Vicinity Centres Trust

Financial report for the half year ended

31 December 2018

Vicinity Centres Trust
ARSN 104 931 928 comprising
Vicinity Centres Trust and its Controlled Entities

Responsible Entity of Vicinity Centres Trust
Vicinity Centres RE Ltd
ABN 88 149 781 322

Contents

Directors' Report

The Directors of Vicinity Centres RE Ltd, the responsible entity of Vicinity Centres Trust (the Trust or VCT), present the financial report of Vicinity Centres Trust and its controlled entities (VCT Group or the Trust Group) for the half year ended 31 December 2018.

The Trust is stapled to Vicinity Limited to form the stapled Group, Vicinity Centres (the Vicinity Centres Group), which is traded collectively on the Australian Securities Exchange (ASX) under the code 'VCX'. Accordingly, the financial report for Vicinity Centres Trust should be read in conjunction with the financial report of Vicinity Centres available at vicinity.com.au.

Responsible Entity

The responsible entity (RE) of the Trust is Vicinity Centres RE Ltd. The registered office and principal place of business of Vicinity Centres RE Ltd is Level 4, Chadstone Tower One, 1341 Dandenong Road, Chadstone, Victoria 3148.

Directors

The following persons were members of the Vicinity Centres RE Ltd 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 Trust has its principal place of business at Level 4, Chadstone Tower One, 1341 Dandenong Road, Chadstone, Victoria 3148. The principal activity of the Trust Group during the period was property investment.

Distributions

On 13 December 2018, the Directors of the RE declared a distribution from the Trust for the half year ended 31 December 2018 of 7.95 cents per Trust unit, which equates to a total half year distribution payable to unitholders of $304.6 million.

The half year distribution is expected to be paid on 4 March 2019.

Review of results and operations

A detailed review of the results and operations for the Vicinity Centres Group is contained in the Directors' Report in the Vicinity Centres Group half year financial report which is available at vicinity.com.au.

(a) Financial performance

The statutory net profit after tax of the Trust Group for the half year ended 31 December 2018 was $216.8 million, a decrease of $519.0 million on the prior period (31 December 2017: $735.8 million). This decrease was primarily due to a $74.3 million revaluation decrement on directly owned investment properties ($411.3 million increment in the prior period) and net foreign exchange movements on interest bearing liabilities. Statutory result highlights for the half year included:

- Total revenue and income of $625.2 million;
- Positive operating cash flows of $320.9 million;
- Property revaluation decrements of $74.3 million;
- Basic earnings per unit of 5.62 cents; and
- Distributions per unit of 7.95 cents.

(b) Financial position

At 31 December 2018 the Trust Group's net assets were $11,745.9 million, down $192.1 million from $11,938.0 million at 30 June 2018. This movement was largely due to:

- Property revaluation decrements of $74.3 million;
- Continuation of the Vicinity Centres Group on-market security buy-back program with 40.3 million Trust units purchased for a total of $104.3 million representing an average price of $2.59 per unit; and
- Net foreign exchange movements on interest bearing liabilities.

During the period the Trust's property holdings[1] decreased by $533.0 million due to the divestment of twelve investment properties for net proceeds of $655.0 million and net revaluation decrements, partially offset by development and other capital expenditure, most notably at Chadstone, DFO Perth, QueensPlaza and The Glen.

(c) Capital management

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 $1.1 billion were extended by twelve to thirteen months; and
- Net repayments of existing facilities have been 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.

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 Trust Group, the results of those operations, or the state of affairs of the Trust Group in future financial periods.

[1] Includes investment properties and investments accounted for using the equity method.

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 Trust 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
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Melbourne VIC 3000 Australia
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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF VICINITY CENTRES RE LTD

As lead auditor for the review of Vicinity Centres Trust 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 Centres Trust 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		610.7	618.6
Interest and other income		14.5	21.0
Total revenue and income	6	**625.2**	**639.6**
Share of net profit of equity accounted investments		14.3	3.7
Property revaluation (decrement)/increment for directly owned properties	2(b)	(74.3)	411.3
Direct property expenses		(205.9)	(190.0)
Borrowing costs	3(c)	(95.2)	(86.6)
Responsible entity fees		(28.8)	(29.2)
Other expenses from ordinary activities		(1.6)	(1.2)
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)
Profit before tax for the half year		**216.8**	**735.8**
Income tax expense		-	-
Net profit for the half year		**216.8**	**735.8**
Other comprehensive income		-	-
Total comprehensive income for the half year		**216.8**	**735.8**
Earnings per unit attributable to unitholders of the Trust Group:			
Basic earnings per unit (cents)		5.62	18.80
Diluted earnings per unit (cents)		5.61	18.77

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		48.5	35.2
Receivables and other assets		80.5	79.1
Derivative financial instruments	3(g)	4.5	3.2
Total current assets		**133.5**	**117.5**
Non-current assets			
Investment properties	2(a)	15,333.6	15,881.6
Investments accounted for using the equity method	2(d)	693.8	678.8
Derivative financial instruments	3(g)	94.0	62.5
Receivables and other assets		518.8	521.9
Total non-current assets		**16,640.2**	**17,144.8**
Total assets		**16,773.7**	**17,262.3**
Current liabilities			
Interest bearing liabilities	3(a)	517.9	41.6
Distribution payable		304.6	317.5
Payables and other financial liabilities		175.7	175.7
Provisions		29.1	25.5
Derivative financial instruments	3(g)	2.3	-
Total current liabilities		**1,029.6**	**560.3**
Non-current liabilities			
Interest bearing liabilities	3(a)	3,635.6	4,396.0
Other financial liabilities		206.5	204.8
Derivative financial instruments	3(g)	156.1	163.2
Total non-current liabilities		**3,998.2**	**4,764.0**
Total liabilities		**5,027.8**	**5,324.3**
Net assets		**11,745.9**	**11,938.0**
Equity			
Contributed equity	4	7,680.5	7,784.8
Retained profits		4,065.4	4,153.2
Total equity		**11,745.9**	**11,938.0**

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

Statement of Changes in Equity

for the half year ended 31 December 2018

	Attributable to unitholders of the Trust		
	Contributed equity $m	Retained profits $m	Total $m
As at 1 July 2017	**8,012.1**	**3,608.7**	**11,620.8**
Net profit for the half year	-	735.8	735.8
Total comprehensive income for the half year	**-**	**735.8**	**735.8**
Transactions with unitholders in their capacity as unitholders:			
On-market unit buy-back	(227.3)	-	(227.3)
Distributions declared	-	(313.6)	(313.6)
Total equity as at 31 December 2017	**7,784.8**	**4,030.9**	**11,815.7**
As at 1 July 2018	**7,784.8**	**4,153.2**	**11,938.0**
Net profit for the half year	-	216.8	216.8
Total comprehensive income for the half year	**-**	**216.8**	**216.8**
Transactions with unitholders in their capacity as unitholders:			
On-market unit buy-back	(104.3)	-	(104.3)
Distributions declared	-	(304.6)	(304.6)
Total equity as at 31 December 2018	**7,680.5**	**4,065.4**	**11,745.9**

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 2018

	Note	31-Dec-18 $m	31-Dec-17 $m
Cash flows from operating activities			
Receipts in the course of operations		693.9	680.8
Payments in the course of operations		(297.1)	(253.6)
Distributions and dividends received from equity accounted and managed investments		9.7	1.7
Interest and other revenue received		9.6	19.1
Interest paid		(95.2)	(84.1)
Net cash inflows from operating activities		**320.9**	**363.9**
Cash flows from investing activities			
Payments for capital expenditure on investment properties		(205.6)	(217.3)
Proceeds from disposal of investment properties	2(b)	655.0	33.1
Deposit paid – Sydney CBD asset swap		-	(27.8)
Net cash inflows/(outflows) from investing activities		**449.4**	**(212.0)**
Cash flows from financing activities			
Proceeds from borrowings		488.0	688.0
Repayment of borrowings		(823.0)	(236.0)
Proceeds received from Vicinity Limited		23.8	9.0
Funds advanced to Vicinity Limited		(21.6)	(37.2)
On-market unit buy-back		(104.3)	(227.3)
Distributions paid to external unitholders		(317.5)	(340.4)
Debt establishment costs paid		(2.4)	(0.3)
Net cash outflows from financing activities		**(757.0)**	**(144.2)**
Net increase in cash and cash equivalents held		**13.3**	**7.7**
Cash and cash equivalents at the beginning of the half year		**35.2**	**31.2**
Cash and cash equivalents at the end of the half year		**48.5**	**38.9**

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

Notes to the Financial Statements

About this report

The financial report includes financial statements of the consolidated entity consisting of Vicinity Centres Trust (the Trust) and its controlled entities (collectively the Trust Group). The Trust is a for-profit entity that is domiciled and operates wholly in Australia.

The Trust is stapled to Vicinity Limited (the Company) to form the stapled group Vicinity Centres (the Vicinity Centres Group). Accordingly, the financial report for Vicinity Centres Trust should be read in conjunction with the financial report of Vicinity Centres available at vicinity.com.au.

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), 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 of the RE on 15 February 2019. The Directors have the power to amend and reissue the Financial Report.

Although the Trust Group has a net current deficiency of $896.1 million (current liabilities exceed current assets) at reporting date, the Trust 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 standards accounting standards

The new accounting standards AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* became effective for the Trust Group on 1 July 2018. Further details relating to the adoption of these accounting standards are contained in Note 5.

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 Trust Group.

Critical accounting judgements and estimates

The preparation of financial statements requires the Trust 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 and 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

1. Segment information

As described in the 'About This Report' section, the units in the Trust Group are stapled together with the shares of the Company and are traded jointly on the Australian Securities Exchange (ASX) under the ASX code VCX.

Management does not report the results of the Trust or segments of the Trust to the Chief Operating Decision Makers (which for the Vicinity Centres Group continued to be the CEO and Managing Director and the Chief Financial Officer (CFO)). Rather management reports segment results for the stapled Vicinity Centres Group. Refer to Note 1 of the Vicinity Centres Group report for the half year ended 31 December 2018 for segment information relating to the stapled Vicinity Centres Group.

2. Investment properties

The Trust 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 Trust 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	
Less: Property holdings by Vicinity Limited		(22.2)			(11.1)	
Total investment properties		**15,333.6**			**15,881.6**	

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. Disclosure relating to finance leases can be found in Note 18(b) of the 30 June 2018 Annual Report.

2. Investment properties (continued)

(b) Movements for the period

As part of the Trust 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 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]	207.8	166.3
Capitalised borrowing costs[3]	3.7	4.9
Disposals	(655.0)	(33.1)
Property revaluation (decrement)/increment for directly owned properties	(74.3)	411.3
Amortisation of incentives and leasing costs	(26.7)	(22.3)
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 in November 2020.
2. Includes development costs, maintenance capital expenditure, lease incentives, fit-out costs and capital expenditure on property holdings by Vicinity Limited.
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 Trust 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 Trust 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.

(d) Equity accounted investments

The Trust Group holds the following investments that are equity accounted:

	Ownership		Carrying value	
	31-Dec-18 %	**30-Jun-18 %**	**31-Dec-18 $m**	**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
Closing balance			**693.8**	**678.8**

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 $1.1 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 unit 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 Trust Group's interest bearing liabilities at balance date:

	31-Dec-18 $m	30-Jun-18 $m
Current liabilities		
Secured		
Related party borrowings[1]	153.8	-
Unsecured		
Bank debt	72.0	-
US$ Private Placement Notes (USPPs)	42.7	41.6
AUD Medium Term Notes (AMTNs)	250.0	-
Deferred debt costs[2]	(0.6)	-
Total current liabilities	**517.9**	**41.6**
Non-current liabilities		
Secured		
Related party borrowings[1]	154.6	311.5
Unsecured		
Bank debt	1,421.5	1,888.5
AMTNs[3]	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[2]	(13.0)	(13.9)
Total non-current liabilities	**3,635.6**	**4,396.0**
Total interest bearing liabilities	**4,153.5**	**4,437.6**

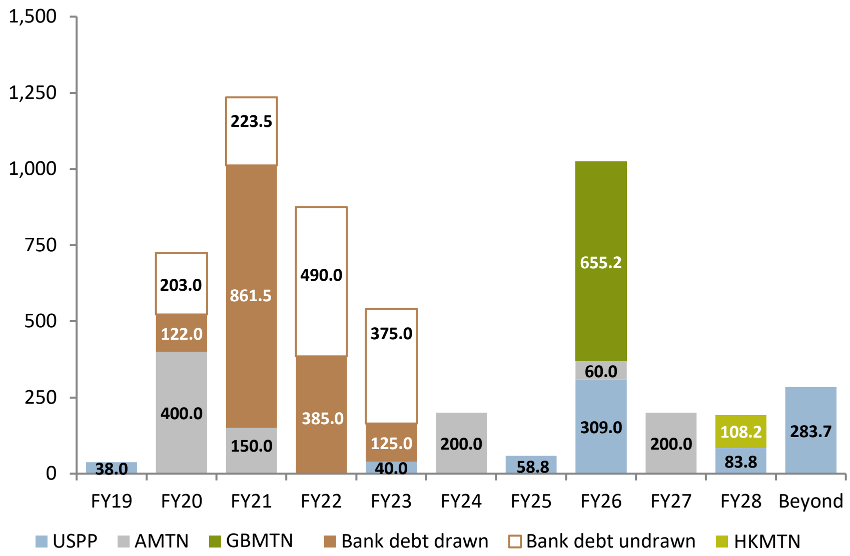
1. The Trust Group has entered into a 'back-to-back' related party loan agreement with Vicinity Centres Finance Pty Ltd (VCFPL), a subsidiary of Vicinity Limited. The related party loan agreement between the Trust Group and VCFPL was secured and on the same terms and conditions as VCFPL's AMTNs.
2. Deferred 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.
3. Non-current unsecured AMTNs include AUD $60.0 million issued under the Trust Group's EMTN programme.

3. Interest bearing liabilities and derivatives (continued)

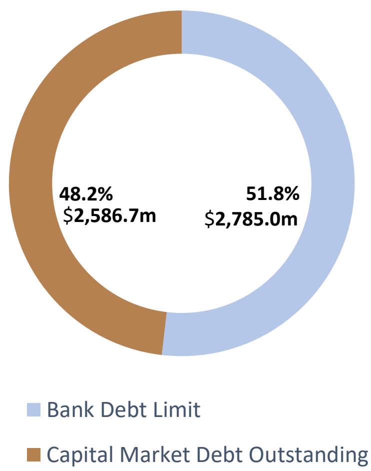
(b) Facility maturity and availability

The charts below outline the maturity of the Trust 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. Secured related party borrowings are included within the total value of the AMTNs in this chart.
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	99.1	91.6
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, GBMTN and secured related party borrowing fair value adjustment	(2.5)	(2.4)
Finance lease interest	2.0	1.3
Capitalised borrowing costs	(4.5)	(4.9)
Total borrowing costs	**95.2**	**86.6**

3. Interest bearing liabilities and derivatives (continued)

(d) Capital risk management

The Trust Group maintains a strong and conservative capital structure with appropriate liquidity, low gearing and a diversified debt profile (by source and tenor). The Trust 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	4,031.7	4,380.0
Total tangible assets excluding cash, finance lease assets and derivative financial assets	16,404.6	16,941.3
Gearing ratio (target range of 25.0% to 35.0%)	**24.6%**	**25.9%**

Interest cover ratio

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

- EBITDA which generally means the Vicinity Centres 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 borrowings

As at 31 December 2018, the Trust 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 Trust 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 Trust 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. Contributed equity

The movement in the number of units of the Trust Group is shown in the table below. All units are fully paid. During the period the Vicinity Centres Group continued its on-market security buy-back program. The Trust bought back 40.3 million units for a total of $104.3 million representing an average price of $2.59 per unit.

	31-Dec-18 Number (m)	30-Jun-18 Number (m)	31-Dec-18 $m	30-Jun-18 $m
Total units on issue at the beginning of the year	3,871.6	3,958.6	7,784.8	8,012.1
On-market unit buy-back	(40.3)	(87.0)	(104.3)	(227.3)
Total units on issue at the end of the period	**3,831.3**	**3,871.6**	**7,680.5**	**7,784.8**

The following weighted average number of units are used in the denominator in calculating earnings per unit for the Trust Group:

For the six months to:	31-Dec-18 Number (m)	31-Dec-17 Number (m)
Weighted average number of units used as the denominator in calculating basic earnings per unit	3,859.3	3,913.9
Adjustment for potential dilution from performance rights granted	6.8	5.9
Weighted average number of units and potential units used as the denominator in calculating the diluted earnings per unit	**3,866.1**	**3,919.8**

5. 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 Trust Group on 1 July 2018. This note explains the impact of the adoption of these standards on the Trust 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 Trust 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 Trust Group's financial assets under AASB 139 as compared to AASB 9. The changes in classification of the Trust Group's financial assets under AASB 9 have not impacted their carrying values.

Financial asset	Carrying amount 30 June 2018 ($m)	Classification and measurement under AASB 139	Classification and measurement under AASB 9
Cash and cash equivalents	35.2	Loans and receivables measured at amortised cost	Financial assets measured at amortised cost
Receivables and other assets (current)	79.1	Loans and receivables measured at amortised cost	Financial assets measured at amortised cost
Receivables and other assets (non-current)	514.4	Loans and receivables measured at amortised cost	Financial assets measured at amortised cost
Receivables and 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 Trust 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 Trust 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 Trust Group has assessed that the cumulative gain on initial application is immaterial.

5. 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 Trust 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 Trust Group's approach to calculating ECLs.

Hedge accounting and classification and measurement of derivative financial instruments

The Trust 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 Trust 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 Trust Group has classified its financial assets as follows:

- Cash and cash equivalents, current receivables and other assets and non-current loans receivable 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.
- Non-current equity instrument financial assets: the Trust 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 Trust Group assesses the ECLs on trade and other receivables. The Trust 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 Trust 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 Trust 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 Trust Group, only certain components of property ownership revenue and income are accounted for under AASB 15 and discussed below.

The Trust 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 impact on the Trust Group's financial statements as there is no 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 6.

5. Adoption of new accounting standards (continued)

(b) 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 Trust 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 Trust Group recovers from tenants a portion of costs incurred by the Trust Group in the operation and maintenance of its shopping centres. The Trust 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 Trust 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 Trust 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.

6. Revenue and income

A summary of the Trust Group's revenue and income included within the Statement of Comprehensive Income is shown below:

For the six months to:	31-Dec-18 $m	31-Dec-17 $m
Lease rental income	488.3	507.7
Recovery of property outgoings	63.7	69.4
Other property related revenue	59.5	43.2
Total property ownership revenue and income	**611.5**	**620.3**
Interest income	13.5	19.1
Other income	0.2	0.2
Interest and other income	**13.7**	**19.3**
Total revenue and income	**625.2**	**639.6**

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 Trust Group, the results of those operations, or the state of affairs of the Trust Group in future financial periods.

Directors' Declaration

In the Directors' opinion:

(a) the half year financial statements and notes of Vicinity Centres Trust (the Trust) and its controlled entities (the Trust Group) are set out on pages 7 to 21 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 Trust 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 Trust Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of Vicinity Centres RE Ltd.

Peter Hay
Chairman

Melbourne
15 February 2019

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Vicinity Centres Trust

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Vicinity Centres Trust (the "Trust"), and the entities it controlled (collectively 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 Vicinity Centres RE Ltd, the Responsible Entity of the Trust, 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 Trust'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 the Trust, 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