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

For the six months ended 31 December 2018

	Six months to 31-Dec-18	31-Dec-17	Increase/ (Decrease)	
	$m	$m	$m	%
Revenue from ordinary activities	659.3	662.7	(3.4)	(0.5)
Net profit from ordinary activities after tax attributable to securityholders	235.3	755.9	(520.6)	(68.9)
Funds from operations[2]	349.5	357.7	(8.2)	(2.3)

	As at 31-Dec-18	30-Jun-18	Increase/ (Decrease)	
Net tangible assets per security	$ per security	$ per security	$ per security	%
Total	2.96	2.97	(0.01)	(0.3)
Net assets per security	$ per security	$ per security	$ per security	%
Total	3.11	3.13	(0.02)	(0.6)

Distribution per stapled security	**Cents[3]**	**Record date**	**Payment date**
Interim distribution	7.95	31-Dec-18	4-Mar-19

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 2018 which has been reviewed. The independent auditor's report is included within the Half Year Financial Report.

Rohan Abeyewardene
Group Company Secretary

Date: 15 February 2019

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 net profit from ordinary activities attributable to securityholders and fund from operations (FFO) is provided in Note 1(b) of the Half Year Financial Report.

3. Details of the full year tax components of distributions will be provided in the Annual Tax Statements which will be sent to securityholders in late August 2019.

Vicinity Centres

Financial report for the half year ended 31 December 2018

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

Contents

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 2018.

Vicinity Centres 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 (ASX), under the code 'VCX'.

Directors

The Boards 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 2018 and up to the date of this report unless otherwise stated:

(i) Chairman

Peter Hay (Independent)

(ii) Non-executive Directors

Clive Appleton (appointed 1 September 2018)

David Thurin

Janette Kendall (Independent)

Karen Penrose (Independent)

Peter Kahan (Independent)

Tim Hammon (Independent)

Trevor Gerber (Independent)

Wai Tang (Independent)

(iii) Executive Director

Grant Kelley (CEO and Managing Director)

Company Secretaries

Carolyn Reynolds

Jacqueline Jovanovski (appointed 24 September 2018)

Rohan Abeyewardene

Michelle Brady (resigned 24 September 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 13 December 2018 the Directors declared a distribution for the half year ended 31 December 2018 of 7.95 cents per VCX stapled security, which equates to a total half year distribution payable to securityholders of $304.6 million. The half year distribution is expected to be paid on 4 March 2019.

Review of results and operations

A summary of the Group's operations for the six months to 31 December 2018 is contained within this section. This report should be read in conjunction with the 30 June 2018 Annual Report which provides further information on Vicinity's strategy, operations and risks.

(a) Operational update

Financial summary

Statutory net profit for the six months to 31 December 2018 was $235.3 million (six months to 31 December 2018: $755.9 million). The decrease was primarily due to non-cash revaluation decrements on directly owned properties and net foreign exchange movements on interest bearing liabilities.

Funds from operations (FFO)[1] was 9.06 cents per security, which was down 0.9% due to the impact of the divestment of 16 higher yielding, non-core assets over the past 18 months. On a comparable[2] basis, FFO per security was up 2.0%. The distribution for the six months to 31 December 2018 was 7.95 cents per security, reflecting a payout ratio on adjusted FFO (AFFO)[3] of 95.2%.

Net tangible assets remained relatively stable at $2.96 per security (30 June 2018: $2.97) and gearing declined by 130 bps to 25.1% following the divestment of 12 non-core assets.

Emporium Melbourne, VIC

Strategic initiatives

Significant progress was achieved on the strategic initiatives announced by the Group in August 2018. During the period the Group:

- divested $670.5 million[4] (12 assets) of up to $1.0 billion of non-core asset sales targeted for FY19;
- prioritised and progressed plans for mixed-use opportunities within the portfolio; and
- progressed discussions with Keppel Capital for the proposed $1.0 billion wholesale fund.

These initiatives, along with the announcement of a new executive committee structure on 4 December 2018, are progressing Vicinity's strategy to create a core portfolio of market-leading destinations, realise mixed-use opportunities within the portfolio and expand the wholesale funds platform, the aim of which is to deliver strong and sustainable growth for securityholders.

Chadstone, VIC

Portfolio performance[5]

The portfolio of 62 shopping centres remains close to full with occupancy of 99.7%. Total comparable moving annual turnover (MAT) growth of 2.7% was achieved, up from 1.2% at 30 June 2018.

MAT growth for the combined specialty and mini-majors category was 4.2%, up from 1.6% six months earlier, underpinned by solid growth in jewellery (+12.7%), leisure (+5.6%), retail services (+5.2%) and apparel and footwear (+4.2%). On a per square metre basis, specialty store MAT increased by 6.0% to $10,746/sqm. The average leasing spread for the portfolio over the six-month period was 4.4%, with 5.5% recorded for renewals and 3.0% for replacement leases[6].

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[1] FFO is a widely accepted measure of operating performance for the real estate industry. As outlined in Note 1, the Group calculates FFO in accordance with guidelines published by the Property Council of Australia (PCA).

[2] Adjusted for the impact of divestments.

[3] AFFO represents the Group's FFO adjusted for investment property maintenance capital expenditure and static tenant leasing costs in accordance with the PCA Guidelines.

[4] Amount excludes transaction costs.

[5] MAT figures are on a comparable basis and exclude divestments and development impacted centres in accordance with Shopping Centre Council of Australia guidelines.

[6] Leasing spreads include all leases of greater than 18 months duration and exclude project impacted leasing and divested centres. All store types other than majors, offices, ATMs and storage are included.

Developments

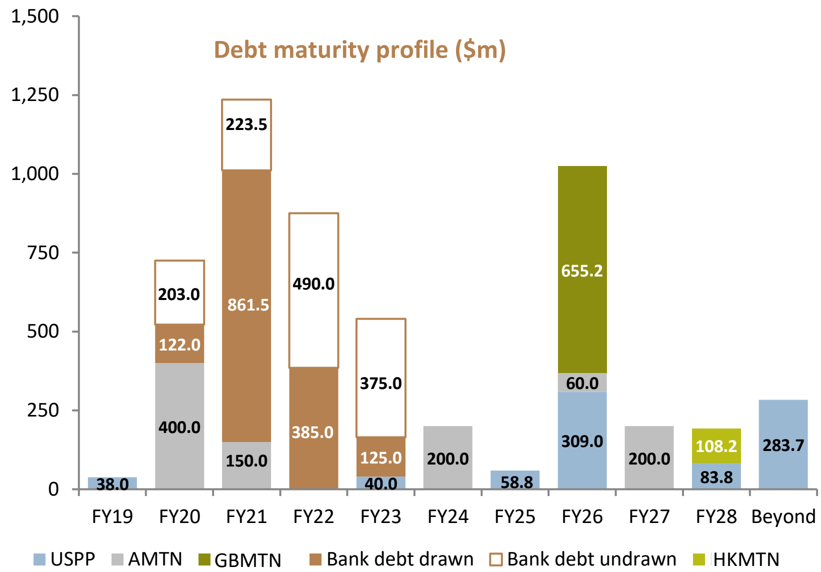
During the period the Group completed the construction of Perth's first DFO ($75.0 million Vicinity share) and progressed the transformation of The Glen ($215.0 million Vicinity share) with the opening of the Stage 3 fashion precinct. Both these projects opened in October 2018 fully leased and are trading strongly.

At Chadstone, Australia's number one retail asset, Victoria's Secret's first full-line Australian flagship store opened in November 2018 together with the new lower ground dining atrium, additional sports and lifestyle specialty retailers, a tourist lounge and a new external dining precinct. The construction of the hotel remains on track for opening in late 2019 ($65.0 million Vicinity share) and works are underway on the link from the hotel to the shopping centre, along with a premium valet parking service for shoppers.

Planning continues for a major redevelopment of Chatswood Chase Sydney, NSW, as well as projects at Box Hill Central, VIC, and Bankstown Central, NSW. Progress has also been made on a number of other retail developments and mixed-use opportunities across the portfolio.

DFO Perth, WA

Capital management[1]



Strong balance sheet and well diversified funding sources

The Group has a strong balance sheet, with a diverse range of funding sources. With $1.5 billion[2] of debt facilities established or extended during the period, FY19 and FY20 expiries have been notably reduced and debt duration has been maintained at greater than four years.

Asset sales to date have reduced gearing to 25.1%[3] at 31 December 2018, being at the lower end of the 25%-35% target range. This, combined with Vicinity's investment grade credit ratings (Moody's A2/Stable, S&P A/Stable), means the balance sheet is in a strong position for substantial reinvestment into the retail development pipeline and other value-accretive opportunities.

On-market securities buy-back

Following the extension of Vicinity's on-market securities buy-back program in July 2018, 40.3 million securities (1.0% of issued capital) were bought back in the period for $106.2 million, at an 11.1% discount to the 31 December 2018 net tangible assets per security (NTA).

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[1] Debt maturity profile amounts are based on facility limits. These exclude adjustments for fair value items, foreign exchange translation and $300.0 million facility that will become available in June 2019 subject to satisfaction of conditions precedent. Refer to Note 3(b) for further information.

[2] $1.5 billion debt facilities established or extended includes $300.0 million facility that will become available in June 2019 subject to satisfaction of conditions precedent.

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

(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-18	31-Dec-17	Commentary on the financial performance for the six-month period
Statutory net profit	$235.3m	$755.9m	Statutory net profit largely comprised FFO of $349.5 million and a revaluation decrement of $71.6 million. Further commentary on FFO and investment properties is contained below.
FFO per security	9.06 cents	9.14 cents	While FFO per security decreased by 0.9%, adjusting for net acquisitions and divestments, comparable FFO per security growth was 2.0%. This comparable growth was driven by the continued successful execution of the Group's development pipeline and the extension of the on-market security buy-back. These favourable factors were partially offset by an increase in interest expense and challenging retail trading and leasing conditions.
Distribution per security	7.95 cents	8.10 cents	The continued divestment of higher yielding, non-core assets over the past 18 months as part of the Group's continuing focus on portfolio enhancement has reduced distributions per security.

Financial position

	31-Dec-18	30-Jun-18	Commentary on key financial position metrics as at 31 December 2018
Segment investment properties[1]	$15,836.0m	$16,365.2m	The divestment of 12 non-core investment properties for net proceeds of $655.0 million and a statutory portfolio revaluation decrement of $71.6 million drove a reduction in segment investment properties. The statutory portfolio revaluation decrement included a net decrement of $36.8 million[2] for properties held throughout the period. Capital expenditure for the period was $199.0 million, primarily relating to developments at The Glen, DFO Perth and Chadstone (as outlined in the developments section of the operational update above). At 31 December 2018, 38 of the Group's 62 directly-owned retail properties (50.4% by value) were independently valued, with the remaining properties subject to internal valuations.
Drawn debt[3]	$4,080.2m	$4,415.2m	The decrease in drawn debt during the half was due to the divestment of 12 non-core investment properties for net proceeds of $655.0 million, partly offset by development capital expenditure incurred and the on-market security buy-back program.
Net tangible assets per security	$2.96	$2.97	NTA per security remained relatively flat at $2.96. The portfolio revaluation decrement was partially offset by the on-market security buy-back as the securities were purchased at an average discount to 31 December 2018 NTA of 11.1%.
Gearing[4]	25.1%	26.4%	This reduction in gearing was as a result of the divestment of 12 non-core investment properties for net proceeds of $655.0 million. This was partly offset by development capital expenditure incurred and the on-market security buy-back program.

[1] Refer to Note 1(c).

[2] Net revaluation decrement excludes statutory accounting adjustments and assets divested during the period.

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

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

Financial position – key debt metrics

	31-Dec-18	30-Jun-18	Commentary on key debt metrics
Weighted average interest rate[1]	4.5%	4.3%	Proceeds from asset divestments during the period were used to repay shorter term floating rate bank debt facilities. This resulted in a higher proportion of fixed rate facilities which have a higher interest rate thereby increasing the weighted average interest rate.
Proportion of debt hedged	89.2%	85.8%	The proportion of debt hedged increased slightly to 89.2% as asset divestment proceeds were used to repay floating rate facilities.
Debt duration[2]	4.3 years	4.4 years	Stable as a result of facility extensions and establishments during the period.
Interest coverage ratio	4.6 times	4.8 times	A higher weighted average cost of debt has seen a modest reduction in the interest cover ratio.
Credit ratings - **Moody's** - **S&P**	A2/stable A/stable	A2/stable A/stable	No changes.

Portfolio metrics

	31-Dec-18	30-Jun-18	Commentary on key portfolio metrics
Assets under management	$26,763.8m	$27,730.5m	Vicinity manages 66 centres valued at $26.8b across all states in Australia.
Portfolio MAT growth[3]	2.7%	1.2%	Moving annual turnover (MAT) growth of 2.7% was recorded through to December 2018. Specialty and Mini-major retailers recorded MAT growth of 4.2% and contribute 69% of total portfolio gross rent. Categories reporting the highest rate of growth included jewellery, retail services and mobile phones. MAT growth rate for Major tenants was 0.9%, which was in line with that reported at June 2018. Supermarkets, which represent 7% of total portfolio gross rent, recorded MAT growth of 1.4%.
Portfolio occupancy	99.7%	99.7%	Portfolio leasing activity during the half year period resulted in occupancy being maintained at 99.7%.
Leasing spreads[4]	4.4%	0.7%	At December 2018, there were approximately 7,400 tenants across the directly owned portfolio. During the half year period 512 lease transactions were completed with average rent on these transactions increasing by 4.4%. DFOs, CBD centres and Chadstone continued to outperform.

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

[2] Based on facility limits.

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

[4] Leasing spread figures include all leases of greater than 18 months duration and exclude project impacted leasing and divested centres. All store types other than majors, offices, ATMs and storage are included.

(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-18 $m	31-Dec-17 $m
Property Investment segment		
Net property income	450.0	447.9
Strategic Partnerships segment		
Property management, development, leasing and funds management fees	35.3	35.5
Total segment income	**485.3**	**483.4**
Corporate overheads (net of internal property management fees)	(37.8)	(36.0)
Net interest expense	(98.0)	(89.7)
Funds from operations	**349.5**	**357.7**
Property revaluation (decrement)/increment for directly owned properties[i]	(71.6)	417.0
Other items	(42.6)	(18.8)
Net profit after tax	**235.3**	**755.9**

i. The statutory portfolio revaluation decrement included a net decrement of $36.8 million for properties held throughout the period.

Financial position

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

As at:	31-Dec-18 $m	30-Jun-18 $m
Cash and cash equivalents	57.9	42.1
Investment properties	15,355.8	15,892.7
Equity accounted investments	694.3	681.1
Intangible assets	593.0	594.9
Other assets	294.6	270.8
Total assets	**16,995.6**	**17,481.6**
Interest bearing liabilities	4,153.5	4,437.6
Other liabilities	911.2	936.5
Total liabilities	**5,064.7**	**5,374.1**
Net assets	**11,930.9**	**12,107.5**

(d) Outlook

FFO guidance for the year ending 30 June 2019 remains unchanged at 18.0 to 18.2 cents per stapled security[1].

[1] 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* (Cth) is included immediately following the Directors' Report.

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 (ASIC), 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 15 February 2019 in accordance with a resolution of Directors.

Peter Hay
Chairman

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF VICINITY LIMITED

As lead auditor for the review of Vicinity Limited for the half year ended 31 December 2018, 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

15 February 2019

Statement of Comprehensive Income

for the half year ended 31 December 2018

	Note	31-Dec-18 $m	31-Dec-17 $m
Revenue and income			
Property ownership revenue and income		621.8	626.9
Management fee revenue from strategic partnerships		37.5	35.8
Interest and other income		2.3	2.9
Total revenue and income	7	**661.6**	**665.6**
Share of net profit of equity accounted investments		14.8	4.4
Property revaluation (decrement)/increment for directly owned properties	2(b)	(71.6)	417.0
Direct property expenses		(182.1)	(164.7)
Borrowing costs	3(c)	(95.3)	(86.7)
Employee benefits expense		(53.3)	(48.8)
Other expenses from ordinary activities		(20.0)	(16.9)
Net foreign exchange movement on interest bearing liabilities		(54.5)	0.5
Net mark-to-market movement on derivatives	3(g)	37.6	(12.3)
Amortisation of intangible assets	4(a)	(1.9)	(2.2)
Profit before tax for the half year		**235.3**	**755.9**
Income tax expense		-	-
Net profit for the half year		**235.3**	**755.9**
Other comprehensive income		-	-
Total comprehensive income for the half year		**235.3**	**755.9**
Total profit and total comprehensive income for the half year attributable to stapled securityholders as:			
Securityholders of Vicinity Limited		18.0	17.7
Securityholders of other stapled entities of the Group		217.3	738.2
Net profit and total comprehensive income for the half year		**235.3**	**755.9**
Earnings per security attributable to securityholders of the Group:			
Basic earnings per security (cents)		6.10	19.31
Diluted earnings per security (cents)		6.09	19.28

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

Balance Sheet

as at 31 December 2018

	Note	31-Dec-18 $m	30-Jun-18 $m
Current assets			
Cash and cash equivalents		57.9	42.1
Receivables and other assets		93.4	99.6
Derivative financial instruments	3(g)	4.5	3.2
Total current assets		**155.8**	**144.9**
Non-current assets			
Investment properties	2(a)	15,355.8	15,892.7
Investments accounted for using the equity method	2(e)	694.3	681.1
Intangible assets	4(a)	593.0	594.9
Plant and equipment		11.7	13.7
Derivative financial instruments	3(g)	94.0	62.5
Deferred tax assets		84.3	84.3
Other assets		6.7	7.5
Total non-current assets		**16,839.8**	**17,336.7**
Total assets		**16,995.6**	**17,481.6**
Current liabilities			
Interest bearing liabilities	3(a)	517.9	41.6
Distribution payable		304.6	317.5
Payables and other financial liabilities		161.9	165.3
Provisions		71.1	77.0
Derivative financial instruments	3(g)	2.3	-
Total current liabilities		**1,057.8**	**601.4**
Non-current liabilities			
Interest bearing liabilities	3(a)	3,635.6	4,396.0
Other financial liabilities		206.5	204.8
Provisions		8.7	8.7
Derivative financial instruments	3(g)	156.1	163.2
Total non-current liabilities		**4,006.9**	**4,772.7**
Total liabilities		**5,064.7**	**5,374.1**
Net assets		**11,930.9**	**12,107.5**
Equity			
Contributed equity	5	8,156.2	8,262.4
Share based payment reserve		6.5	7.6
Retained profits		3,768.2	3,837.5
Total equity		**11,930.9**	**12,107.5**

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 2018

	Attributable to securityholders of Vicinity Limited				Attributable to securityholders of other stapled entities of the Group				
	Contributed equity $m	**Reserves $m**	**Retained losses $m**	**Total $m**	**Contributed equity $m**	**Reserves $m**	**Retained profits $m**	**Total $m**	**Total equity $m**
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 securities 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**	[illegible]	**(291.7)**	[illegible]	**7,784.8**	**-**	[illegible]	**11,768.7**	**11,960.2**
As at 1 July 2018	**477.6**	**7.6**	**(269.8)**	**215.4**	**7,784.8**	**-**	**4,107.3**	**11,892.1**	**12,107.5**
Net profit for the half year	-	-	18.0	18.0	-	-	217.3	217.3	235.3
Total comprehensive income for the half year	**-**	**-**	**18.0**	**18.0**	**-**	**-**	**217.3**	**217.3**	**235.3**
Transactions with securityholders in their capacity as securityholders:									
On-market securities buy-back	(1.9)	-	-	(1.9)	(104.3)	-	-	(104.3)	(106.2)
Net movements in share based payment reserve	-	(1.1)	-	(1.1)	-	-	-	-	(1.1)
Distributions declared	-	-	-	-	-	-	(304.6)	(304.6)	(304.6)
Total equity as at 31 December 2018	**475.7**	**6.5**	**(251.8)**	**230.4**	**7,680.5**	**-**	**4,020.0**	**11,700.5**	**11,930.9**

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

Cash Flow Statement

for the half year ended 31 December 2018

	Note	31-Dec-18 $m	31-Dec-17 $m
Cash flows from operating activities			
Receipts in the course of operations		747.3	723.7
Payments in the course of operations		(323.1)	(309.2)
Distributions and dividends received from equity accounted and managed investments		11.9	3.5
Interest and other revenue received		0.6	0.5
Interest paid		(95.4)	(84.1)
Net cash inflows from operating activities		**341.3**	**334.4**
Cash flows from investing activities			
Payments for capital expenditure on investment properties		(211.4)	(209.6)
Proceeds from disposal of investment properties	2(b)	655.0	33.1
Payments for plant and equipment		(0.7)	(3.1)
Deposit paid – Sydney CBD asset swap		-	(27.8)
Net cash inflows/(outflows) from investing activities		**442.9**	**(207.4)**
Cash flows from financing activities			
Proceeds from borrowings		488.0	688.0
Repayment of borrowings		(823.0)	(236.0)
Distributions paid to external securityholders		(317.5)	(340.4)
On-market securities buy-back		(106.2)	(230.8)
Debt establishment costs paid		(2.4)	(0.3)
Acquisition of securities on-market for settlement of share based payments		(7.3)	(4.3)
Net cash outflows from financing activities		**(768.4)**	**(123.8)**
Net increase in cash and cash equivalents held		**15.8**	**3.2**
Cash and cash equivalents at the beginning of the half year		**42.1**	**42.2**
Cash and cash equivalents at the end of the half year		**57.9**	**45.4**

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 2018 (the Financial Report):

- has been prepared in accordance with the *Corporations Act 2001* (Cth) and 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 2018 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 ASX;
- 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 15 February 2019. The Directors have the power to amend and reissue the Financial Report.

Although the Group has a net current deficiency of $902.0 million (current liabilities exceed current assets) at reporting date, the Group has sufficient current undrawn borrowing facilities (of $1,291.5 million, refer to Note 3(b)) and generates sufficient operating cash flows to meet its current obligations as they fall due. Accordingly, the Financial Report has been prepared on a going concern basis.

Impact of new and amended accounting standards

The new accounting standards AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* became effective for the Group on 1 July 2018. Further details relating to the adoption of these accounting standards are contained in Note 6.

There were other new and/or amended standards that became effective as of 1 July 2018 but these did not have a material impact on the financial statements of the Group.

Critical accounting judgements and estimates

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 results of which form the basis of the carrying value of certain assets and liabilities. Consequently, future actual results could differ from these estimates. There are no new key judgements, estimates or assumptions for the half year ended 31 December 2018 not already noted in the 30 June 2018 Annual Report.

Updates on the following key judgements and estimates are contained in this half year Financial Report:

Judgement or estimate	Reference
Valuation of investment properties	Note 2
Recoverability of intangible assets	Note 4

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 providing property management, development and leasing services to third parties, 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 half year, the Chief Operating Decision Makers continued to be the CEO and Managing Director (CEO) and the Chief Financial Officer (CFO).

Segment performance is assessed based on funds from operations (FFO), which 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 investment property maintenance capital and static tenant leasing costs incurred during the half year in accordance with the guidelines published by the Property Council of Australia (PCA).

(a) Segment results

For the six months to:	31-Dec-18 $m	31-Dec-17 $m
Property Investment segment		
Net property income	450.0	447.9
Strategic Partnerships segment		
Property management, development and leasing fees	32.8	30.9
Funds management fees	2.5	4.6
Total segment income	**485.3**	**483.4**
Corporate overheads (net of internal property management fees)	(37.8)	(36.0)
Net interest expense	(98.0)	(89.7)
Funds from operations	**349.5**	**357.7**
Adjusted for:		
Maintenance capital and static tenant leasing costs	(29.4)	(24.0)
Adjusted funds from operations	**320.1**	**333.7**

The Group also monitors the following metrics:

For the six months to:	31-Dec-18	31-Dec-17
FFO per security[1] (cents per security)	9.06	9.14
AFFO per security[1] (cents per security)	8.29	8.53
Distribution per security (DPS) (cents per security)	7.95	8.10
Total distributions declared[2] ($m)	$304.6	$313.6
AFFO payout ratio (total distributions declared $m/AFFO $m) (%)	95.2%	94.0%
FFO payout ratio (total distributions declared $m/FFO $m) (%)	87.2%	87.7%

1. The calculation of FFO and AFFO per security for the period uses the basic weighted average number of securities on issue as calculated in Note 5.
2. The total distribution declared is calculated based on the actual number of securities on issue at the distribution record date.

1. Segment information (continued)

(b) Reconciliation of net profit after tax to FFO

For the six months to:	31-Dec-18 $m	31-Dec-17 $m
Net profit after tax	**235.3**	**755.9**
Property revaluation decrement/(increment) for directly owned properties[1]	71.6	(417.0)
Non-distributable loss/(gain) relating to equity accounted investments[1]	1.3	(1.0)
Amortisation of static lease incentives[2]	8.5	6.9
Amortisation of other project items[2]	12.1	9.7
Straight-lining of rent adjustment[3]	(5.6)	(11.6)
Net mark-to-market movement on derivatives[4]	(37.6)	12.3
Net foreign exchange movement on interest bearing liabilities[4]	54.5	(0.5)
Amortisation of intangible assets[5]	1.9	2.2
Other non-distributable items	7.5	0.8
Funds from operations	**349.5**	**357.7**

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. In accordance with the PCA Guidelines amortisation items are excluded from FFO as:
   - Static (non-development) lease incentives committed during the period relating to static centres are reflected in the AFFO calculation at Note 1(a); and
   - Other project items are included within the capital cost of the relevant development project.
3. Straight-lining of rental revenue, which is required by Australian Accounting Standards, is an unrealised non-cash amount and excluded from FFO.
4. Net mark-to-market movement on derivatives and net foreign exchange movement on interest bearing liabilities represent non-cash fair value adjustments as required by Australian Accounting Standards and are excluded from FFO.
5. 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:

	31-Dec-18 $m	30-Jun-18 $m
Investment properties[1]	15,107.1	15,638.1
Investment properties included in equity accounted investments	728.9	727.1
Total interests in directly owned investment properties	**15,836.0**	**16,365.2**
Assets under management on behalf of strategic partners[2]	10,927.8	11,365.3
Total assets under management	**26,763.8**	**27,730.5**

1. Calculated as total investment properties at Note 2(a) less finance lease assets and planning and holding costs.
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 2018 Annual Report.

(a) Portfolio summary

Shopping centre type	31-Dec-18			30-Jun-18		
	Number of properties	Value $m	Weighted average cap rate %	Number of properties	Value $m	Weighted average cap rate %
Super Regional	1	3,150.0	3.75	1	3,050.0	3.75
Major Regional	6	2,339.6	5.70	6	2,323.0	5.69
City Centre	7	2,450.3	4.65	7	2,417.5	4.66
Regional	10	2,248.2	6.11	10	2,312.9	5.99
Outlet Centre	6	1,693.8	5.81	6	1,562.0	6.04
Sub Regional	25	2,972.7	6.29	29	3,288.6	6.29
Neighbourhood	5	252.5	6.34	13	684.1	6.31
Planning and holding costs[1]	-	26.6	-	-	34.5	-
Total	**60**	**15,133.7**	**5.32**	**72**	**15,672.6**	**5.38**
Add: Finance lease assets[2]		222.1			220.1	
Total investment properties		**15,355.8**			**15,892.7**	

1. 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.
2. Disclosures relating to finance leases can be found in Note 21(b) of the 30 June 2018 Annual Report.

(b) Movements for the period

As part of the Group's continuing focus on portfolio enhancement, the sale of the following investment properties occurred during the period:

- Flinders Square (August 2018) for $39.5 million[1];
- Belmont Village (September 2018) for $58.0 million[1]; and
- A portfolio sale of ten assets (Bentons Square, Currambine Central, Kalamunda Central, Lavington Square, North Shore Village, Oxenford Village, Stirlings Central, The Gateway, Warnbro Centre and West End Plaza) (October & November 2018) for a total consideration of $573.0 million[1].

A reconciliation of the movements in investment properties is shown in the table below.

For the six months to:	31-Dec-18 $m	31-Dec-17 $m
Opening balance at 1 July	15,672.6	15,449.5
Capital expenditure[2]	199.0	155.5
Capitalised borrowing costs[3]	3.7	4.9
Disposals	(655.0)	(33.1)
Property revaluation (decrement)/increment for directly owned properties	(71.6)	417.0
Amortisation of incentives and leasing costs	(20.6)	(17.2)
Straight-lining of rent adjustment	5.6	11.6
Closing balance at 31 December	**15,133.7**	**15,988.2**

1. Amounts exclude transaction costs. The portfolio sale of ten assets also includes a rental guarantee of up to $8.0 million available to the purchaser which expires November 2020.
2. Includes development costs, maintenance capital expenditure, lease incentives and fit-out costs.
3. Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate of 4.6% (31 December 2017: 4.4%).

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 valuation 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-18		30-Jun-18		
Unobservable inputs	**Range of inputs**	**Weighted average inputs**	**Range of inputs**	**Weighted average inputs**	**Sensitivity**
Capitalisation rate[1]	3.75% - 7.50%	5.32%	3.75% - 7.50%	5.38%	The higher the capitalisation rate, discount rate, terminal yield, and expected downtime due to tenants vacating, the lower the fair value.
Discount rate[2]	6.25% - 8.75%	7.01%	6.25% - 8.75%	7.17%	
Terminal yield[3]	4.00% - 7.75%	5.58%	4.00% - 7.75%	5.64%	
Expected downtime (for tenants vacating)	2 months to 9 months	5 months	2 months to 9 months	5 months	
Rental growth rate	2.34% - 4.19%	3.41%	2.18% - 4.19%	3.40%	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 regard to comparable market transactions.
2. The discount rate is an annual total rate of return used to convert the forecast cash flow of an asset into present value terms. 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 regard 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 regard to comparable market transactions and the expected risk inherent in the cash flows 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.

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 %	31-Dec-18 Valuation type	Carrying value 31-Dec-18 $m	30-Jun-18 $m
Chadstone	50	Internal	3,150.0	3,050.0
Total Super Regional			**3,150.0**	**3,050.0**

ii. Major Regional

	Ownership interest %	31-Dec-18 Valuation type	Carrying value 31-Dec-18 $m	30-Jun-18 $m
Bankstown Central	50	Internal	355.0	355.0
Bayside	100	External	600.0	630.0
Galleria	50	External	365.0	380.0
Northland	50	Internal	492.5	490.0
Roselands	50	Internal	165.1	161.7
The Glen	50	External	362.0	306.3
Total Major Regional			**2,339.6**	**2,323.0**

iii. City Centre

	Ownership interest %	31-Dec-18 Valuation type	Carrying value 31-Dec-18 $m	30-Jun-18 $m
Emporium Melbourne	50	Internal	695.0	685.0
Myer Bourke Street	33	External	163.0	160.0
Queen Victoria Building[1]	50	External	327.5	320.0
QueensPlaza	100	Internal	787.0	774.0
The Galeries	50	External	167.5	163.5
The Myer Centre Brisbane	25	External	186.3	195.0
The Strand Arcade	50	External	124.0	120.0
Total City Centre			**2,450.3**	**2,417.5**

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 %	31-Dec-18 Valuation type	Carrying value 31-Dec-18 $m	Carrying value 30-Jun-18 $m
Broadmeadows Central	100	Internal	328.0	330.5
Colonnades	50	External	131.5	147.5
Cranbourne Park	50	Internal	155.0	161.3
Eastlands	100	External	170.8	170.0
Elizabeth City Centre	100	External	372.1	380.0
Grand Plaza	50	External	217.5	220.0
Mandurah Forum	50	External	322.0	335.9
Mt Ommaney Centre	25	External	96.3	105.2
Rockingham Centre	50	Internal	300.0	305.0
Runaway Bay Centre	50	Internal	155.0	157.5
Total Regional			**2,248.2**	**2,312.9**

v. Outlet Centre

	Ownership interest %	31-Dec-18 Valuation type	Carrying value 31-Dec-18 $m	Carrying value 30-Jun-18 $m
DFO Brisbane[2]	100	Internal	63.0	61.0
DFO Essendon[3]	100	External	178.0	178.0
DFO Homebush	100	External	515.0	480.0
DFO Moorabbin[4]	100	Internal	126.0	126.0
DFO Perth[5]	50	External	106.8	62.0
DFO South Wharf[6]	100	External	705.0	655.0
Total Outlet Centre			**1,693.8**	**1,562.0**

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

2. Investment properties (continued)

(d) List of investment properties held (continued)

vi. Sub Regional

			Carrying value	
	Ownership interest %	31-Dec-18 Valuation type	31-Dec-18 $m	30-Jun-18 $m
Altona Gate Shopping Centre	100	External	106.5	106.5
Armidale Central	100	Internal	46.0	46.0
Box Hill Central (North Precinct)	100	Internal	123.0	119.0
Box Hill Central (South Precinct)[7]	100	External	225.5	217.0
Buranda Village	100	External	44.0	42.5
Carlingford Court	50	External	122.0	121.0
Castle Plaza	100	External	173.1	175.0
Corio Central	100	External	115.0	130.0
Ellenbrook Central	100	External	244.0	244.0
Gympie Central	100	Internal	82.0	81.3
Halls Head Central	50	External	50.0	57.0
Karratha City	50	Internal	49.0	51.2
Kurralta Central	100	External	44.5	43.5
Lake Haven Centre	100	External	320.0	320.0
Livingston Marketplace	100	External	90.0	89.0
Maddington Central	100	External	115.0	120.0
Mornington Central	50	External	36.0	37.0
Nepean Village	100	External	204.0	192.0
Northgate	100	Internal	102.5	110.0
Roxburgh Village	100	Internal	120.0	122.1
Sunshine Marketplace	50	Internal	62.0	61.0
Taigum Square	100	Internal	97.0	101.0
Warriewood Square	50	Internal	150.0	148.0
Warwick Grove	100	External	185.0	200.0
Whitsunday Plaza	100	External	66.6	69.0
Belmont Village[8]	-	-	-	51.0
Lavington Square[8]	-	-	-	58.0
Warnbro Centre[8]	-	-	-	105.0
West End Plaza[8]	-	-	-	71.5
Total Sub Regional			**2,972.7**	**3,288.6**

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 %	31-Dec-18 Valuation type	Carrying value 31-Dec-18 $m	Carrying value 30-Jun-18 $m
Dianella Plaza	100	External	82.6	89.8
Lennox Village	50	External	35.0	39.0
Milton Village	100	External	30.4	30.3
Oakleigh Central	100	Internal	76.0	76.0
Victoria Park Central	100	Internal	28.5	30.1
Bentons Square[8]	-	-	-	82.0
Currambine Central[8]	-	-	-	96.0
Flinders Square[8]	-	-	-	39.5
Kalamunda Central[8]	-	-	-	42.0
North Shore Village[8]	-	-	-	27.0
Oxenford Village[8]	-	-	-	33.2
Stirlings Central[8]	-	-	-	48.0
The Gateway[8]	-	-	-	51.2
Total Neighbourhood			**252.5**	**684.1**

1. The title to this property is leasehold and expires in 2083.
2. The right to operate the DFO Brisbane business expires in 2046.
3. The title to this property is leasehold and expires in 2048.
4. The title to this property is leasehold with an option to extend the ground lease to 2034 at the Group's discretion.
5. The title to this property is leasehold and expires in 2047.
6. The title to this property is leasehold and expires in 2108.
7. The title to this property is leasehold with options to extend the ground lease to 2134 at the Group's discretion.
8. Disposed during the period.

(e) Equity accounted investments

The Group holds the following investments that are equity accounted:

	Ownership 31-Dec-18 %	Ownership 30-Jun-18 %	Carrying value 31-Dec-18 $m	Carrying value 30-Jun-18 $m
Chatswood Chase Sydney (Joint Venture)[1]	51.0	51.0	601.9	591.2
Victoria Gardens Retail Trust (Joint Venture)	50.0	50.0	91.9	87.6
Vicinity Asset Operations Pty Ltd (Associate)	40.0	40.0	0.5	2.3
Closing balance			**694.3**	**681.1**

1. Investment in joint venture held through CC Commercial Trust.

3. Interest bearing liabilities and derivatives

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Foreign currency denominated notes are translated to AUD at the applicable exchange rate at half year end with the gain or loss attributable to exchange rate movements recognised in profit or loss in the Statement of Comprehensive Income.

During the period, the following financing activities have occurred:

- AUD $60.0 million 7-year bonds were issued on 3 September 2018 under the European Medium Term Note (EMTN) programme. The proceeds of this issue were used to repay existing bank debt;
- Maturities for a number of bank debt facilities totalling $1.15 billion were extended by twelve to thirteen months; and
- Net repayments of $335.0 million were made throughout the period, with the proceeds from investment property divestments partially offset by drawdowns for the on-market securities buy-back and capital expenditure.

Additionally, during the period, a 5-year $300.0 million bank debt facility was established with a new lender. This facility will be available in June 2019 subject to satisfaction of conditions precedent.

(a) Summary of facilities

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

	31-Dec-18 $m	30-Jun-18 $m
Current liabilities		
Secured		
AUD Medium Term Notes (AMTNs)	153.8	-
Unsecured		
Bank debt	72.0	-
US$ Private Placement Notes (USPPs)	42.7	41.6
AMTNs	250.0	-
Deferred debt costs[1]	(0.6)	-
Total current liabilities	**517.9**	**41.6**
Non-current liabilities		
Secured		
AMTNs	154.6	311.5
Unsecured		
Bank debt	1,421.5	1,888.5
AMTNs[2]	456.5	646.2
GBP European Medium Term Notes (GBMTNs)	629.3	616.6
HKD European Medium Term Notes (HKMTNs)	115.9	110.4
USPPs	870.8	836.7
Deferred debt costs[1]	(13.0)	(13.9)
Total non-current liabilities	**3,635.6**	**4,396.0**
Total interest bearing liabilities	**4,153.5**	**4,437.6**

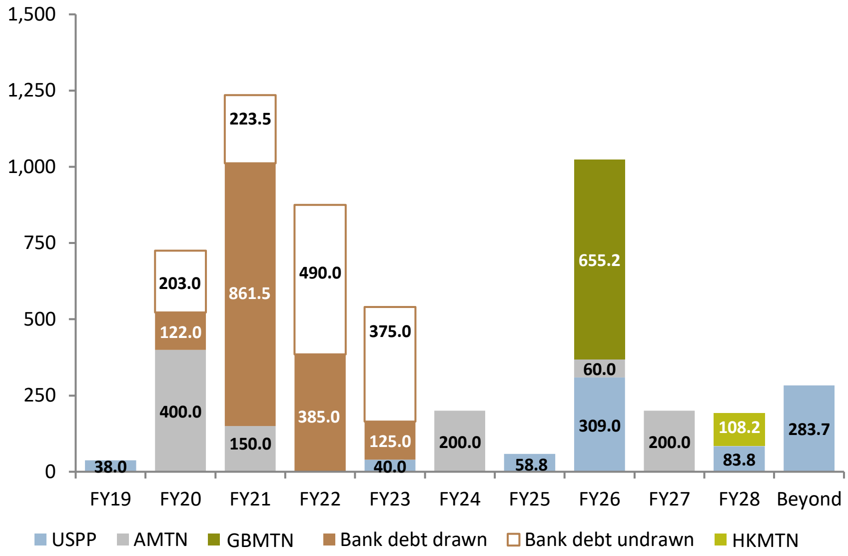
1. Deferred debt costs comprise the unamortised value of costs paid to establish or refinance debt facilities. These costs are deferred on the Balance Sheet and amortised to borrowing costs in the Statement of Comprehensive Income.
2. Non-current unsecured AMTNs include AUD $60.0 million issued under the Group's EMTN programme.

3. Interest bearing liabilities and derivatives (continued)

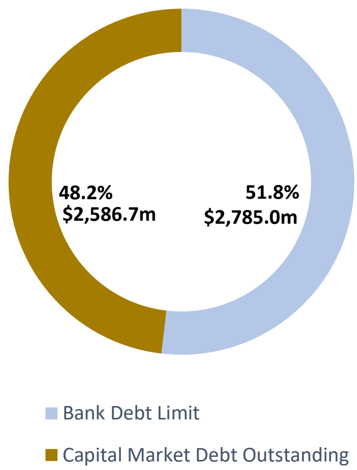
(b) Facility maturity and availability

The charts below outline the maturity of the Group's total available facilities at 31 December 2018 by type and the bank to capital markets debt ratio. Of the $5,371.7 million total available facilities (30 June 2018: $5,494.0 million), $1,291.5 million remains undrawn at 31 December 2018 (30 June 2018: $1,078.8 million).

Debt maturity profile ($m)[1, 2, 3]



Bank to capital market debt ratio



1. The carrying amount of the USPPs, GBMTNs, HKMTNs and AMTNs in the Balance Sheet is net of adjustments for fair value items and foreign exchange translation of $86.9 million (30 June 2018: $36.3 million). These adjustments are excluded from the calculation of total facilities available and amounts drawn as shown in the charts. Additionally, deferred debt costs of $13.6 million (30 June 2018: $13.9 million) are not reflected in the amount drawn.
2. Total available bank debt facilities are reduced by bank guarantees drawn against these facilities of $2.6 million (30 June 2018: $17.7 million).
3. Excludes 5-year $300.0 million bank debt facility which will become available in June 2019 subject to satisfaction of conditions precedent.

(c) 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 properties which are capitalised to the cost of the investment property during the period of development.

For the six months to:	**31-Dec-18 $m**	**31-Dec-17 $m**
Interest and other costs on interest bearing liabilities and derivatives	99.2	91.7
Amortisation of deferred debt costs	2.6	2.3
Amortisation of fair value adjustments relating to discontinuation of hedge accounting	(1.5)	(1.3)
Amortisation of AMTN and GBMTN fair value adjustment	(2.5)	(2.4)
Finance lease interest	2.0	1.3
Capitalised borrowing costs	(4.5)	(4.9)
Total borrowing costs	**95.3**	**86.7**

3. Interest bearing liabilities and derivatives (continued)

(d) Capital risk management

The Group maintains a strong and conservative capital structure with appropriate liquidity, a low gearing 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 the gearing ratio and interest cover ratio (refer tables below).

Gearing

	31-Dec-18 $m	30-Jun-18 $m
Total interest bearing liabilities	**4,153.5**	**4,437.6**
Add: deferred debt costs	13.6	13.9
Add: fair value and foreign exchange adjustments to GBMTNs	25.9	38.6
Less: fair value and foreign exchange adjustments to USPPs	(100.1)	(65.0)
Less: fair value adjustments to AMTNs	(5.0)	(7.7)
Less: foreign exchange adjustments to HKMTNs	(7.7)	(2.2)
Total drawn debt	**4,080.2**	**4,415.2**
Drawn debt net of cash	4,022.3	4,373.1
Total tangible assets excluding cash, finance lease assets and derivative financial assets	16,024.1	16,558.8
Gearing ratio (target range of 25.0% to 35.0%)	**25.1%**	**26.4%**

Interest cover ratio

The interest cover ratio (ICR) is calculated in accordance with the definitions within the Group's bank debt facility agreements as follows:

- EBITDA which generally means the Group's earnings before interest, tax, depreciation, amortisation, fair value adjustments and other items; divided by
- Total interest expense.

At 31 December 2018 the interest cover ratio was 4.6 times (31 December 2017: 5.4 times).

(e) Fair value of interest bearing liabilities

As at 31 December 2018, the Group's interest bearing liabilities had a fair value of $4,194.9 million (June 2018: $4,476.5 million). The carrying amount of these interest bearing liabilities was $4,153.5 million (June 2018: $4,437.6 million). The difference between the carrying amount and the fair value of interest bearing liabilities is due to:

- Deferred debt costs included in the carrying value which are not included in the fair value; and
- Movements in market discount rates on fixed rate interest bearing liabilities since initial recognition. As fair value is calculated by discounting the contractual cash flows using prevailing market discount rates (with similar terms, maturity and credit quality) any movements in these discount rates since initial recognition will give rise to differences between fair value and the carrying value (which is at amortised cost).

Had the fixed rate interest bearing liabilities 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.

(f) Defaults and covenants

At 31 December 2018, the Group had no defaults on debt obligations or breaches of lending covenants (30 June 2018: Nil).

3. Interest bearing liabilities and derivatives (continued)

(g) Derivatives

Derivative instruments are held to hedge against the interest rate risk and foreign currency risk of the Group's borrowings. Derivatives are initially recognised at fair value and subsequently remeasured to their fair value at each reporting period. The fair value of these derivatives is 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 and foreign currency rates and interest and foreign currency rate curves. Movements in fair value are recognised directly in profit or loss.

The carrying amount and notional principal amounts of these instruments are shown in the table below:

	Carrying amount		Notional principal value	
	31-Dec-18 $m	30-Jun-18 $m	31-Dec-18 $m	30-Jun-18 $m
Cross currency swaps (pay AUD floating receive USD fixed)	4.5	3.2	38.0	38.0
Total current assets	**4.5**	**3.2**	**n/a**	**n/a**
Cross currency swaps (pay AUD floating receive USD fixed)	84.0	60.7	302.5	302.5
Cross currency swaps (pay AUD floating receive HKD fixed)	10.0	1.8	108.2	108.2
Total non-current assets	**94.0**	**62.5**	**n/a**	**n/a**
Interest rate swaps (floating to fixed)	(2.3)	-	250.0	150.0
Total current liabilities	**(2.3)**	**-**	**n/a**	**n/a**
Cross currency swaps (pay AUD floating receive GBP fixed)	(39.9)	(48.3)	655.2	655.2
Cross currency swaps (pay AUD floating receive USD fixed)	(15.3)	(37.9)	357.8	357.8
Interest rate swaps (floating to fixed)	(100.9)	(77.0)	2,325.0	2,575.0
Total non-current liabilities	**(156.1)**	**(163.2)**	**n/a**	**n/a**
Total net carrying amount of derivative financial instruments[1]	**(59.9)**	**(97.5)**	**n/a**	**n/a**

1. The movement in the net carrying amount of derivative financial instruments of $37.6 million was due to mark-to-market fair value adjustments.

4. Intangible assets

(a) Background

Intangible asset balances relate to the value of external management contracts and goodwill. The intangible assets were recognised upon business combinations at their fair value at both the date of Novion Property Group's acquisition of the Commonwealth Bank of Australia's property management business (on 24 March 2014) and the merger of Novion Property Group and Federation Centres (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 relates to the incremental value created in relation to the Group's investment properties by replacing external market-based asset management fees with a lower internal cost structure (reflecting the value of management contracts relating to internally-owned assets).

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

	External management contracts		Goodwill	Total
	Indefinite life	Finite life		
	$m	$m	$m	$m
Carrying value 1 July 2018	**164.2**	**3.7**	**427.0**	**594.9**
Amortisation charge	-	(1.9)	-	(1.9)
Carrying value 31 December 2018	**164.2**	**1.8**	**427.0**	**593.0**

(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. At 31 December 2018 the Group's net asset value was greater than its market capitalisation which was considered a potential indicator of impairment. Further details of the resulting impairment testing undertaken are summarised below. No impairment was required to either the Strategic Partnership or Property Investment CGU.

External management contracts

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 contracts which is based on the following key assumptions.

Key assumption	31-Dec-18	30-Jun-18
Post-tax external management contract cash flows	5 years	5 years
Terminal growth rates	2.20% - 2.70%	2.20% - 2.70%
Post-tax discount rate range	6.81% - 7.31%	6.80% - 7.30%

The impairment test determined that the recoverable amount of the Strategic Partnerships CGU exceeded its carrying value and therefore no impairment was required.

Sensitivity considerations
Sensitivities to the key assumptions within the external management contracts DCF were also tested and the Group has determined that no reasonably possible changes would give rise to impairment at 31 December 2018. The future disposal of interests in directly owned or equity accounted investment property assets, where the Group also gives up any future asset management 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. Intangibles (continued)

(b) Impairment testing (continued)

Goodwill

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 an enterprise value (EV) approach is undertaken. The EV approach estimates unlevered fair value based on a Free Cash Flow to Firm DCF analysis. This analysis discounts funds from operations (FFO) adjusted for interest expense, cash flows from Strategic Partnerships CGU and capital expenditure requirements. The table below summarises key assumptions used in the EV model:

Key assumption	31-Dec-18	30-Jun-18
Cash flows for forecast FFO and operational capital expenditure	5 years	5 years
Terminal growth rate	2.20%	2.20%
Pre-tax discount rate range	7.03% - 7.53%	7.02% - 7.52%

The impairment test determined that the recoverable amount of the Property Investment CGU exceeded its carrying value and therefore no impairment was required.

Sensitivity considerations

An increase of 28 basis points in the low end pre-tax discount rate would result in the recoverable amount of the Property Investment CGU being equal to its carrying value. This sensitivity analysis assumes that the pre-tax discount rate increases while all other assumptions remain constant; however, changes in the pre-tax discount rate may be accompanied by a change in other assumptions which could have an offsetting impact, for example, on the carrying value of the Group's investment properties.

The carrying amount of the Property Investment CGU includes the value of the Group's investment properties. These investment properties are held at fair value which is determined based on a number of market-based assumptions, including discount rates and capitalisation rates (as outlined in Note 2(c)). Therefore, increases in the Property Investment CGU pre-tax discount rate may also be indicative of increases in the discount rate and capitalisation rate assumptions applied in the valuation of the Property Investment CGU's investment properties. Increases in the investment property discount rate and capitalisation rate assumptions would reduce their fair value (carrying amount, assuming all other assumptions remain constant) thereby reducing the overall carrying amount of the Property Investment CGU. This may result in the recoverable amount of the Property Investment CGU continuing to exceed its carrying value.

As part of the assessment of the recoverable amount of the Property Investment CGU and associated goodwill balance, the Group cross checked the carrying value of goodwill using a DCF valuation of only the incremental cash flows generated by the internal asset management contracts (as compared to paying external market-based asset management fees). The key assumptions used were the same as those used in the valuation of the external management contracts to determine a value for goodwill from the perspective of an external manager. The DCF valuation cross check did not provide an indicator of impairment.

Other than as disclosed above there were no reasonably possible changes in assumptions at 31 December 2018 that would result in the carrying value of the Property Investment CGU exceeding its recoverable amount.

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 Group's estimated weighted average cost of capital, with reference to the Group's long term average cost of debt, estimated cost of equity and target gearing ratios.
- Terminal growth rates are estimated with reference to macro-economic conditions (including consideration of equity analyst estimates) and the Group's expected long terms earnings growth.
- Forecast FFO, 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 and valuation result are considered to be Level 3 in the fair value hierarchy.

5. Contributed equity

The movement in the number of ordinary securities of the Group is shown in the table below. All ordinary securities are fully paid. During the period the Group continued its on-market security buy-back program purchasing 40.3 million securities for a total of $106.2 million representing an average price of $2.64 per security.

	31-Dec-18 Number (m)	30-Jun-18 Number (m)	31-Dec-18 $m	30-Jun-18 $m
Total stapled securities on issue at the beginning of the year	3,871.6	3,958.6	8,262.4	8,493.2
On-market securities buy-back	(40.3)	(87.0)	(106.2)	(230.8)
Total stapled securities on issue at the end of the period	**3,831.3**	**3,871.6**	**8,156.2**	**8,262.4**

The following weighted average number 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-18 Number (m)	31-Dec-17 Number (m)
Weighted average number of securities used as the denominator in calculating basic earnings per security	3,859.3	3,913.9
Adjustment for potential dilution from performance rights granted	6.8	5.9
Weighted average number of securities and potential securities used as the denominator in calculating the diluted earnings per security	**3,866.1**	**3,919.8**

6. Adoption of new accounting standards

The new accounting standards AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* became effective for the Group on 1 July 2018. This note explains the impact of the adoption of these standards on the Group's financial statements and updated accounting policies.

(a) AASB 9 Financial Instruments

This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement.* It introduces a new approach for classification and measurement of financial instruments; impairment of financial assets; and hedge accounting. The Group adopted AASB 9 retrospectively.

Impact of adoption

Classification and measurement of financial instruments (excluding derivatives)

Financial assets

The table below compares the classification and measurement of the Group's financial assets under AASB 139 as compared to AASB 9. The changes in classification of the Group's financial assets under AASB 9 have not impacted their carrying values.

Financial asset	Carrying amount 30 June 2018 ($m)	Classification and measurement AASB 139	Classification and measurement AASB 9
Cash and cash equivalents	42.1	Loans and receivables measured at amortised cost	Financial assets measured at amortised cost
Receivables and other assets (current)	99.6	Loans and receivables measured at amortised cost	Financial assets measured at amortised cost
Other assets (non-current)	7.5	Financial asset designated as fair value through profit or loss (FVTPL)	Equity instrument (financial asset) measured at FVTPL

Financial liabilities

The accounting requirements for the Group's financial liabilities under AASB 9 remain largely the same as AASB 139 in that all financial liabilities are measured at amortised cost.

The Group has floating rate borrowing facilities that have been refinanced during previous financial periods. Under AASB 9, the accounting for the modification of a financial liability that has not resulted in derecognition, requires an adjustment to the amortised cost of the liability, with any gain or loss being recognised immediately in the Statement of Comprehensive Income. Under the previous standard AASB 139, the gain or loss would have been recognised over the remaining life of the borrowing by adjusting the effective interest rate. The Group has assessed that the cumulative gain on initial application is immaterial.

6. Adoption of new accounting standards (continued)

(a) AASB 9 Financial Instruments (continued)

Impact of adoption (continued)

Impairment of financial assets

AASB 9 replaces the 'incurred loss' impairment model of AASB 139 with a new 'expected credit loss' (ECL) impairment model. The objective of the ECL model is to recognise debtor provisions on a forward-looking basis, rather than when there is historical evidence of an impairment occurring. The Group assessed that the impact of adopting the ECL approach to impairment was immaterial. Refer to the accounting policies section below for information on the Group's approach to calculating ECLs.

Hedge accounting and classification and measurement of derivative financial instruments

The Group does not have any existing designated hedging relationships for accounting purposes. Therefore, all derivative financial instruments (assets and liabilities) will continue to be measured at FVTPL and there is no impact from the adoption of AASB 9.

Accounting policies

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies related to financial liabilities or derivative financial instruments. The impact of the standard on the accounting policies for financial assets from 1 July 2018 is set out below.

Classification and measurement

AASB 9 classifies financial assets based on an entity's business model for managing the financial assets (whether they are held to collect or held to sell) and the contractual terms of the cash flows (whether the contractual cash flows to be received relate only to principal and interest or contain other features). The Group has classified its financial assets as follows:

- Cash and cash equivalents, and current receivables and other assets are held to collect contractual cash flows representing solely payments of principal and interest. At initial recognition these are measured at fair value plus directly attributable transaction costs. Subsequently these financial assets are carried at amortised cost using the effective interest rate method less any impairment losses calculated under the ECL method outlined below.
- Other assets are equity instruments. The Group has elected to account for these at FVTPL. Any directly attributable transaction costs relating to these financial assets are expensed upon initial recognition.

Impairment

On a forward-looking basis the Group assesses the ECLs on trade, lease and other receivables. The Group has applied the simplified approach to calculating ECLs which requires the lifetime ECLs to be recognised from initial recognition. Lifetime ECLs represent ECLs that arise from all possible default events over the expected life of the financial asset and are a probability weighted estimate of a range of possible outcomes. To calculate ECLs the Group utilises a provision matrix which incorporate historical debt write off information as well as considering forward indicators. Individual debts that are known to be uncollectible are written off when identified.

(b) AASB 15 Revenue from contracts with customers

This standard replaces AASB 118 *Revenue* and other revenue-related standards and interpretations. The 'core principle' of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of those goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the Group expects to be entitled in exchange for those goods or services and is either recognised 'over time' or 'at a point in time'.

AASB 15 also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Leases are excluded from the scope of AASB 15. Consequently, for the Group, only certain components of property ownership revenue and income and management fee revenue from strategic partnerships are accounted for under AASB 15 and discussed below.

The Group adopted AASB 15 using the modified retrospective basis with no restatement of comparative periods.

Impact of adoption

Transitioning to AASB 15 has had no material impact on the Group's financial statements as there is no material change to the timing of recognition of revenue when comparing previous accounting policies to the accounting policies applicable under AASB 15 as disclosed below.

The adoption of AASB 15 has resulted in additional disclosure being made within the half year financial report at Note 7.

6. Adoption of new accounting standards (continued)

(c) AASB 15 Revenue from contracts with customers (continued)

Accounting policies

From 1 July 2018 the following accounting policies applied to the recognition of revenue and income:

Property ownership revenue and income

The Group derives revenue and income in connection with the leasing and operation of its portfolio of shopping centres. In addition to lease rental income earned from tenants (which is excluded from the scope of AASB 15 and accounted for under AASB 117 *Leases*), property ownership revenue and income includes revenue from the following activities which are within the scope of AASB 15:

Recovery of property outgoings
Under certain tenant lease agreements the Group recovers from tenants a portion of costs incurred by the Group in the operation and maintenance of its shopping centres. The Group, acting as principal, incurs these costs with third party suppliers and includes them within direct property expenses in the Statement of Comprehensive Income. Recovery amounts are invoiced to tenants each month (over time) at the start of the month for that month's services based on an annual estimate. Adjustments to reflect recoveries based on actual costs incurred are then recorded within revenue in the Statement of Comprehensive Income and billed annually. Where recovery amounts are received in advance no adjustment is made for the effects of a financing component as the Group expects to provide the services in that month.

Other property related revenue
Other property related revenue includes fees earned from advertising, carparking and the on selling of other services at the Group's shopping centres. The material components of this revenue are recognised over time as the relevant services are provided and relevant performance obligations satisfied.

Management fee revenue from strategic partnerships

These comprise:

Property management fees
The Group manages shopping centre properties on behalf of its co-owners and other external parties. In connection with the provision of these management services the Group derives fee revenue from:

- Ongoing shopping centre management. The Group recognises fee revenue monthly (over time) as property management services are provided. In accordance with the relevant property management agreements, fee revenue is calculated as a percentage of a property's gross revenue and income; and
- Tenant leasing management services. Fees are calculated and recognised either at the date of lease instruction or lease execution (point in time) depending on the specific property management agreement. Revenue is calculated as a percentage of Year 1 rental income achieved.

Property development fees
The Group provides development management and leasing services to its co-owners and other external parties. The Group accounts for all property development services provided under these agreements as a single performance obligation as all activities involved in property development management are highly interrelated. Property development fees are therefore calculated in accordance with the relevant development agreement and recognised over time on a time elapsed input method over the life of the relevant development project.

Funds management fees
The Group provides fund management services to wholesale property funds and property mandates. Services are provided on an ongoing basis and revenue is calculated and recognised monthly (over time) as fund management services are provided in accordance with the relevant fund constitutions.

7. Revenue and income

A summary of the Group's revenue and income included within the Statement of Comprehensive Income by segment and reconciliation to total segment income is shown below:

For the six months to:	31-Dec-18 $m			31-Dec-17 $m		
	Property Investment segment	**Strategic Partnerships segment**	**Total**	**Property Investment segment**	**Strategic Partnerships segment**	**Total**
Recovery of property outgoings[1]	63.7	-	**63.7**	69.4	-	**69.4**
Other property related revenue[1]	63.1	-	**63.1**	44.5	-	**44.5**
Property management and development fees[2]	-	35.0	**35.0**	-	31.2	**31.2**
Funds management fees[2]	-	2.5	**2.5**	-	4.6	**4.6**
Total revenue from contracts with customers	**126.8**	**37.5**	**164.3**	**113.9**	**35.8**	**149.7**
Lease rental income[1]	495.0	-	**495.0**	513.0	-	**513.0**
Interest and other income	2.3	-	**2.3**	2.9	-	**2.9**
Total income	**497.3**	**-**	**497.3**	**515.9**	**-**	**515.9**
Total revenue and income	**624.1**	**37.5**	**661.6**	**629.8**	**35.8**	**665.6**
Reconciliation to segment income						
Property-related expenses included in segment income	(204.8)	-	**(204.8)**	(189.6)	-	**(189.6)**
Net property income from equity accounted investments included in segment income	17.7	-	**17.7**	4.2	-	**4.2**
Straight-lining of rent adjustment	(5.6)	-	**(5.6)**	(11.6)	-	**(11.6)**
Amortisation of static lease incentives and other project items	20.6	-	**20.6**	16.6	-	**16.6**
Interest and other revenue not included in segment income	(2.0)	(2.2)	**(4.2)**	(1.5)	(0.3)	**(1.8)**
Total segment income	**450.0**	**35.3**	**485.3**	**447.9**	**35.5**	**483.4**

1. Included within 'Property ownership revenue and income' in the Statement of Comprehensive Income.
2. Included within 'Management fee revenue from strategic partnerships' in the Statement of Comprehensive Income.

8. 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 Director's opinion:

(a) the half year financial statements and notes of Vicinity Centres (the Group) set out on pages 11 to 33 are in accordance with the *Corporations Act 2001* (Cth), including:

i. complying with Australian 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 2018 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 their debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of Vicinity Limited.

Peter Hay
Chairman

Melbourne
15 February 2019

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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 Limited (the "Company"), and the entities it controlled (collectively "Vicinity Centres" or the "Group"), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statements of changes in equity and the consolidated 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.

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 Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position as at 31 December 2018 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 Group's consolidated financial position as at 31 December 2018 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 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

Alison Parker
Partner

Melbourne
15 February 2019