Vicinity Centres Trust

Financial report for the half year ended

31 December 2019

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

VICINITY CENTRES

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 2019.

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 half year 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 2019 and up to the date of this report unless otherwise stated:

(i) Chairman

Trevor Gerber (Independent) (appointed as Chairman on 14 November 2019)[1]

Peter Hay (Independent) (resigned 14 November 2019)[2]

(ii) Non-executive Directors

Clive Appleton

David Thurin AM

Janette Kendall (Independent)

Karen Penrose (Independent)

Peter Kahan (Independent)[3]

Tim Hammon (Independent)

Wai Tang (Independent) (resigned 14 February 2019)

(iii) Executive Director

Grant Kelley (CEO and Managing Director)

Company Secretaries

Carolyn Reynolds

Rohan Abeyewardene

Jacqueline Jovanovski (resigned 2 August 2019)

[1] Mr Trevor Gerber has been a Director of the Vicinity Centres RE Ltd Board since June 2015.

[2] Mr Peter Hay was Chairman of the Vicinity Centres RE Ltd Board until 14 August 2019, from which date he was Acting Chairman until his retirement from the Vicinity Centres RE Ltd Board on 14 November 2019.

[3] As announced on 24 April 2019, Mr Peter Kahan had been appointed as Chairman of the Vicinity Board effective from 14 August 2019. Subsequently in July 2019, Mr Kahan went on a leave of absence due to a health condition. Upon his return from his leave of absence on 1 October 2019 Mr Kahan did not resume the Chairmanship.

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 3 December 2019 the Directors declared a distribution for the half year ended 31 December 2019 of 7.70 cents per VCX stapled security, which equates to a total half year distribution payable to securityholders of $289.3 million. The half year distribution is expected to be paid on 2 March 2020.

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. The following sections relate to the results and operations of the Trust only and therefore do not include items and amounts relating to Vicinity Limited.

(a) Financial performance

The statutory net profit after tax of the Trust Group for the half year ended 31 December 2019 was $219.5 million, an increase of $2.7 million on the prior period (31 December 2018: $216.8 million). This was primarily due to:

- A net decrease in the revaluation decrement recorded on investment properties (both directly owned and within equity accounted investments) and lower foreign exchange losses on interest bearing liabilities; partly offset by
- Lower gains on the mark-to-market of derivatives and the impact of the disposal of investment properties in the current and prior periods.

Statutory result highlights for the half year included:

- Total revenue and income of $602.9 million;
- Positive operating cash flows of $350.8 million;
- Property revaluation decrements of $53.2 million;
- Basic earnings per unit of 5.83 cents; and
- Distributions per unit of 7.70 cents.

(b) Financial position

At 31 December 2019 the Trust Group's net assets were $11,296.6 million, down $105.3 million from $11,401.9 million at 30 June 2019. This movement was largely due to:

- Property revaluation decrements on directly owned investment properties of $53.2 million; and
- Continuation of the Vicinity Centres Group on-market security buy-back program with 14.5 million Trust units purchased for a total of $35.5 million.

During the period the Trust's property holdings[1] decreased by $90.5 million due to the divestment of three investment properties for net proceeds of $224.9 million and net revaluation decrements, partially offset by development and other capital expenditure, most notably at Chadstone, The Glen, Ellenbrook and Roselands.

(c) Capital management

During the period, the following financing activities have occurred:

- EUR500.0 million (equivalent to approximately AUD $812.0 million) 10-year fixed rate bonds were issued on 7 November 2019 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 $1.7 billion were extended by one to two years and bank facilities totalling $200.0 million were cancelled; and
- Net drawdowns on borrowings and related party loans of $27.4 million were made throughout the period for capital expenditure and the on-market securities buy-back, partly offset by the proceeds from investment property divestments.

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

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.

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 accordance with a resolution of Directors.

Trevor Gerber
Chairman
19 February 2020

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Auditor's Independence Declaration to the Directors of Vicinity Centres RE Ltd

As lead auditor for the review of the financial report of Vicinity Centres Trust for the half year ended 31 December 2019, 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.

Alison Parker
Partner
19 February 2020

Statement of Comprehensive Income

for the half year ended 31 December 2019

	Note	31-Dec-19 $m	31-Dec-18 $m
Revenue and income			
Property ownership revenue and income		590.0	610.7
Interest and other income		12.9	14.5
Total revenue and income	4	**602.9**	**625.2**
Share of net (loss) / profit of equity accounted investments		(1.9)	14.3
Property revaluation decrement for directly owned properties	2(b)	(53.2)	(74.3)
Direct property expenses		(194.6)	(205.9)
Borrowing costs	3(c)	(102.8)	(95.2)
Responsible entity fees		(28.7)	(28.8)
Other expenses from ordinary activities		(2.7)	(1.6)
Net foreign exchange movement on interest bearing liabilities		(14.7)	(54.5)
Net mark-to-market movement on derivatives	3(g)	15.2	37.6
Profit before tax for the half year		**219.5**	**216.8**
Income tax expense		-	-
Net profit for the half year		**219.5**	**216.8**
Other comprehensive income		-	-
Total comprehensive income for the half year		**219.5**	**216.8**
Earnings per unit attributable to unitholders of the Trust Group:			
Basic earnings per unit (cents)		5.83	5.62
Diluted earnings per unit (cents)		5.82	5.61

The above consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes. AASB 16 *Leases* has been applied prospectively from 1 July 2019. Refer to Note 6 for further information.

Balance Sheet

as at 31 December 2019

	Note	31-Dec-19 $m	30-Jun-19 $m
Current assets			
Cash and cash equivalents		47.4	27.2
Trade receivables and other assets		99.2	96.9
Derivative financial instruments	3(g)	1.8	4.7
Total current assets		**148.4**	**128.8**
Non-current assets			
Investment properties	2(a)	15,219.8	15,309.6
Investments accounted for using the equity method	2(d)	668.0	668.7
Derivative financial instruments	3(g)	152.7	138.6
Other assets		527.5	484.6
Total non-current assets		**16,568.0**	**16,601.5**
Total assets		**16,716.4**	**16,730.3**
Current liabilities			
Interest bearing liabilities	3(a)	389.8	401.5
Distribution payable		289.3	299.9
Payables		154.6	119.8
Lease liabilities	6(c)	16.8	15.9
Provisions		22.0	20.2
Derivative financial instruments	3(g)	1.8	5.6
Total current liabilities		**874.3**	**862.9**
Non-current liabilities			
Interest bearing liabilities	3(a)	4,082.1	4,034.6
Lease liabilities	6(c)	240.0	207.3
Derivative financial instruments	3(g)	223.4	223.6
Total non-current liabilities		**4,545.5**	**4,465.5**
Total liabilities		**5,419.8**	**5,328.4**
Net assets		**11,296.6**	**11,401.9**
Equity			
Contributed equity	5	7,498.3	7,533.8
Retained profits		3,798.3	3,868.1
Total equity		**11,296.6**	**11,401.9**

The above consolidated Balance Sheet should be read in conjunction with the accompanying notes. AASB 16 *Leases* has been applied prospectively from 1 July 2019. Refer to Note 6 for further information.

Statement of Changes in Equity

for the half year ended 31 December 2019

	Attributable to unitholders of the Trust		
	Contributed equity $m	**Retained profits $m**	**Total $m**
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**
As at 1 July 2019	**7,533.8**	**3,868.1**	**11,401.9**
Net profit for the half year	-	219.5	219.5
Total comprehensive income for the half year	**-**	**219.5**	**219.5**
Transactions with unitholders in their capacity as unitholders:			
On-market unit buy-back	(35.5)	-	(35.5)
Distributions declared	-	(289.3)	(289.3)
Total equity as at 31 December 2019	**7,498.3**	**3,798.3**	**11,296.6**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes. AASB 16 *Leases* has been applied prospectively from 1 July 2019. Refer to Note 6 for further information.

Cash Flow Statement

for the half year ended 31 December 2019

	Note	31-Dec-19 $m	31-Dec-18 $m
Cash flows from operating activities			
Receipts in the course of operations		686.4	693.9
Payments in the course of operations		(251.8)	(297.1)
Distributions and dividends received from equity accounted and managed investments		6.4	9.7
Net operating cash flows retained by equity accounted entities		8.9	7.1
Interest and other revenue received		12.1	9.6
Interest paid		(102.3)	(95.2)
Net cash inflows from operating activities – proportionate[1]		359.7	328.0
Less: net operating cash flows retained by equity accounted entities		(8.9)	(7.1)
Net cash inflows from operating activities		**350.8**	**320.9**
Cash flows from investing activities			
Payments for capital expenditure on investment properties		(195.1)	(205.6)
Deposit paid on acquisition of investment property		(3.4)	-
Proceeds from disposal of investment properties	2(b)	224.9	655.0
Net cash inflows from investing activities		**26.4**	**449.4**
Cash flows from financing activities			
Proceeds from borrowings		1,504.9	488.0
Repayment of borrowings		(1,327.5)	(823.0)
Repayment of related party loan		(150.0)	-
Proceeds received from Vicinity Limited		16.5	23.8
Funds advanced to Vicinity Limited		(59.3)	(21.6)
On-market unit buy-back		(34.8)	(104.3)
Distributions paid to external unitholders		(299.9)	(317.5)
Debt establishment costs paid		(6.9)	(2.4)
Net cash outflows from financing activities		**(357.0)**	**(757.0)**
Net increase in cash and cash equivalents held		**20.2**	**13.3**
Cash and cash equivalents at the beginning of the half year		**27.2**	**35.2**
Cash and cash equivalents at the end of the half year		**47.4**	**48.5**

1. Proportionate cash flows from operating activities includes total operating cash flows from consolidated and equity accounted entities.

The above Cash Flow Statement should be read in conjunction with the accompanying notes. AASB 16 *Leases* has been applied prospectively from 1 July 2019. Refer to Note 6 for further information.

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 2019 (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 except for the impact of the new and amended accounting standards described below;
- 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 2019 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 Responsible Entity on 19 February 2020. The Directors have the power to amend and reissue the Financial Report.

Although the Trust Group has a net current deficiency of $725.9 million (current liabilities exceed current assets) at reporting date, the Trust Group has sufficient current undrawn borrowing facilities (of $1,637.0 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 standard AASB 16 *Leases* became effective for the Trust Group on 1 July 2019. The impact of the adoption AASB 16 and changes in the Trust Group's accounting policies are disclosed in Note 6.

The Trust Group has also adopted Australian Interpretation 23 *Uncertainty Over Income Tax Treatments* and other new and/or amended standards as of 1 July 2019. These did not have a material impact on the financial statements of the Trust Group as they are either not relevant to the Trust Group's activities or require accounting which is consistent with the Trust Group's current accounting policies.

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 or assumptions for the half year ended 31 December 2019 not already noted in the 30 June 2019 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 are the CEO and Managing Director, Chief Operating Officer (COO) 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 2019 for segment information relating to the Vicinity Centres Group.

2. Investment properties

The Trust Group's investment properties represent freehold and leasehold interests in land and buildings held either to derive rental income or for capital appreciation, or both. 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 2019 Annual Report.

(a) Portfolio summary

Shopping centre type	31-Dec-19			30-Jun-19		
	Number of properties	Value $m	Weighted average cap rate %	Number of properties	Value $m	Weighted average cap rate %
Super Regional	1	3,375.0	3.75	1	3,250.0	3.75
Major Regional	7	2,491.3	5.65	7	2,564.2	5.66
City Centre	7	2,505.2	4.63	7	2,466.0	4.65
Regional	8	1,735.0	6.32	9	1,865.6	6.28
Outlet Centre	6	1,827.7	5.78	6	1,737.7	5.82
Sub Regional	24	2,846.3	6.28	25	2,961.4	6.33
Neighbourhood	4	220.7	6.24	5	251.5	6.31
Planning and holding costs[1]	-	29.0	-	-	32.2	-
Less: Property holdings by Vicinity Limited[2]	-	(67.2)	-	-	(42.2)	-
Total	**57**	**14,963.0**	**5.27**	**60**	**15,086.4**	**5.32**
Add: Investment property leaseholds[3]		256.8			223.2	
Total investment properties		**15,219.8**			**15,309.6**	

1. Planning and holding costs relating to planned major development projects are capitalised and carried within the overall investment property balance. The status of each project is reviewed each period to determine if continued capitalisation of these costs remains appropriate.
2. Certain equipment which forms part of the individual fair values of the Trust Group's investment properties is held by Vicinity Limited.
3. During the half year, the Trust Group adopted AASB 16 *Leases* and reassessed the assumed lease term relating to several of the Trust Group's long-term investment property leasehold arrangements. This resulted in an increase in the value of investment property leaseholds (and related liabilities) as detailed in Note 6.

2. Investment properties (continued)

(b) Movements for the period

The sale of the following investment properties occurred during the period:

- Corio Central (December 2019) for $101.0 million[1];
- Lennox Village (December 2019) for $31.5 million[1]; and
- Mt Ommaney Centre (November 2019) for $94.5 million[1].

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

For the six months to:	31-Dec-19 $m	31-Dec-18 $m
Opening balance at 1 July	15,086.4	15,672.6
Capital expenditure[2]	182.5	207.8
Capitalised borrowing costs[3]	1.7	3.7
Disposals	(224.9)	(655.0)
Property revaluation decrement for directly owned properties	(53.2)	(74.3)
Amortisation of incentives and leasing costs[4]	(34.3)	(26.7)
Straight-lining of rent adjustment[4]	4.8	5.6
Closing balance at 31 December	**14,963.0**	**15,133.7**

1. Amounts exclude transaction costs.
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 4.3% (31 December 2018: 4.6%).
4. For leases where Vicinity is the lessor in the lease arrangement.

(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 valuation methods require assumptions to be made to determine certain inputs that are not based on observable market data.

2. Investment properties (continued)

(c) Portfolio valuation (continued)

Key inputs and sensitivities (continued)

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-19		30-Jun-19		
Unobservable inputs	**Range of inputs**	**Weighted average inputs**	**Range of inputs**	**Weighted average inputs**	**Sensitivity**
Capitalisation rate[1]	3.75% - 7.75%	5.27%	3.75% - 7.75%	5.32%	The higher the capitalisation rate, discount rate, terminal yield, and expected downtime due to tenants vacating, the lower the fair value.
Discount rate[2]	6.00% - 8.75%	6.82%	6.00% - 8.75%	6.88%	
Terminal yield[3]	4.00% - 8.00%	5.47%	4.00% - 8.00%	5.53%	
Expected downtime (for tenants vacating)	3 months to 12 months	6 months	3 months to 12 months	6 months	
Rental growth rate	2.33% - 3.81%	3.25%	2.43% - 4.07%	3.33%	The higher the rental growth rate, the higher the fair value.

1. The capitalisation rate is the required annual yield of net market income used to determine the value of the property. The rate is determined with regards to comparable market transactions.
2. The discount rate is a required 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 regards to comparable market transactions.
3. The terminal yield is the capitalisation rate used to convert forecast annual income into a forecast asset value at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to comparable market transactions and the expected risk inherent in the cash flows at the end of the cash flow period. Leasehold properties with tenure less than 20 years (at the end of the 10-year investment horizon) have been excluded from this sensitivity for comparative reasons given the terminal value calculation can differ to take into account the finite term remaining on the leasehold at that time.

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

Equity accounted investments are predominantly investment property joint ventures with strategic partners where the property ownership interest is held through a jointly owned trust rather than direct ownership into the property title. The Trust Group has contractual arrangements that establish joint control over the economic activities of these trusts, based on standard market terms. These are accounted for in the Trust Group's financial statements using the equity method.

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

	Ownership		Carrying value	
	31-Dec-19 %	**30-Jun-19 %**	**31-Dec-19 $m**	**30-Jun-19 $m**
Chatswood Chase Sydney (Joint Venture)[1]	51.0	51.0	575.8	579.5
Victoria Gardens Retail Trust (Joint Venture)	50.0	50.0	92.2	89.2
Closing balance			**668.0**	**668.7**

1. Investment in joint venture held through CC Commercial Trust. The Trust Group and its joint venture partner each have equal voting rights over the relevant activities of the joint venture.

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 period 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:

- €500.0 million (equivalent to approximately AUD $812.0 million) 10-year fixed rate bonds were issued on 7 November 2019 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 $1.7 billion were extended by one to two years and bank facilities totalling $200.0 million were cancelled; and
- Net drawdowns on borrowings and related party loans of $27.4 million were made throughout the period for capital expenditure and the on-market securities buy-back, partly offset by the proceeds from investment property divestments.

(a) Summary of facilities

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

	31-Dec-19 $m	30-Jun-19 $m
Current liabilities		
Secured		
Related party borrowings[1]	-	151.8
Unsecured		
Bank debt	390.0	-
AUD Medium Term Notes (AMTNs)	-	250.0
Deferred debt costs[2]	(0.2)	(0.3)
Total current liabilities	**389.8**	**401.5**
Non-current liabilities		
Secured		
Related party borrowings[1]	152.9	153.6
Unsecured		
Bank debt	648.0	1,418.5
AMTNs[3]	856.4	856.1
GBP European Medium Term Notes (GBMTNs)	658.0	629.2
HKD European Medium Term Notes (HKMTNs)	117.0	116.7
US Private Placement notes (USPPs)	872.7	873.5
EUR European Medium Term Notes (EUMTNs)	794.1	-
Deferred debt costs[2]	(17.0)	(13.0)
Total non-current liabilities	**4,082.1**	**4,034.6**
Total interest bearing liabilities	**4,471.9**	**4,436.1**

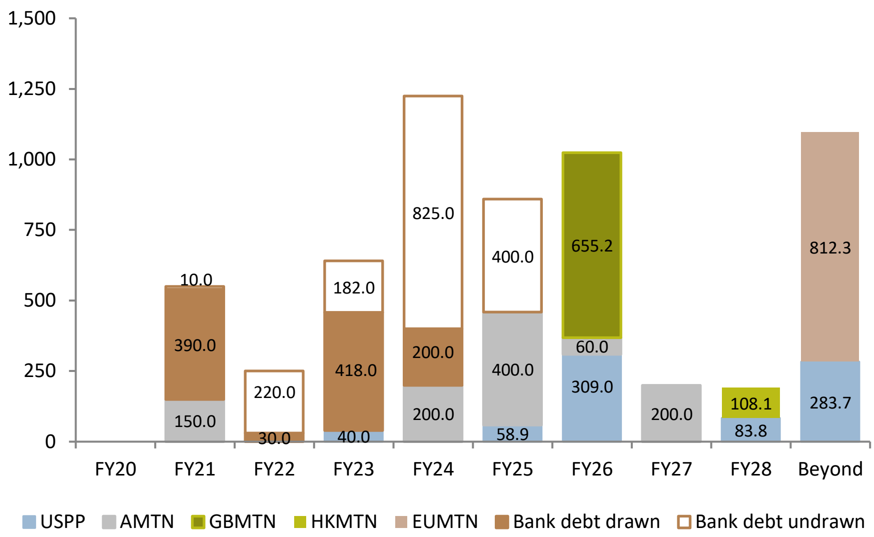
1. The Trust Group has entered into 'back-to-back' related party loan agreements with Vicinity Centres Finance Pty Ltd (VCFPL), a subsidiary of Vicinity Limited. The related party loan agreements are secured and on the same terms and conditions as VCFPL's AMTNs (being security over certain of the Trust Group's investment properties with a carrying value of $3,493.8 million (30 June 2019: $3,639.4 million)).
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)

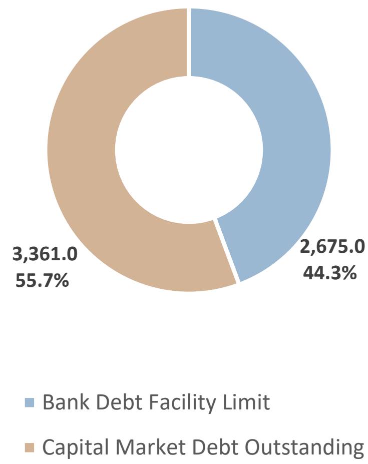
(b) Facility maturity and availability

The charts below outline the maturity of the Trust Group's total available facilities at 31 December 2019 by type and the bank to capital markets debt ratio. Of the $6,036.0 million total available facilities (30 June 2019: $6,033.6 million), $1,637.0 million remains undrawn at 31 December 2019 (30 June 2019: $1,666.5 million).

Available facilities expiry profile ($m)[1]



Bank to capital market debt ratio ($m,%)



1. The carrying amount of the USPPs, GBMTNs, HKMTNs, EUMTNs and AMTNs in the Balance Sheet is net of adjustments for fair value items and foreign exchange translation of $90.1 million (30 June 2019: $82.3 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 $17.2 million (30 June 2019: $13.3 million) are not reflected in the amount drawn. Secured related party borrowings are included within the total value of the AMTNs in this chart.

(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. Borrowing costs also include finance charges on lease liabilities.

For the six months to:	31-Dec-19 $m	31-Dec-18 $m
Interest and other costs on interest bearing liabilities and derivatives	97.0	99.1
Amortisation of deferred debt costs	3.0	2.6
Amortisation of fair value adjustments relating to discontinuation of hedge accounting	(0.6)	(1.5)
Amortisation of AMTN, GBMTN and EUMTN fair value adjustment	(1.8)	(2.5)
Interest charge on lease liabilities	8.0	2.0
Capitalised borrowing costs	(2.8)	(4.5)
Total borrowing costs	**102.8**	**95.2**

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 Vicinity Centres Group has long term credit ratings of 'A2/stable' from Moody's Investors Service and 'A/stable' from Standard & Poor's. Key metrics monitored by the Trust Group are the gearing ratio and interest cover ratio. These metrics are shown below:

Gearing

	31-Dec-19 $m	30-Jun-19 $m
Total interest bearing liabilities (Note 3(a))	**4,471.9**	**4,436.1**
Add: deferred debt costs	17.2	13.3
Add: fair value and foreign exchange adjustments to GBMTNs	(2.8)	26.0
Less: fair value and foreign exchange adjustments to USPPs	(97.4)	(98.3)
Less: fair value adjustments to AMTNs	0.7	(1.5)
Less: foreign exchange adjustments to HKMTNs	(8.8)	(8.5)
Less: fair value and foreign exchange adjustments to EUMTNs	18.2	-
Total drawn debt	**4,399.0**	4,367.1
Drawn debt net of cash	4,351.6	4,339.9
Total tangible assets excluding cash, investment property leaseholds and derivative financial assets	**16,257.7**	16,336.6
Gearing ratio (target range of 25.0% to 35.0%)	**26.8%**	**26.6%**

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 2019 the interest cover ratio was 4.4 times (31 December 2018: 4.6 times).

(e) Fair value of interest bearing liabilities

As at 31 December 2019, the Trust Group's interest bearing liabilities had a fair value of $4,633.7 million (30 June 2019: $4,565.1 million). The carrying amount of these interest bearing liabilities was $4,471.9 million (30 June 2019: $4,436.1 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 2019, the Trust Group had no defaults on debt obligations or breaches of lending covenants (30 June 2019: 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 rates and interest rate curves as well as foreign currency rates and foreign currency curves. In respect of derivative financial instruments within the Statement of Comprehensive Income:

- movements in fair value are recognised within net mark-to-market movement on derivatives; and
- the net interest received or paid is included within borrowing costs.

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

	Carrying amount		Notional principal value	
	31-Dec-19 $m	**30-Jun-19 $m**	**31-Dec-19 $m**	**30-Jun-19 $m**
Interest rate swaps (pay floating / receive fixed)	1.8	4.7	300.0	400.0
Total current assets	**1.8**	**4.7**	**n/a**	**n/a**
Cross currency swaps (pay AUD floating receive USD fixed)	119.7	116.6	660.3	660.3
Cross currency swaps (pay AUD floating receive GBP fixed)	13.1	-	655.2	-
Cross currency swaps (pay AUD floating receive HKD fixed)	14.8	16.4	108.2	108.2
Interest rate swaps (pay floating / receive fixed)	5.1	5.6	100.0	100.0
Total non-current assets	**152.7**	**138.6**	**n/a**	**n/a**
Interest rate swaps (pay fixed / receive floating)	(1.8)	(5.6)	300.0	550.0
Total current liabilities	**(1.8)**	**(5.6)**	**n/a**	**n/a**
Cross currency swaps (pay AUD floating receive GBP fixed)	-	(16.4)	-	655.2
Cross currency swaps (pay AUD floating receive EUR fixed)	(25.0)	-	812.3	-
Interest rate swaps (pay fixed / receive floating)	(198.4)	(207.2)	2,525.0	2,525.0
Total non-current liabilities	**(223.4)**	**(223.6)**	**n/a**	**n/a**
Total net carrying amount of derivative financial instruments[1]	**(70.7)**	**(85.9)**	**n/a**	**n/a**

1. The movement in the net carrying amount of derivative financial instruments of $15.2 million was due to mark-to-market fair value adjustments.

4. 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-19 $m**	**31-Dec-18 $m**
Lease rental income	436.9	447.2
Recovery of property outgoings	102.3	104.7
Other property related revenue	50.8	58.8
Total property ownership revenue and income	**590.0**	**610.7**
Interest income	11.2	13.5
Other income	1.7	1.0
Interest and other income	**12.9**	**14.5**
Total revenue and income	**602.9**	**625.2**

5. 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 14.5 million units for a total of $35.5 million.

	31-Dec-19 Number (m)	30-Jun-19 Number (m)	31-Dec-19 $m	30-Jun-19 $m
Total units on issue at the beginning of the period	3,771.8	3,871.6	7,533.8	7,784.8
On-market unit buy-back	(14.5)	(99.8)	(35.5)	(251.0)
Total units on issue at the end of the period	**3,757.3**	**3,771.8**	**7,498.3**	**7,533.8**

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-19 Number (m)	31-Dec-18 Number (m)
Weighted average number of units used as the denominator in calculating basic earnings per unit	3,763.6	3,859.3
Adjustment for potential dilution from performance rights granted	6.1	6.8
Weighted average number of units and potential units used as the denominator in calculating the diluted earnings per unit	**3,769.7**	**3,866.1**

6. Adoption of AASB 16 *Leases*

The new accounting standard AASB 16 *Leases* became effective for the Trust Group on 1 July 2019. AASB 16 replaces AASB 117 *Leases* and other lease related interpretations. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model (with limited exceptions). Lessor accounting under AASB 16 is substantially unchanged.

This note explains the impact of the adoption of AASB 16 on the Trust Group's financial statements upon transition and for the six-month period.

(a) Transition

The Trust Group adopted AASB 16 using the modified retrospective approach however identified no lease arrangements that were impacted by the transition. The Trust Group's leases continue to only relate to investment property leaseholds (refer further discussion below). AASB 16 did not change the requirement to recognise assets and liabilities in respect of these arrangements. There was therefore no impact from the transition to AASB 16 on the Trust Group.

Investment property leaseholds

A number of the Trust Group's investment properties are held under long term leasehold arrangements. As per market practice, external and internal valuations performed to determine the fair value of these properties at reporting date have deducted the estimated lease payments from the valuation cash flows.

As described above, AASB 16 did not change the requirement to recognise assets and liabilities in respect of these arrangements. Investment property leaseholds meet the definition of investment property and are presented within investment property.

However, as a result of applying AASB 16, the Trust Group has reassessed the lease term for several of these arrangements. This resulted in the Trust Group recognising additional lease liabilities (and investment property leasehold assets) amounting to $30.9 million.

(b) Updated accounting policies

The following revised accounting policies relating to leases have been applied by the Trust Group since adoption of AASB 16 on 1 July 2019.

All leases are accounted for by recognising a right of use asset and a lease liability except for:

- Leases of low value assets; and
- Short term leases.

6. Adoption of AASB 16 *Leases* (continued)

(b) Updated accounting policies (continued)

Lease liabilities

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term (which includes any extension option periods assessed as reasonably certain to be exercised). The discount rate applied is determined by reference to the interest rate implicit in the lease unless (as is typically the case) this is not readily determinable, in which case the lessee's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate, initially measured using the index or rate as at the commencement date. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Trust Group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from modification, a change in an index or rate, when there is a change in the assessment of the term of any lease or a change in the assessment of purchasing the underlying asset.

Right of use assets

Right of use assets are initially measured at the amount of the lease liability recognised, adjusted for any prepaid or accrued lease payments, initial direct costs incurred and an estimate of costs to be incurred by the lessee in restoring the site on which it is located.

Right of use assets relating to investment properties are included within the investment property balance. Lease liabilities are presented separately in the balance sheet.

(c) Impact for six months ended 31 December 2019

The table below show the movements in the Trust Group's investment property leasehold liabilities for the period:

For the six months to 31 December 2019	Lease liabilities $m
Opening balance - 1 July 2019	(254.1)[1]
Interest charge on lease liabilities	(8.0)
Lease payments	8.0
Market rent reassessment	(2.7)
Closing balance[2, 3]	**(256.8)**

1. Includes amounts recognised upon reassessment of the lease term for certain investment property leasehold arrangements.
2. Lease liabilities of $256.8 million represents $16.8 million of current lease liabilities and $240.0 million of non-current lease liabilities.
3. As disclosed in Note 2(d) and Note 6(a), a number of the Group's investment properties are held under long term leasehold arrangements. The lease liabilities in relation to these investment property leaseholds meet the definition of investment property and are presented within investment property in Note 2(a).

Adopting AASB 16 has resulted in no significant impact on statutory net profit and earnings per unit for the six-month period. The Trust Group also recognised variable lease payments of $11.0 million during the period.

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 20 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 2019 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.

Trevor Gerber
Chairman

19 February 2020

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Independent Auditor's Review 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 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2019 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 Group's consolidated financial position as at 31 December 2019 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 Group, 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.

Building a better working world

Independence

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

Ernst & Young

Alison Parker Partner	Michael Collins Partner

Melbourne
19 February 2020