)		19.31	22.96
Diluted earnings per security (cents)		19.28	22.93

The above consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Balance Sheet

as at 31 December 2017

	Note	31-Dec-17 $m	30-Jun-17 $m
Current assets			
Cash and cash equivalents		45.4	42.2
Receivables and other assets		100.5	88.3
Investment properties held for sale	2(a)	41.7	33.5
Deposit paid - Sydney CBD asset swap	2(f)	27.8	-
Financial assets carried at fair value through profit or loss		-	4.3
Total current assets		**215.4**	**168.3**
Non-current assets held for sale - Sydney CBD asset swap	2(f)	1,121.2	-
Non-current assets			
Investment properties	2(a)	15,044.1	15,633.5
Investments accounted for using the equity method	2(e)	90.9	88.0
Intangible assets	4(a)	597.2	599.4
Plant and equipment		14.2	14.5
Derivative financial instruments	3(f)	57.2	68.3
Deferred tax assets		84.3	84.3
Receivables and other assets		7.5	2.5
Total non-current assets		**15,895.4**	**16,490.5**
Total assets		**17,232.0**	**16,658.8**
Current liabilities			
Interest bearing liabilities	3	100.0	-
Distribution payable		313.6	340.4
Payables and other financial liabilities		157.0	209.6
Provisions		67.0	78.5
Derivative financial instruments	3(f)	0.8	2.3
Total current liabilities		**638.4**	**630.8**
Non-current liabilities			
Interest bearing liabilities	3	4,243.5	3,893.7
Other financial liabilities		203.8	202.7
Provisions		7.3	7.8
Derivative financial instruments	3(f)	178.8	176.1
Total non-current liabilities		**4,633.4**	**4,280.3**
Total liabilities		**5,271.8**	**4,911.1**
Net assets		**11,960.2**	**11,747.7**
Equity			
Contributed equity	5	8,262.4	8,493.2
Share based payment reserve		5.6	4.6
Retained profits		3,692.2	3,249.9
Total equity		**11,960.2**	**11,747.7**

The above consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

for the half year ended 31 December 2017

	Attributable to securityholders of Vicinity Limited				Attributable to securityholders of other stapled entities of the Group				
	Contributed equity $m	Reserves $m	Retained profits/ (losses) $m	Total $m	Contributed equity $m	Reserves $m	Retained profits $m	Total $m	Total equity $m
As at 1 July 2016	**481.1**	**4.7**	**(297.1)**	**188.7**	**8,012.1**	**-**	**2,648.2**	**10,660.3**	**10,849.0**
Net (loss)/profit for the half year	-	-	(9.6)	(9.6)	-	-	918.4	918.4	908.8
Total comprehensive income for the half year	**-**	**-**	**(9.6)**	**(9.6)**	**-**	**-**	**918.4**	**918.4**	**908.8**
Transactions with securityholders in their capacity as securityholders:									
Net movements in share based payment reserve	-	(1.6)	-	(1.6)	-	-	-	-	(1.6)
Distributions declared	-	-	-	-	-	-	(344.4)	(344.4)	(344.4)
Total equity as at 31 December 2016	**481.1**	**3.1**	**(306.7)**	**177.5**	**8,012.1**	**-**	**3,222.2**	**11,234.3**	**11,411.8**
As at 1 July 2017	**481.1**	**4.6**	**(309.4)**	**176.3**	**8,012.1**	**-**	**3,559.3**	**11,571.4**	**11,747.7**
Net profit for the half year	-	-	17.7	17.7	-	-	738.2	738.2	755.9
Total comprehensive income for the half year	**-**	**-**	**17.7**	**17.7**	**-**	**-**	**738.2**	**738.2**	**755.9**
Transactions with securityholders in their capacity as securityholders:									
On-market security buy-back	(3.5)	-	-	(3.5)	(227.3)	-	-	(227.3)	(230.8)
Net movements in share based payment reserve	-	1.0	-	1.0	-	-	-	-	1.0
Distributions declared	-	-	-	-	-	-	(313.6)	(313.6)	(313.6)
Total equity as at 31 December 2017	**477.6**	**5.6**	**(291.7)**	**191.5**	**7,784.8**	**-**	**3,983.9**	**11,768.7**	**11,960.2**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

for the half year ended 31 December 2017

	31-Dec-17 $m	31-Dec-16 $m
Cash flows from operating activities		
Receipts in the course of operations	723.7	721.3
Payments in the course of operations	(309.2)	(303.9)
Distributions and dividends received from equity accounted and managed investments	3.5	5.6
Interest and other revenue received	0.5	3.9
Interest paid	(84.1)	(79.6)
Net cash inflows from operating activities	**334.4**	**347.3**
Cash flows from investing activities		
Payments for capital expenditure on investment properties	(209.6)	(225.9)
Deposit paid - Sydney CBD asset swap	(27.8)	-
Proceeds from disposal of investment properties	33.1	393.4
Payments for plant and equipment	(3.1)	(2.1)
Integration costs	-	(13.2)
Payment to settle other financial liability – Bentons Square acquisition	-	(38.3)
Stamp duty paid	-	(2.1)
Net cash (outflows)/inflows from investing activities	**(207.4)**	**111.8**
Cash flows from financing activities		
Proceeds from borrowings	688.0	510.0
Repayment of borrowings	(236.0)	(699.0)
Proceeds from repayment of loan to Tuggeranong Town Centre Trust	-	117.4
Distributions paid to external securityholders	(340.4)	(352.3)
On-market security buy-back	(230.8)	-
Debt establishment costs paid	(0.3)	(0.8)
Acquisition of securities on-market for settlement of share based payments	(4.3)	(7.6)
Net cash outflows from financing activities	**(123.8)**	**(432.3)**
Net increase in cash and cash equivalents held	**3.2**	**26.8**
Cash and cash equivalents at the beginning of the half year	**42.2**	**52.8**
Cash and cash equivalents at the end of the half year	**45.4**	**79.6**

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

About this Report

Vicinity Centres (the Group) is listed on the Australian Securities Exchange (ASX) under the code VCX. It comprises Vicinity Limited (the Company) and Vicinity Centres Trust (the Trust). The Stapling Deed entered into by the Company and the Trust ensures that shares in the Company and units in the Trust are 'stapled' together and are traded collectively. The Company and the Trust are for-profit entities that are domiciled and operate wholly in Australia.

Basis of preparation

The condensed consolidated financial report for the half year ended 31 December 2017 (the financial report):

- has been prepared in accordance with the *Corporations Act 2001* (Cth), Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated;
- does not include all the notes of the type normally included in an annual financial report unless otherwise stated. Accordingly, this report is to be read in conjunction with the 30 June 2017 Annual Report and any public announcements issued during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth) and the Listing Rules of the Australian Securities Exchange;
- is presented in Australian dollars ($) and rounded to the nearest tenth of a million dollars ($m) in accordance with ASIC Legislative Instrument 2016/191 (unless otherwise stated);
- has been prepared in accordance with the historical cost convention, except for certain financial assets and liabilities and investment properties which have been recognised at fair value; and
- was authorised for issue by the Board of Directors on 14 February 2018. The Directors have the power to amend and reissue the financial report.

Although the Group has a net current deficiency of $423.0 million (current liabilities exceed current assets) at reporting date, the Group has sufficient undrawn borrowing facilities of $674.0 million (refer to Note 3(a)), and generates sufficient operating cash flows to meet its current obligations as they fall due. Accordingly, this financial report has been prepared on a going concern basis.

The impact of new and amended standards

There are no new and amended standards that became effective for the Group on 1 July 2017 that had a material impact for the Group.

Critical accounting estimates and judgements

The preparation of financial statements requires the Group to make judgements, estimates and assumptions. These are based on historical experience and other factors considered to be reasonable under the circumstances, but which are inherently uncertain, the result of which form the basis of the carrying value of those assets and liabilities. Consequently, future actual results could differ from these estimates. There are no new key judgements, estimates and assumptions significant to the financial report for the half year ended 31 December 2017 not already noted in the 30 June 2017 Annual Report.

1. Segment information

The Group's operating segments identified for internal reporting purposes are Property Investment and Strategic Partnerships:

- *Property Investment*: comprises net property income derived from investment in retail property; and
- *Strategic Partnerships*: represents fee income from property management, development, leasing and management of wholesale property funds.

The internal reporting on these segments is provided to the Chief Operating Decision Makers to make strategic decisions. During the period the Chief Operating Decision Makers were the CEO and Managing Director (CEO) and the Chief Financial Officer (CFO).

From 1 July 2017 segment performance has been assessed based on Funds from operation (FFO). FFO is calculated as statutory net profit, adjusted for fair value movements, certain unrealised and non-cash items, and other items that are not in the ordinary course of business or capital in nature. In addition to FFO, the CEO and CFO also review Adjusted funds from operations (AFFO) in assessing the performance of the Group. AFFO represents the Group's FFO adjusted for maintenance capital and static lease incentives paid during the period in accordance with the guidelines published by the Property Council of Australia (PCA).

(a) Segment results

For the six months to:	31-Dec-17 $m	31-Dec-16[1] $m
Property Investment segment		
Net property income	447.9	446.4
Strategic Partnerships segment		
Property management, development and leasing fees	30.9	29.3
Funds management fees	4.6	4.8
Total segment income	**483.4**	**480.5**
Corporate overheads (net of internal property management fees)	(36.0)	(37.1)
Net interest expense	(89.7)	(82.7)
Funds from operations	**357.7**	**360.7**
Adjusted for:		
Maintenance capital expenditure and tenant incentives given for the period	(24.0)	(21.0)
Adjusted funds from operations	**333.7**	**339.7**

1. Prior to 1 July 2017, segment performance was assessed based on Underlying Earnings which was calculated as FFO plus rent lost from undertaking developments. Accordingly, the comparative information for the period ended 31 December 2016 has been restated from Underlying Earnings to FFO.

The Group's performance is also monitored on a per security basis as follows:

For the six months to:	31-Dec-17 Cents per security	31-Dec-16 Cents per security
FFO per security[1]	9.14	9.11
AFFO per security[1]	8.53	8.58
Distribution per security (DPS)[2]	8.10	8.70
Payout ratio (DPS / AFFO per security) (%)	95.0%	101.4%

1. The calculation of FFO and AFFO per security for each period uses the basic weighted average number of securities on issue as calculated in Note 5.
2. Distributions per security are paid based on the actual number of securities outstanding at the end of the period as disclosed in Note 5.

1. Segment information (continued)

(b) Reconciliation of FFO to net profit after tax

For the six months to:	31-Dec-17 $m	31-Dec-16 $m
Funds from operations	**357.7**	**360.7**
Property revaluation increments for directly owned properties[1]	417.0	546.8
Non-distributable gain relating to equity accounted investments[1]	1.0	1.5
Amortisation of static lease incentives[2]	(6.9)	(5.2)
Amortisation of other project items[2]	(9.7)	(7.8)
Straight-lining of rent adjustment[3]	11.6	1.6
Stamp duty and transaction costs written off on acquisition of investment properties	-	(2.1)
Net mark-to-market movement of derivatives[4]	(12.3)	34.1
Net foreign exchange movement on interest bearing liabilities	0.5	3.1
Integration costs[5]	-	(20.5)
Amortisation of intangible assets[6]	(2.2)	(1.6)
Other non-distributable items	(0.8)	(1.8)
Net profit after tax	**755.9**	**908.8**

The material adjustments to net profit to arrive at FFO and reasons for their exclusion are described below:

1. FFO excludes non-distributable fair value movements relating to directly owned investment properties and equity accounted investments.
2. Certain payments such as lease incentives relating to investment properties are capitalised to investment properties. Amortisation of these items is then recognised as an expense in accordance with Australian Accounting Standards. Lease incentives paid during the period relating to static centres are reflected in the AFFO calculation at Note 1(a) in accordance with the PCA guidelines. Accordingly, amortisation of these static lease incentives and other project items are excluded from FFO.
3. Straight-lining of rental revenue, which is required by Australian Accounting Standards, is an unrealised non-cash amount and excluded from FFO.
4. Fair value movements in derivatives comprise mark-to-market movements required by Australian Accounting Standards for valuation purposes, including realised and unrealised amounts and are excluded from FFO.
5. The Group incurred costs in the prior period in relation to integration activities following the merger of Federation Centres and Novion Property Group on 11 June 2015. Further information on the merger can be found in the Group's 30 June 2015 and 30 June 2016 financial statements. There are no integration costs incurred in the current period.
6. FFO excludes non-cash charges relating to intangible assets.

(c) Segment assets and liabilities

The property investment segment reported to the CEO and CFO includes investment properties held directly and those that are included in equity accounted investments. A breakdown of the total investment properties in the property investment segment is shown below:

	Note	31-Dec-17 $m	30-Jun-17 $m
Investment properties	2(a)[1]	15,959.6	15,410.5
Investment properties included in equity accounted investments		140.0	138.2
Total interests in directly owned investment properties		**16,099.6**	**15,548.7**
Assets under management on behalf of strategic partners[2]		10,010.9	9,725.3
Total assets under management		**26,110.5**	**25,274.0**

1. Calculated as total investment properties at Note 2(a) plus investment properties and non-current assets held for sale, less finance lease assets and planning and holding costs. DFO Perth is excluded from the 30 June 2017 amounts as it was held at cost.
2. Represents the value of property interests managed, but not owned, consolidated or otherwise accounted for by the Group.

All other assets and liabilities are not allocated by segment for reporting to the CEO and CFO.

2. Investment properties

The Group's investment properties represent freehold and leasehold interests in land and buildings held to derive rental income. They are initially measured at cost, including related transaction costs. Subsequently, at each reporting period, they are carried at their fair values based on the market value determined by independent (external) valuers or internal valuations. These valuations include the cost of capital works in progress on development projects. Further detail on the Group's valuation process and valuation methods is provided in the 30 June 2017 Annual Report.

(a) Portfolio summary

Shopping centre type	31-Dec-17			30-Jun-17		
	Number of properties	Value $m	Weighted average cap rate %	Number of properties	Value $m	Weighted average cap rate %
Super Regional[1]	1	3,000.0	3.75	1	2,675.0	4.25
Major Regional	7	3,398.6	5.41	7	3,358.0	5.45
City Centre	4	1,740.5	4.94	4	1,726.7	4.97
Regional	10	2,269.7	6.15	10	2,240.4	6.17
Outlet Centre	6	1,499.3	6.03	6	1,391.7	6.29
Sub Regional	31	3,348.0	6.34	31	3,308.0	6.37
Neighbourhood	14	703.5	6.44	15	728.4	6.51
Planning and holding costs[2]	-	28.6	-	-	21.3	-
Total	**73**	**15,988.2**	**5.45**	**74**	**15,449.5**	**5.61**
Add: Finance lease assets[3]		218.8			217.5	
Less: Investment properties held for sale (current asset)[4]		(41.7)			(33.5)	
Less: Non-current assets held for sale – Sydney CBD asset swap[5]		(1,121.2)			-	
Total investment properties		**15,044.1**			**15,633.5**	

1. The weighted average cap rate reflects the core retail centre cap rate for Chadstone. The weighted average cap rate for the centre across all uses is 3.79% (30 June 2017: 4.25%).
2. Planning and holding costs relating to potential major development projects are capitalised and carried within the overall investment property balance. These costs are reviewed each period and the status of the project assessed to determine if continued capitalisation of these costs remains appropriate.
3. Disclosures relating to finance leases can be found in Note 21(b) of the 30 June 2017 Annual Report.
4. Represents the carrying amount of Toormina Gardens which the Group has an agreement to sell (30 June 2017: Terrace Central).
5. Represents Chatswood Chase Sydney. Refer to Note 2(f) for further information on the Sydney CBD asset swap.

(b) Movements for the period

	31-Dec-17 $m	31-Dec-16 $m
Opening balance at 30 June	15,449.5	14,444.5
Acquisitions including associated stamp duty and transaction costs	-	2.1
Capital expenditure[1]	155.5	229.5
Capitalised interest[2]	4.9	4.8
Disposals	(33.1)	(393.4)
Property revaluation increment	417.0	546.8
Stamp duty and transaction costs written off on acquisitions	-	(2.1)
Amortisation of incentives	(17.2)	(13.0)
Straight-lining of rent adjustment	11.6	1.6
Closing balance at 31 December	**15,988.2**	**14,820.8**

1. Includes development costs, maintenance capital expenditure, lease incentives and fit out costs.
2. Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate of 4.4% (December 2016: 4.3%).

2. Investment properties (continued)

(c) Portfolio valuation

Key inputs and sensitivities

The Group has classified fair value measurements (such as those performed on investment properties) into the following hierarchy as required by AASB 13 *Fair Value Measurement*:

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

Inputs to investment property valuations are considered Level 3 of the fair value hierarchy as the capitalisation of income and discounted cash flow methods require assumptions to be made to determine certain inputs that are not based on observable market data.

At reporting date, the key unobservable inputs used by the Group in determining fair value of its investment properties are summarised below:

	31-Dec-17		30-Jun-17		
Unobservable inputs	**Range of inputs**	**Weighted average inputs**	**Range of inputs**	**Weighted average inputs**	**Sensitivity**
Capitalisation rate[1]	3.75% - 7.50%	5.45%	4.25% - 7.50%	5.61%	The higher the discount rate, terminal yield, capitalisation rate and expected downtime due to tenants vacating, the lower the fair value.
Discount rate[2]	6.25% - 8.50%	7.28%	6.75% - 8.50%	7.55%	
Terminal yield[3]	4.00% - 7.75%	5.71%	4.50% - 7.75%	5.85%	
Expected downtime (for tenants vacating)	3 months to 12 months	5 months	2 months to 9 months	5 months	
Rental growth rate	2.29% - 4.44%	3.47%	2.27% - 4.44%	3.52%	The higher the rental growth rate, the higher the fair value.

1. The capitalisation rate is the required annual yield of net market income used to determine the value of the property. The rate is determined with regards to comparable market transactions.
2. The discount rate is a required annual total rate of return used to convert a forecast cash flow of an asset into a present value. It should reflect the required rate of return of the property given its risk profile relative to competing uses of capital. The rate is determined with regards to comparable market transactions.
3. The terminal yield is the capitalisation rate used to convert forecast annual income into a forecast asset value at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to comparable market transactions and the expected risk of the asset at the end of the cash flow period.

All of the above key assumptions have been taken from the latest external valuation reports and internal valuation assessments. DFO Perth is excluded from the inputs at 30 June 2017 as it was held at cost.

For all investment properties the current use equates to the highest and best use.

2. Investment properties (continued)

(d) List of investment properties held

i. Super Regional

	Ownership interest %	Valuation type	Carrying value 31-Dec-17 $m	Carrying value 30-Jun-17 $m
Chadstone	50	External	3,000.0	2,675.0
Total Super Regional			**3,000.0**	**2,675.0**

ii. Major Regional

	Ownership interest %	Valuation type	Carrying value 31-Dec-17 $m	Carrying value 30-Jun-17 $m
Bankstown Central	50	Internal	355.0	350.0
Bayside	100	Internal	630.0	622.5
Chatswood Chase Sydney[1]	100	Internal	1,121.2	1,121.2
Galleria	50	External	380.0	395.0
Northland	50	Internal	490.0	487.5
Roselands	50	External	161.7	179.7
The Glen	50	External	260.7	202.1
Total Major Regional			**3,398.6**	**3,358.0**

iii. City Centre

	Ownership interest %	Valuation type	Carrying value 31-Dec-17 $m	Carrying value 30-Jun-17 $m
Emporium Melbourne[2]	50	Internal	615.0	605.0
Myer Bourke Street[2]	33	External	160.0	156.2
The Myer Centre Brisbane	25	External	195.0	195.0
QueensPlaza	100	Internal	770.5	770.5
Total City Centre			**1,740.5**	**1,726.7**

Refer to footnotes at the end of Note 2(d).

2. Investment properties (continued)

(d) List of investment properties held (continued)

iv. Regional

	Ownership interest %	Valuation type	Carrying value 31-Dec-17 $m	Carrying value 30-Jun-17 $m
Broadmeadows Shopping Centre	100	Internal	330.5	330.5
Colonnades	50	Internal	153.0	155.6
Cranbourne Park	50	External	155.4	153.0
Eastlands	100	External	170.0	170.0
Elizabeth City Centre	100	Internal	384.1	384.1
Grand Plaza	50	External	215.0	215.0
Mandurah Forum	50	Internal	294.0	256.5
Mt Ommaney Centre	25	External	105.2	105.2
Rockingham Centre	50	Internal	305.0	313.0
Runaway Bay Centre	50	Internal	157.5	157.5
Total Regional			**2,269.7**	**2,240.4**

v. Outlet Centre

	Ownership interest %	Valuation type	Carrying value 31-Dec-17 $m	Carrying value 30-Jun-17 $m
DFO Brisbane[3]	100	Internal	61.0	59.0
DFO Essendon[4]	100	External	175.0	170.0
DFO Homebush	100	External	466.0	425.0
DFO Moorabbin[5]	100	Internal	125.0	122.0
DFO Perth[6]	50	External	32.9	17.7
DFO South Wharf[7]	100	External	639.4	598.0
Total Outlet Centre			**1,499.3**	**1,391.7**

Refer to footnotes at the end of Note 2(d).

2. Investment properties (continued)

(d) List of investment properties held (continued)

vi. Sub Regional

	Ownership interest %	Valuation type	Carrying value 31-Dec-17 $m	Carrying value 30-Jun-17 $m
Altona Gate Shopping Centre	100	External	104.5	102.5
Armidale Central	100	Internal	46.0	46.0
Belmont Village	100	External	50.0	50.0
Box Hill Central (North Precinct)	100	Internal	107.0	103.0
Box Hill Central (South Precinct)[8]	100	External	209.0	192.0
Brandon Park	50	Internal	65.0	65.0
Buranda Village	100	External	42.5	42.5
Carlingford Court	50	External	117.4	114.0
Castle Plaza	100	External	175.0	174.0
Corio Central	100	External	130.0	131.0
Ellenbrook Central	100	External	240.3	240.0
Gympie Central	100	Internal	80.0	79.0
Halls Head Central	50	Internal	55.0	54.6
Karratha City	50	Internal	52.5	52.5
Kurralta Central	100	External	42.3	42.0
Lake Haven Centre	100	External	306.0	298.0
Lavington Square	100	External	58.0	62.3
Livingston Marketplace	100	External	87.5	86.0
Maddington Central	100	External	120.0	122.0
Mornington Central	50	External	36.9	36.0
Nepean Village	100	External	190.0	181.0
Northgate	100	Internal	109.0	108.0
Roxburgh Village	100	Internal	122.1	122.1
Sunshine Marketplace	50	Internal	60.3	58.5
Taigum Square	100	Internal	101.0	100.0
Toormina Gardens[9]	50	Internal	41.7	40.5
Warnbro Centre	100	External	115.0	125.0
Warriewood Square	50	Internal	143.5	142.5
Warwick Grove	100	External	200.0	200.0
West End Plaza	100	Internal	71.5	70.0
Whitsunday Plaza	100	External	69.0	68.0
Total Sub Regional			**3,348.0**	**3,308.0**

Refer to footnotes at the end of Note 2(d).

2. Investment properties (continued)

(d) List of investment properties held (continued)

vii. Neighbourhood

	Ownership interest %	Valuation type	Carrying value 31-Dec-17 $m	Carrying value 30-Jun-17 $m
Bentons Square	100	External	82.0	82.0
Currambine Central[10]	100	External	105.0	105.0
Dianella Plaza	100	External	89.8	89.0
Flinders Square	100	External	32.5	32.5
Goldfields Plaza	100	Internal	27.2	27.2
Kalamunda Central	100	External	39.0	38.5
Lennox Village	50	External	37.0	36.5
Milton Village	100	External	29.0	27.5
North Shore Village	100	External	26.5	25.0
Oakleigh Central	100	Internal	72.0	71.6
Oxenford Village	100	Internal	35.0	33.1
Stirlings Central	100	External	49.0	50.0
The Gateway	100	External	48.0	46.0
Victoria Park Central	100	Internal	31.5	31.0
Terrace Central[11]	-	-	-	33.5
Total Neighbourhood			**703.5**	**728.4**

1. A 49% interest in Chatswood Chase Sydney is contracted for sale. Refer Note 2(f) for further information.
2. The titles to these properties are leasehold and expire in 2306.
3. The right to operate the DFO Brisbane business expires in 2046.
4. The title to this property is leasehold and expires in 2048.
5. The title to this property is leasehold with an option to extend the ground lease to 2034 at the Group's discretion.
6. This property is currently under construction. The carrying value at 31 December 2017 represents costs incurred to date. The title is leasehold and expires in 2047.
7. The title to this property is leasehold and expires in 2108.
8. The title to this property is leasehold with options to extend the ground lease to 2134 at the Group's discretion.
9. Property was contracted for sale at 31 December 2017. Settlement occurred on 31 January 2018.
10. The title to this property is leasehold and expires in 2094.
11. Disposed during the period.

(e) Investments accounted for using the equity method

The Group holds the following investments that are equity accounted.

	Ownership 31-Dec-17 %	Ownership 30-Jun-17 %	Carrying value 31-Dec-17 $m	Carrying value 30-Jun-17 $m
Victoria Gardens Retail Trust (Joint Venture)	50.0	50.0	90.1	86.4
Other associates and joint ventures	-	-	0.8	1.6
Closing Balance			**90.9**	**88.0**

2. Investment properties (continued)

(f) Sydney CBD asset swap

As announced on 6 November 2017, the Group has entered into contracts to exchange a 49% interest in Chatswood Chase Sydney for 50% interests in GIC Private Limited's (GIC) Queen Victoria Building, The Galeries and The Strand Arcade (together, the Sydney CBD Centres). The Sydney CBD asset swap remains subject to approvals by Sydney City Council and RailCorp, with settlement expected in 2018.

In relation to the disposal of the Group's 49% interest in Chatswood Chase Sydney, the accounting standard requires 100% of the investment property to be presented as a 'non-current asset held for sale' at 31 December 2017. This accounting treatment is due to the pending change in ownership and corresponding loss of control of a subsidiary. Post completion of this disposal, the Group's remaining 51% interest in Chatswood Chase Sydney will be presented within non-current assets as an equity accounted investment.

In addition, the 50% interests in the Sydney CBD Centres acquired will be presented within non-current assets as investment properties.

The following table outlines balances relating to the Sydney CBD asset swap at 31 December 2017:

	31-Dec-17 $m	30-Jun-17 $m
Deposit paid - Sydney CBD asset swap	27.8	-
Total deposit paid – Sydney CBD asset swap	**27.8**	**-**
Chatswood Chase Sydney (49% interest to be swapped for the Sydney CBD Centres)[1]	549.4	-
Chatswood Chase Sydney (51% interest in Joint Venture to be accounted for using the equity method)	571.8	-
Total non-current assets held for sale – Sydney CBD asset swap	**1,121.2**	**-**

1. Represents 49% of carrying value of Chatswood Chase Sydney at 31 December 2017 and excludes settlement adjustments.

3. Interest bearing liabilities and derivatives

During the period no new financing arrangements have been entered into by the Group. Net draw downs on existing facilities have been made for the on-market security buy-back and capital expenditure.

The following table outlines the Group's interest bearing liabilities at balance date:

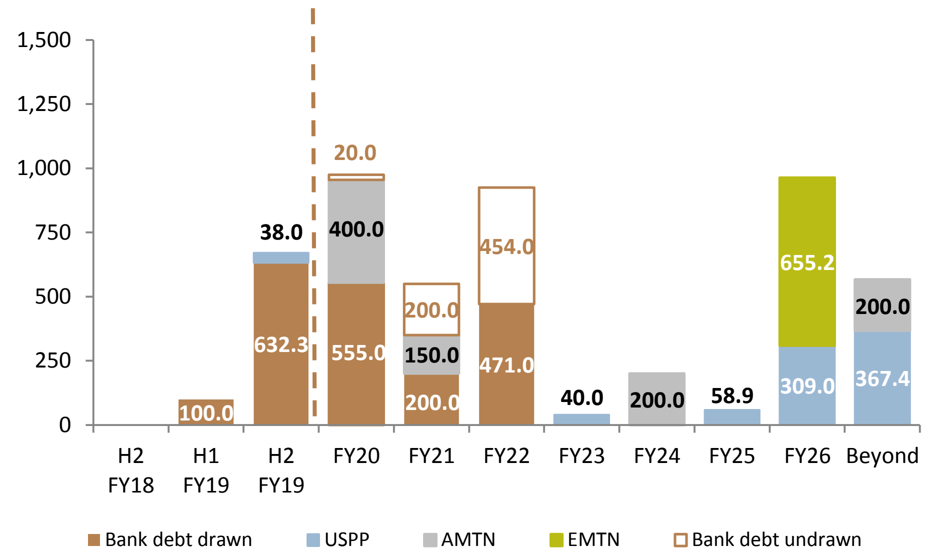
	31-Dec-17 $m	30-Jun-17 $m
Current liabilities		
Unsecured		
Bank debt	100.0	-
Total current liabilities	**100.0**	**-**
Non-current liabilities		
Secured		
A$ Medium Term Notes (AMTNs)	314.5	317.4
Unsecured		
Bank debt	1,858.3	1,506.3
AMTNs	646.0	645.7
GBP European Medium Term Notes (EMTNs)	599.3	588.1
US$ Private Placement Notes (USPPs)	839.4	852.2
Deferred debt costs[1]	(14.0)	(16.0)
Total non-current liabilities	**4,243.5**	**3,893.7**
Total interest bearing liabilities	**4,343.5**	**3,893.7**

1. Deferred debt costs comprise the unamortised value of borrowing costs on establishment or refinance of debt facilities. These costs are deferred on the Balance Sheet and amortised to borrowing costs in the Statement of Comprehensive Income.

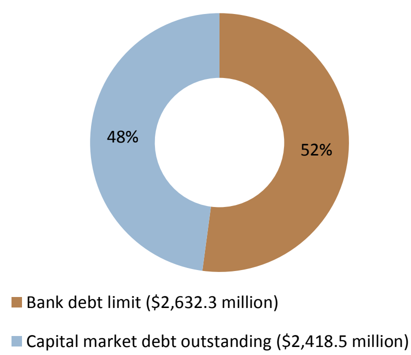
(a) Financing facilities

The chart below outlines the maturity of the Group's total available facilities at 31 December 2017 by type, and the bank to capital markets debt ratio. Of the $5,050.8 million total available facilities (30 June 2017: $5,050.8 million), $674.0 million remains undrawn at 31 December 2017 (30 June 2017: $1,126.0 million).

Available facilities expiry profile ($m)[1,2]



Bank to capital market debt ratio (%)



1. The carrying amount of the USPPs, EMTNs and secured AMTNs in the Balance Sheet includes net adjustments for fair value items and foreign exchange translation of -$19.3 million (30 June 2017: -$15.1 million). These adjustments are excluded from the calculation of total facilities available and amounts drawn. Additionally, deferred debt costs of $14.0 million (30 June 2017: $16.0 million) are not reflected in the amount drawn.

2. Total available bank debt facilities have been reduced by bank guarantees drawn against these facilities of $17.7 million drawn (30 June 2017: $17.7 million).

3. Interest bearing liabilities and derivatives (continued)

(b) Borrowing costs

Borrowing costs consist of interest and other costs incurred in connection with borrowing funds (such as establishment fees, legal and other fees). Borrowing costs are expensed to the Statement of Comprehensive Income using the effective interest rate method, except for borrowing costs incurred for the development of investment property which are capitalised to the cost of the investment property during the period of development.

For the six months to:	31-Dec-17 $m	31-Dec-16 $m
Interest costs on interest bearing liabilities and derivatives	**91.7**	**84.6**
Amortisation of deferred debt costs	2.3	2.3
Amortisation of fair value adjustments relating to discontinuation of hedge accounting	(1.3)	(5.7)
Amortisation of AMTN and EMTN fair value adjustments	(2.4)	(2.9)
Finance lease interest	1.3	1.9
Capitalised borrowing costs	(4.9)	(4.8)
Total borrowing costs	**86.7**	**75.4**

(c) Capital risk management

The Group maintains a strong and conservative capital structure with appropriate liquidity, a strong balance sheet and a diversified debt profile (by source and tenor). The Group has long term credit ratings of 'A2/stable' from Moody's Investors Service and 'A/stable' from Standard & Poor's. Key metrics monitored are bank facilities to capital markets debt ratio (refer Note 3(a)) and gearing ratios (refer table below).

Gearing

	31-Dec-17	30-Jun-17
Total interest bearing liabilities	**4,343.5**	**3,893.7**
Add: Deferred debt costs	14.0	16.0
Add: fair value and foreign exchange adjustments to EMTNs	55.9	67.1
Less: fair value and foreign exchange adjustments to USPPs	(26.2)	(38.9)
Less: fair value adjustments to AMTNs	(10.4)	(13.1)
Total drawn debt	**4,376.8**	**3,924.8**
Drawn debt net of cash ($m)	4,331.4	3,882.6
Total tangible assets excluding cash, finance lease assets and derivative financial assets ($m)	16,313.4	15,731.4
Gearing ratio (target range of 25.0% to 35.0%)	**26.6%**	**24.7%**

(d) Fair value of borrowings

As at 31 December 2017, the Group's debt had a fair value of $4,425.0 million (June 2017: $3,987.3 million).

The difference between the carrying amount and fair value is due to fixed rate borrowings held. The fair value of fixed rate borrowings is calculated by discounting the contractual cash flows using the yield to maturity or prevailing market discount rates for market fixed interest debt instruments, with similar terms, maturity and credit quality. Had the fixed debt been recognised at fair value, these would have been classified as Level 2 under the fair value hierarchy as the market discount rates used are indirectly observable.

3. Interest bearing liabilities and derivatives (continued)

(e) Defaults and covenants

At 31 December 2017, the Group had no defaults on debt obligations or breaches of lending covenants (June 2017: None).

(f) Derivative financial instruments

The Group holds interest rate swaps and cross currency swaps to hedge against the interest rate risk and foreign currency risk of the Group's borrowings. The fair value of these derivatives are estimated using valuation techniques, including referencing to the current fair value of other instruments that are substantially the same or calculation of discounted cash flows. These valuation techniques use observable Level 2 inputs, mainly interest rates and interest rate curves, as well as foreign currency rates and foreign currency curves.

As at 31 December 2017 the carrying value and notional principal amounts of these derivative financial instruments are:

	Carrying amount		Notional principal value	
	31-Dec-17 $m	**30-Jun-17 $m**	**31-Dec-17 $m**	**30-Jun-17 $m**
Cross currency swaps (pay A$ floating receive US$ fixed) - Assets	57.2	68.3	340.6	340.6
Total non-current assets	**57.2**	**68.3**	**n/a**	**n/a**
Interest rate swaps (floating to fixed) - Liabilities	(0.8)	(2.3)	450.0	1,187.0
Total current liabilities	**(0.8)**	**(2.3)**	**n/a**	**n/a**
Cross currency swaps (pay A$ floating receive US$ fixed) - Liabilities	(45.2)	(36.2)	357.8	357.8
Cross currency swaps (pay A$ floating receive GBP fixed) - Liabilities	(54.1)	(67.5)	655.2	655.2
Interest rate swaps (floating to fixed) - Liabilities	(79.5)	(72.4)	2,075.0	1,275.0
Total non-current liabilities	**(178.8)**	**(176.1)**	**n/a**	**n/a**

4. Intangible assets

(a) Background

Intangible asset balances relate to the value of external management contracts and goodwill. The intangible assets were recognised at their fair value at both the date of Novion Property Group's internalisation of management from the Commonwealth Bank of Australia (on 24 March 2014) and the merger of Novion Property Group and Federation Centres (Merger) on 11 June 2015.

External management contracts

External management contracts reflect the right to provide asset and funds management services to external parties in accordance with management agreements. The value of these contracts is allocated to the Strategic Partnerships cash-generating unit (CGU) which is also an operating and reportable segment.

Finite life

External management contracts that are considered to have a finite life are amortised on a straight-line basis depending on the timing of the projected cash flows under the management agreements.

Indefinite life

External management contracts, primarily those associated with strategic partners who co-own assets with the Group and that have management agreements without termination dates, are considered to have indefinite useful lives and are therefore not amortised.

Goodwill

Goodwill is allocated to the Property Investment CGU, which is also an operating and reportable segment. Goodwill represents the incremental value created in relation to the Group's investment properties by replacing property management fees with an internalised cost structure (the value of management contracts relating to internally-owned assets).

A reconciliation of the movements in the value of intangible assets for the current period is shown below:

	Goodwill $m	Indefinite life management contracts $m	Finite life management contracts $m	Total $m
Carrying value 1 July 2017	**427.0**	**164.2**	**8.2**	**599.4**
Impairment and amortisation charge	-	-	(2.2)	(2.2)
Carrying value 31 December 2017	**427.0**	**164.2**	**6.0**	**597.2**

(b) Impairment testing

The Group performs impairment testing for goodwill and indefinite life intangible assets on an annual basis (at 30 June each year) or when there are other indicators of impairment. Summarised below are the results of the Group's impairment testing process performed at 31 December 2017.

External management contracts

As described in Note 4(a), external management contracts are allocated to the Strategic Partnerships CGU for the purposes of impairment testing. The recoverable amount of the Strategic Partnerships CGU is determined using a fair value less cost of disposal (fair value) approach. This is performed using a discounted cash flow (DCF) valuation of the external asset and funds management business which is based on the following key assumptions:

Key assumptions – management contracts DCF	**31-Dec-17**	**30-Jun-17**
Cash flows for forecast earnings after tax	5 years	5 years
Terminal growth rates	2.20% - 2.70%	2.20% - 2.70%
Post tax discount rate range	7.34% - 7.84%	7.36% - 7.86%

Sensitivities to these assumptions have been tested and the Group has determined that no reasonably possible changes would give rise to impairment at 31 December 2017. The future disposal of interests in directly owned or equity accounted investment property assets, where the Group also gives up any future rights under existing finite life or indefinite life contracts, may lead to the derecognition of the associated carrying values of these management contracts, as the Group may no longer be entitled to the management fees under disposal arrangements.

4. Intangible assets (continued)

(b) Impairment testing (continued)

Goodwill

As described in Note 4(a), Goodwill is allocated to the Property Investment CGU for the purposes of impairment testing. The recoverable amount of the Property Investment CGU is determined using a fair value approach. In order to determine the fair value of the Property Investment CGU as a whole, both Enterprise Value (EV) and internal management business DCF valuations are undertaken:

- The DCF is performed on the internal asset and funds management business. The key assumptions used are the same as those used in the valuation of the external management contracts, as outlined above.
- The EV approach estimates fair value based on a DCF analysis using Funds from operations (FFO) adjusted for interest expense, cash flows from the Strategic Partnerships CGU and capital expenditure requirements. The table below summarises key assumptions used in the EV model:

Key assumptions – EV model	31-Dec-17	30-Jun-17
Cash flows for forecast FFO and operational capital expenditure	3 years	3 years
Terminal growth rate	2.20%	2.20%
Post-tax discount rate range	7.09% - 7.59%	7.11% - 7.61%
Cost of equity	7.71% - 8.21%	7.69% - 8.19%

The carrying amount of the Property Investment CGU includes the value of the Group's investment properties which are held at fair value. These fair values are determined based on a number of assumptions, as outlined in Note 2(c). As the carrying amount of the Property Investment CGU is equal to its recoverable amount, any reasonably possible change in the assumptions that impact the property valuations and EV model may have a corresponding impact on the carrying amount of the Property Investment CGU, including goodwill.

Process for determination of key assumptions

The key assumptions used in the fair value assessment of both goodwill and the external management contracts have been determined as follows:

- Relevant discount rates are calculated based on the Capital Asset Pricing Model with reference to the Group's cost of debt, cost of equity and target gearing ratios.
- Terminal growth rates are estimated with reference to macro-economic conditions and the Group's expected earnings growth through fixed rental increases.
- Forecast FFO, operational capital expenditure and asset and funds management cash flows are based on the values determined by the Group's budgeting and planning process.

The Group considers the inputs and the valuation approach to be consistent with the approach taken by market participants.

As forecast FFO, discount rates and growth rates are unobservable inputs into the valuation process, the key assumptions are considered to be Level 3 in the fair value hierarchy.

5. Contributed equity

	31-Dec-17 Number (m)	30-Jun-17 Number (m)	31-Dec-17 $m	30-Jun-17 $m
Total stapled securities on issue as at the beginning of the period	3,958.6	3,958.6	8,493.2	8,493.2
On-market security buy-back	(87.0)	-	(230.8)	-
Total stapled securities on issue as at the end of the period	**3,871.6**	**3,958.6**	**8,262.4**	**8,493.2**

The following weighted average numbers of securities are used in the denominator in calculating earnings per security for the Parent and the Group:

For the six months to:	31-Dec-17 Number (m)	31-Dec-16 Number (m)
Weighted average number of securities used as the denominator in calculating basic earnings per security	3,913.9	3,958.6
Adjustment for potential dilution from performance rights granted	5.9	2.0
Weighted average number of securities and potential securities used as the denominator in calculating the diluted earnings per security	**3,919.8**	**3,960.6**

6. Stapled entity allocation of net profit

In accordance with AASB 3 *Business Combinations*, Vicinity Limited (the Company) is the deemed parent of the Vicinity Centres stapled group (comprising Vicinity Limited and Vicinity Centres Trust). As the Company has no legal ownership over Vicinity Centres Trust and its controlled entities (the Trusts), the allocation of net profit and net assets is shown separately for the Company and its controlled entities (the Companies) and the Trust in the Statement of Comprehensive Income and Statement of Changes in Equity.

The following illustrates the contribution of the Company to the Group's net profit after tax:

Vicinity Limited and controlled entities	31-Dec-17 $m	31-Dec-16 $m
Operating result of the Companies	19.9	12.5
Less: integration costs incurred by the Companies	-	(20.5)
Less: amortisation of intangible assets	(2.2)	(1.6)
Net profit/(loss) attributable to securityholders of Vicinity Limited (as the Companies)	**17.7**	**(9.6)**
Net profit attributable to securityholders of Vicinity Centres Trust (as other stapled entities of the Group)	738.2	918.4
Net profit of the Group	**755.9**	**908.8**

7. Events occurring after the reporting date

No matters have arisen since the end of the period which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

Directors' Declaration

In the Directors' opinion:

(a) the half year financial statements and notes of Vicinity Centres (the Group) set out on pages 11 to 30 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* (Cth) and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half 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.

This declaration is made in accordance with a resolution of the Directors of Vicinity Limited.

Peter Hay
Chairman

Melbourne
14 February 2018

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INDEPENDENT AUDITOR'S REPORT

To the Members of Vicinity Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Vicinity Centres, which comprises the balance sheet as at 31 December 2017, the statement of comprehensive income, statements of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising Vicinity Limited (the 'Company') and the entities it controlled at the half year end or from time to time during the half year.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Company is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Vicinity Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

David Shewring
Partner
Melbourne
14 February 2018