MIRVAC PROPERTY TRUST

1H21 Interim Report

12 February 2021

Reimagine Urban Life

mirvac

MIRVAC PROPERTY TRUST
AND ITS CONTROLLED ENTITIES

Interim Report
For the half year ended 31 December 2020

The consolidated entity comprises Mirvac Property Trust ARSN 086 780 645 and its controlled entities.

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This Interim Report does not include all the information and disclosures usually included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report 2020 and any public announcements made by Mirvac Property Trust during the interim reporting period.

DIRECTORS' REPORT

The Directors of Mirvac Funds Limited ABN 70 002 561 640, AFSL 233121, the Responsible Entity of Mirvac Property Trust (MPT or Trust) present their report, together with the consolidated report of MPT and its controlled entities (consolidated entity) for the half year ended 31 December 2020.

MPT and its controlled entities together with Mirvac Limited and its controlled entities form the stapled entity, Mirvac Group (Mirvac or Group).

Responsible Entity

The Responsible Entity of the Trust is Mirvac Funds Limited, an entity incorporated in New South Wales. The immediate parent entity of the Responsible Entity is Mirvac Woolloomooloo Pty Limited ABN 44 001 162 205, incorporated in New South Wales, and its ultimate parent entity is Mirvac Limited ABN 92 003 280 699, incorporated in New South Wales.

Directors

The following persons were Directors of Mirvac Funds Limited during the half year and up to the date of this report, unless otherwise stated:

- John Mulcahy
- Susan Lloyd-Hurwitz
- Christine Bartlett
- Peter Hawkins (resigned 19 November 2020)
- Jane Hewitt
- James M. Millar AM
- Samantha Mostyn AO
- Peter Nash
- Robert Sindel (appointed 1 September 2020).

Operating and financial review

The Trust's prudent approach to capital management, supported by its urban strategy, delivered solid results for the half year ended 31 December 2020.

Key financial highlights for the half year ended 31 December 2020:

- profit attributable to stapled unitholders of $351.5m (December 2019: $546.5m);
- total assets of $11,118.0m and net assets of $8,932.4m; and
- half year distribution of $189.0m, representing 4.8 cents per stapled unit.

Key capital management highlights for the half year ended 31 December 2020:

The Trust's capital structure is monitored at the Group level. Key capital management highlights relating to the Group for the half year ended 31 December 2020 include:

- gearing at the lower end of the target range of 20 to 30 per cent at 21.4 per cent[1];
- substantial available liquidity of $1.3bn in cash and committed undrawn bank facilities held;
- weighted average debt maturity of 6.8 years;
- average borrowing costs reduced to 3.7 per cent per annum as at 31 December 2020 (June 2020: 4.0 per cent), including margins and line fees; and
- maintained an A-/A3 ratings with stable outlooks from Fitch Ratings and Moody's Investors Service (equivalent to A-).

1. Net debt (at foreign exchange hedge rate) excluding leases (total tangible assets – cash).

DIRECTORS' REPORT (continued)

Office

With approximately $15bn of assets under management, Mirvac's Office team is responsible for the management of some of the country's most modern and exceptional workplaces. Its young, efficient and sustainable portfolio benefits from long WALE, low exposure to small tenants, and low capex, providing strength and resilience throughout the COVID-19 pandemic.

Office outlook [1]

Office demand weakened significantly through calendar 2020, largely due to falls in corporate profits which were impacted by the pandemic. Vacancy rates rose sharply, albeit from low levels in Sydney and Melbourne.[2] Despite the economic recovery through 1H21, vacancy rates are close to peak levels. Firms have reported a lift in trading conditions and profitability.[3] Business conditions for Finance and Business/Property services firms have improved, however business investment and expansion plans are likely to remain muted until profits strengthen further.

Apart from cyclical impacts, the pandemic has brought the benefits of workplace flexibility including increased working from home into focus. The time since first lockdown has shown that the experience varies across industries, job requirements, tenure, and demographics, including seniority. Conversely the role of the office as integral to staff culture and cross-functional relationship building is widely acknowledged and evidenced by an emerging pick-up of leasing deals within CBDs.[4]

Overall, data points from various surveys and firms are pointing to an acceleration in flexibility requirements with more days of office-based staff working from home than prior to the pandemic.[5] The impact on office demand is not clear, though it is likely to result in some reduction. However, this is expected to be most pronounced for older, secondary grade product as firms seek to upgrade to modern, highly sustainable spaces integrated with smart technology that enables them to seek efficiencies with their occupancies.[6] In this environment, modern high-quality office assets are likely to outperform.

Office risk management

Office occupancy continues to remain sensitive to community transmission and individual tenant policies on remote working. Broadly, there is an increase in market vacancy and sub-lease activity in all major markets driven by the pandemic's economic impact on business. New leasing activity has increased marginally in the last six months, however in general, transactions remain comparatively scarce compared to pre COVID-19 levels. Organisations have started adapting to the change in workforce by reducing their office footprint and seeking greater flexibility particularly in respect to expansion and contraction rights. Within our portfolio, we are proactively managing cash collection which remains relatively strong.

Industrial

Our Industrial portfolio comprises high quality logistics facilities in key strategic locations and is 100 per cent weighted to Sydney. The division continues to benefit from the growth of e-commerce in Australia, accelerated by the COVID-19 pandemic which has continued to strengthen demand for premium industrial estates close to transport, and within 'last mile' locations.

Industrial outlook [1]

The pandemic has resulted in some positive structural tailwinds for the industrial sector from increased levels of online spending[7], and disruption to supply chains is likely to result in some increased inventory and space needs.

Near term, gross take-up of space[8] from these structural tailwinds and an expanding economy are expected to continue outpacing new supply levels. This is particularly pronounced in the Sydney market which has tighter supply constraints[9] and a larger infrastructure pipeline than other Australian cities. Positive growth expectations in rental income are expected to see deep capital demand for core, well located assets.

1. These statements are future looking and based on our reasonable belief at the time they were made. They include possible outlooks for our operating environments, but are subject to evolving nature and uncertain environment caused by the COVID-19 pandemic.

2. Source: Real Estate Intelligence Services, JLL, December 2020, https://www.jll.com.au/en/reis

3. Source: NAB Monthly Business Survey, January 2021, https://business.nab.com.au/wp-content/uploads/2021/02/NAB-Monthly-Business-Survey-January-2021.pdf

4. Source: The Office Demand Index, Colliers, H2 2020, https://www.colliers.com.au/en-au/research/office-demand-index-h2-2020

5. Source: Evolving How We Work January 2021, Bluenotes, ANZ Bank, https://bluenotes.anz.com/posts/2021/01/anz-how-we-work-workplace-future-remote-blended-strategy?pid=bln-link-td-bln-01-21-tsk-NL28-ext-hww; Across the Globe, Workers Want a Hybrid Work Model, Dec 2020, Gensler https://www.gensler.com/research-insight/blog/across-the-globe-workers-want-a-hybrid-work-model

6. Source: JLL, Structural office demand study, August 2020, survey of global offices into post-crisis expectations of new office buildings

7. Source: Retail Trade, ABS, www.abs.gov.au

8. Source: Real Estate Intelligence Services, JLL, December 2020, https://www.jll.com.au/en/reis

9. The squeeze on Sydney industrial land is a boon for Melbourne and Brisbane, Commercial Real Estate, https://www.commercialrealestate.com.au/news/industrial-feature-land-shortages-901095/

DIRECTORS' REPORT (continued)

Industrial risk management

The Industrial portfolio continues to experience strength in investor and tenant demand for quality industrial assets in major markets like Sydney. COVID-19 restrictions on movement have resulted in an increase in e-commerce, and online retail sales continue to drive demand for fulfilment and distribution facilities. In response, Mirvac continues to focus on properties based on proximity to infrastructure, long lease terms and secure cash flow profiles as well as asset creation capability to build new assets to cater for future demand.

Retail

The retail environment has been significantly impacted by the COVID-19 pandemic. Over the past nine months, it is evident that consumer sentiment is highly correlated to community transmission which has severely impacted centres in certain markets and locations.

While continuing to operate in a challenging environment, Mirvac's dynamic portfolio of urban shopping centres, focused on higher income, higher growth and densely populated catchment areas, is well positioned to attract customers who actively embrace innovation and disruption. This highly progressive consumer audience is more likely to have higher incomes and greater propensity to spend, as well as be more progressive in their attitudes.

Retail outlook [1]

Retail visitation and spending saw a significant improvement over 1H21 with the December quarter spend exceeding the September quarter[2]. However, the direction of retail sales at a category level continues to be shaped by risks associated with levels of COVID-19 community transmission. High frequency datasets from major banks and other sources show strong levels of instore spending, particularly from eased restrictions in Victoria. While tighter community restrictions in parts of Sydney and Brisbane over the recent summer break saw changes in momentum of categories like food and beverage[3], recent data indicates that confidence is still on a solid footing.

While some major stimulus policies, particularly JobKeeper, will continue to recede through 2H21, ongoing low interest rates and other major fiscal stimulus will provide significant support. In addition to this, households have accrued a large stock of savings through 2020 due to periods of restrictions, and fiscal and monetary stimulus[4]. Together with an improving employment market[5] and evidence of growth in wages and salaries[6], prospects for continued recovery in retail consumption are expected, subject to virus transmission risk containment.

Retail risk management

COVID-19 outbreaks in the second half of 2020 in some of our markets negatively impacted recovering consumer sentiment and foot traffic in centres. In addition, centres located in CBD locations or locations heavily dependent on workers and tourists have been significantly impacted.

The pandemic has also accelerated consumer preference for shopping through digital channels which has negatively impacted physical store sales. While leasing activity has generally been subdued, there is a strong focus on closing leasing deals in centres which have stabilised. Mirvac continues to focus on cash collection and working with retailers on a case by case basis to provide support.

1. These statements are future looking and based on our reasonable belief at the time they were made. They include possible outlooks for our operating environments, but are subject to evolving nature and uncertain environment caused by the COVID-19 pandemic.
2. Source: Retail Trade, ABS, www.abs.gov.au
3. Source: CBA Card Spending, CBA Economics
4. Source: Australian National Accounts, ABS, www.abs.gov.au
5. Source: ABS Labour Force, Australia, www.abs.gov.au
6. Source: The Edge – CBA's latest internal data on income and savings in charts, CBA Economics, 21 January 2021

DIRECTORS' REPORT (continued)

Significant changes in the state of affairs

Details of the state of affairs of the consolidated entity are disclosed within the Operating and Financial review section above. Other than those matters disclosed, there were no significant changes to the state of affairs during the half year that are not otherwise disclosed in this interim report.

The impacts of the COVID-19 pandemic to the consolidated entity are outlined throughout the interim report and summarised under Note A – Basis of Preparation.

Net current asset deficiency

As at 31 December 2020, the Trust was in a net current liability position of $313.5m. The Trust minimises its cash balance using available funds to repay borrowings; however, it had access to $727.0m of unused borrowing facilities at 31 December 2020. Accordingly, the Directors of the Responsible Entity expect that the Trust will have sufficient cash flows to meet all financial obligations as and when they fall due.

Matters subsequent to the end of the half year

No events have occurred since the end of the half year which have significantly affected or may significantly affect the Trust's operations, the results of those operations, or Mirvac's state of affairs in future years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6 and forms part of the Directors' report.

Rounding of amounts

The amounts in the financial statements have been rounded off to the nearest tenth of a million (m) dollars in accordance with the ASIC Corporations Instrument 2016/191.

This report is made in accordance with a resolution of the Directors.

Susan Lloyd-Hurwitz

Susan Lloyd-Hurwitz
Director

Sydney
12 February 2021

Auditor's Independence Declaration

As lead auditor for the review of Mirvac Property Trust for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Mirvac Property Trust and the entities it controlled during the period.

V. Papageorgiou

Voula Papageorgiou
Partner
PricewaterhouseCoopers

Sydney
12 February 2021

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These financial statements cover the financial statements for the consolidated entity consisting of Mirvac Property Trust (MPT or Trust) and its controlled entities. The financial statements are presented in Australian currency.

The Responsible Entity of Mirvac Property Trust is Mirvac Funds Limited ABN 70 002 561 640, AFSL 233121, a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Mirvac Funds Limited
Level 28
200 George Street
Sydney NSW 2000.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on pages 2 to 5, all of which are not part of these financial statements.

The financial statements were authorised for issue by the Directors on 12 February 2021. The Directors have the power to amend and reissue the financial statements.

The Trust ensures that its corporate reporting is timely and complete by publishing all press releases, financial reports and other information in the Investor Relations section on Mirvac Group's website.

Mirvac Property Trust and its controlled entities
Consolidated statement of comprehensive income
For the half year ended 31 December 2020

	Note	31 December 2020 $m	31 December 2019 $m
Revenue		**346.5**	349.3
Other income			
Net revaluation gain from investment properties and investment properties under construction	C1	**163.3**	324.2
Share of net profit of joint ventures		**20.9**	15.0
Net gain on financial instruments	D2	**1.1**	0.8
Net gain on sale of assets		**2.5**	18.1
Total revenue and other income		**534.3**	707.4
Investment property expenses and outgoings		**93.6**	93.2
Amortisation expenses		**28.9**	25.5
Impairment loss on receivables	F1	**12.0**	1.0
Finance costs	B2	**32.2**	26.5
Other expenses		**16.1**	14.7
Profit before income tax		**351.5**	546.5
Profit for the half year attributable to stapled unitholders		**351.5**	546.5
Other comprehensive income that may be reclassified to profit or loss			
Other comprehensive income for the half year		**-**	-
Total comprehensive income for the half year attributable to stapled unitholders		**351.5**	546.5
Earnings per stapled unit (EPU) for profit for the half year attributable to stapled unitholders			
Basic EPU	F2	**8.9**	13.9
Diluted EPU	F2	**8.9**	13.9

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

Mirvac Property Trust and its controlled entities
Consolidated statement of financial position
As at 31 December 2020

	Note	31 December 2020 $m	30 June 2020 $m
Current assets			
Cash and cash equivalents		**43.9**	26.9
Receivables	F1	**6.6**	18.2
Other assets		**35.2**	17.4
Total current assets		**85.7**	62.5
Non-current assets			
Investment properties	C1	**10,449.3**	10,187.3
Investments in joint ventures	C2	**472.4**	465.3
Other financial assets	D2	**67.8**	65.6
Intangible assets		**42.8**	42.8
Total non-current assets		**11,032.3**	10,761.0
Total assets		**11,118.0**	10,823.5
Current liabilities			
Payables		**210.1**	139.8
Provisions		**189.0**	118.0
Lease liabilities	D1	**0.1**	0.1
Total current liabilities		**399.2**	257.9
Non-current liabilities			
Payables		**6.5**	29.0
Borrowings	D1	**1,773.0**	1,766.0
Lease liabilities	D1	**6.9**	6.9
Total non-current liabilities		**1,786.4**	1,801.9
Total liabilities		**2,185.6**	2,059.8
Net assets		**8,932.4**	8,763.7
Equity			
Contributed equity	E2	**5,373.4**	5,367.2
Reserves		**5.4**	5.4
Retained earnings		**3,553.6**	3,391.1
Total equity attributable to stapled unitholders		**8,932.4**	8,763.7

The above consolidated statement of financial position (SoFP) should be read in conjunction with the accompanying notes.

	Note	Attributable to stapled unitholders Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance 1 July 2019		5,316.4	5.4	3,210.7	8,532.5
Profit for the half year		-	-	546.5	546.5
Other comprehensive income for the half year		-	-	-	-
Total comprehensive income for the half year		-	-	**546.5**	**546.5**
Transactions with owners in their capacity as owners					
Stapled unit-based payments					
Long-term Incentives (LTI) vested		9.6	-	-	9.6
Legacy schemes vested		0.7	-	-	0.7
Stapled units issued under the Security Purchase Plan (SPP)		39.5	-	-	39.5
Distributions		-	-	(240.0)	(240.0)
Balance 31 December 2019		**5,366.2**	**5.4**	**3,517.2**	**8,888.8**
Balance 1 July 2020		5,367.2	5.4	3,391.1	8,763.7
Profit for the half year		-	-	351.5	351.5
Other comprehensive income for the half year		-	-	-	-
Total comprehensive income for the half year		**-**	**-**	**351.5**	**351.5**
Transactions with owners in their capacity as owners					
Stapled unit-based payments					
LTI vested	E2	5.0	-	-	5.0
Legacy schemes vested	E2	0.3	-	-	0.3
Expense recognised – Employee Exemption Plan (EEP)	E2	0.9	-	-	0.9
Distributions	E1	-	-	(189.0)	(189.0)
Balance 31 December 2020		**5,373.4**	**5.4**	**3,553.6**	**8,932.4**

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

Mirvac Property Trust and its controlled entities
Consolidated statement of cash flows
For the half year ended 31 December 2020

	Note	31 December 2020 $m	31 December 2019 $m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**344.1**	350.0
Payments to suppliers and employees (inclusive of goods and services tax)		**(92.9)**	(95.8)
		251.2	254.2
Dividends received		**0.5**	1.0
Distributions received from joint ventures		**14.0**	14.2
Interest paid		**(36.8)**	(34.4)
Net cash inflows from operating activities	F3	**228.9**	235.0
Cash flows from investing activities			
Payments for investment properties		**(190.7)**	(181.3)
Proceeds from sale of investment properties		**85.0**	130.3
Contributions to joint ventures		**(1.2)**	(0.1)
Net cash outflows from investing activities		**(106.9)**	(51.1)
Cash flows from financing activities			
Proceeds from loans from entities related to Responsible Entity		**265.0**	318.0
Repayments of loans to entities related to Responsible Entity		**(258.0)**	(293.0)
Proceeds from issue of stapled units		**6.0**	49.0
Distributions paid		**(118.0)**	(246.4)
Net cash outflows from financing activities		**(105.0)**	(172.4)
Net increase in cash and cash equivalents		**17.0**	11.5
Cash and cash equivalents at the beginning of the half year		**26.9**	16.9
Cash and cash equivalents at the end of the half year		**43.9**	28.4

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

A BASIS OF PREPARATION

Mirvac Group – stapled securities

A Mirvac Group stapled security comprises one Mirvac Limited share 'stapled' to one unit in MPT to create a single listed security traded on the ASX. The stapled securities cannot be traded or dealt with separately.

Mirvac Limited and MPT remain separate legal entities in accordance with the *Corporations Act 2001.* For accounting purposes, Mirvac Limited has been deemed the parent entity of Mirvac Group.

Statement of compliance

This interim financial report for the half year ended 31 December 2020 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the information and disclosures normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 30 June 2020 and any public announcements made by MPT during the interim reporting period.

Basis of preparation

The accounting policies adopted are consistent with those adopted in the financial statements for the year ended 30 June 2020 except for the adoption of new accounting standards. Refer to the below section on new and amended standards adopted by the consolidated entity.

These financial statements have been prepared on a going concern basis, using historical cost conventions except for investment properties, investment properties under construction, derivative financial instruments and other financial assets and financial liabilities which have been measured at fair value.

All figures in the financial statements are presented in Australian dollars and have been rounded off to the nearest tenth of a million (m) dollars in accordance with ASIC Corporations Instrument 2016/191, unless otherwise indicated.

Impact of COVID-19 on the consolidated entity

The World Health Organization declared a global pandemic in March 2020 as a result of the novel coronavirus (COVID-19). The consolidated entity has considered the impact of COVID-19 in preparing its interim report for the half year.

The impact of COVID-19 increases the level of judgement required across a number of key areas for the consolidated entity, in particular the measurement of its assets. The areas involving a higher degree of estimation or judgement were the same as those applied in the financial statements for the year ended 30 June 2020. Further details are outlined in the following sections of the financial report:

Investment properties
Refer to note C1

Receivables
Refer to note F1

Going concern

The consolidated entity has considered its ability to continue as a going concern, using projected cash flow forecasts and other metrics and information for at least the next 12 months from the approval of these financial statements, taking into consideration an estimation of the continued business impacts of COVID-19. This assessment assumes the consolidated entity will be able to continue trading and realise assets and discharge liabilities in the ordinary course of business beyond this period.

As of 31 December 2020, the consolidated entity was in a net current liability position of $313.5m (June 2020: $195.4m) but had undrawn capacity under its debt facilities of $727.0m (June 2020: $734.0m) maturing in December 2023. As of 31 December 2020, the consolidated entity had capital commitments of $16.6m (June 2020: $12.4m).

Net current asset deficiency

As at 31 December 2020, the Trust was in a net current liability position of $313.5m. The Trust minimises its cash balance using available funds to repay borrowings; however, it had access to $727.0m of unused borrowing facilities at 31 December 2020. Accordingly, the Directors of the Responsible Entity expect that the Trust will have sufficient cash flows to meet all financial obligations as and when they fall due.

Comparative information

Where necessary, comparative information has been restated to conform to the current period's disclosures.

New and amended standards adopted by the consolidated entity

Amended standards adopted by the consolidated entity for the half year ended 31 December 2020 have not had a significant impact on the current period or any prior period and are not likely to have a significant impact on in future periods. These are listed below:

- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material [AASB 101 and AASB 108*];
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business [AASB 3]*;
- *Revised Conceptual Framework for Financial Reporting* and *AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework*; and
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform [AASB 7, AASB 9 and AASB 139].*

B RESULTS FOR THE HALF YEAR

This section explains the results and performance of the consolidated entity.

B1 SEGMENT INFORMATION

The consolidated entity is a single segment for reporting to the Executive Leadership Team (ELT). The ELT are the chief operating decision makers of the consolidated entity.

The consolidated entity operates predominantly in Australia. No single customer in the current or prior half year provided more than 10 per cent of the consolidated entity's revenue.

B2 EXPENSES

	31 December 2020 $m	31 December 2019 $m
Interest paid/payable	**36.8**	34.4
Interest capitalised	**(4.6)**	(7.9)
Total finance costs	**32.2**	26.5

B3 EVENTS OCCURRING AFTER THE END OF THE HALF YEAR

No events have occurred since the end of the half year which have significantly affected or may significantly affect Trust's operations, the results of those operations, or Mirvac's state of affairs in future years.

C PROPERTY AND DEVELOPMENT ASSETS

This section includes investment properties and investments in joint venture arrangements. These represent the core assets of the business and drives the value of the consolidated entity.

C1 INVESTMENT PROPERTIES

The consolidated entity holds a property portfolio for long-term rental yields and capital appreciation. Depending on the specific arrangements for each property, they are classified as investment properties or properties held through joint ventures.

Investment properties

Investment properties are properties owned by the consolidated entity. Investment properties include investment properties under construction, which will be held for deriving rental income and for capital appreciation once construction is completed.

The consolidated entity accounts for its investment properties at fair value and movements in fair value are recognised in the consolidated SoCI.

Judgement in fair value estimation

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants.

For all investment property that is measured at fair value; the existing use of the property is considered the highest and best use.

The fair values of properties are calculated using a combination of market sales comparison, discounted cash flow and capitalisation rate.

The fair values are a best estimate but may differ to the actual sales price if the properties were to be sold. The key judgements for each valuation method are explained below:

Market sales comparison: Utilises recent sales of comparable properties, adjusted for any differences including the nature, location and lease profile.

Discounted cash flow (DCF): Projects a series of cash flows over the property's life and a terminal value, discounted using a discount rate to give the present value.

The projected cash flows incorporate expected rental income (based on contracts or market rates), operating costs, lease incentives, lease fees, capital expenditure, and a terminal value from selling the property. The terminal value is calculated by applying the terminal yield to the net market income. The discount rate is a market rate reflecting the risk associated with the cash flows, the nature, location and tenancy profile of the property relative to comparable investment properties and other asset classes.

Capitalisation rate: The rate or yield at which the annual net income from an investment is capitalised to ascertain its capital value at a given date. The annual net income is based on contracted rents, market rents, operating costs and future income on vacant space. The capitalisation rate reflects the nature, location and tenancy profile of the property together with current market evidence and sales of comparable properties.

Investment properties under construction: There generally is not an active market for investment properties under construction, so fair value is measured using DCF or residual valuations. DCF valuations for investment properties under construction are as described above but also consider the costs and risks of completing construction and letting the property.

Residual: Estimates the value of the completed project, less the remaining development costs which include construction, finance costs and an allowance for developer's risk and profit. This valuation is then discounted back to the present value.

The key inputs in the measurement of fair value of investment properties are explained further below.

Lease incentives

The carrying amount of properties includes lease incentives provided to tenants. Lease incentives are deferred and recognised on a straight-line basis over the lease term.

C1 INVESTMENT PROPERTIES (continued)

Ground leases

A lease liability, reflecting the leasehold arrangements of investment properties, is separately disclosed in the consolidated SoFP and the carrying value of the investment properties is adjusted (i.e. increased) so that the net of these two amounts equals the fair value of the investment properties. The lease liabilities are calculated as the net present value of the future lease payments discounted at the incremental borrowing rate.

At 31 December 2020, $7.0m of lease liabilities for ground leases has been recognised in the consolidated SoFP.

Lease liabilities are subsequently measured by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

Some ground leases contain variable payment terms that are linked to sales generated. Variable lease payments that depend on sales are recognised in the consolidated SoCI in the period in which the condition that triggers those payments occurs.

Interest on the lease liabilities and any variable lease payments not included in the measurement of the lease liabilities are recognised in the consolidated SoCI in the period in which they relate.

In consideration of the COVID-19 pandemic, the assessment undertaken to determine the fair value of the consolidated entity's portfolio is based on the assumptions and analysis performed and outlined below.

An evaluation of each investment property in the portfolio was undertaken considering the following factors:

i) Location and asset quality across the markets that the consolidated entity invests in;
ii) Capital expenditure including development and operational capital expenditure forecasts;
iii) Tenancy schedules: tenancy schedules including all contractual lease information were used as the basis of all forecasts and valuations, specifically the contracted cash flows from the tenants and including tenant size and weighted average lease expiry. Assets with long WALEs and a small number of large tenants were viewed as having the least risk in valuations;
iv) Market rents: rents that could be achieved if tenancy was leased on the open market as at valuation date. Passing rent refers to contractual rent as at the valuation date;
v) Growth rates and incentives: 10 year forecasts for incentives and growth rates applied to future leasing assumptions;
vi) Downtime: period of vacancy between leases on a tenancy;
vii) COVID-19 impact on the tenancies, in particular rental relief requested, ability to trade and industry that the tenants operate in; and
viii) Fair value inputs: capitalisation rate, discount rate and terminal rate applied to capitalisation income, DCF and terminal capitalisation income.

Following this evaluation on a property basis, the valuations have been calibrated on a portfolio basis, by segment, to ensure consistency in any assumptions such as in the modelling of leasing retention rates, incentives, downtime, growth, COVID-19 support adjustments and the expected recovery period where relevant.

To assist with calculating reliable estimates, the consolidated entity uses independent valuers on a rotational basis. Approximately 25% of the portfolio is independently valued every six months, with management internally estimating the fair value of the remaining properties using estimation techniques by suitably qualified personnel. In response to COVID-19, the consolidated entity increased the level of independent valuations across its segments, particularly across the markets and asset types it invests in where the impacts from COVID-19 have been more significant. As at 31 December 2020, the consolidated entity undertook independent valuations covering 33% of its investment property portfolio, by value.

C1 INVESTMENT PROPERTIES (continued)

Movements in investment properties

	31 December 2020 $m	30 June 2020 $m
Balance 1 July	**10,187.3**	9,846.2
Adoption of AASB 16 – ground leases	**-**	7.1
Restated investment properties at 1 July 2019	**-**	9,853.3
Expenditure capitalised	**188.1**	398.6
Acquisitions	**48.5**	-
Disposals	**(82.3)**	(130.5)
Net revaluation gain from fair value adjustments	**163.3**	154.5
Ground lease liability unwind	**-**	(0.1)
Amortisation expenses	**(55.6)**	(88.5)
Balance	**10,449.3**	10,187.3
Total investment properties	**10,295.5**	9,566.8
Total investment properties under construction	**153.8**	620.5

Fair value measurement and valuation basis

Investment properties are measured as Level 3 financial instruments. Refer to note D2 for explanation of the levels of fair value measurement.

The discounted cash flow, capitalisation rate and residual valuation methods all use unobservable inputs in determining fair value; ranges of the inputs are included below per segment:

		Inputs used to measure fair value				
Segment	Level 3 fair value $m	Net market income $/sqm	10-year compound annual growth rate %	Capitalisation rate %	Terminal yield %	Discount rate %
31 December 2020						
Office[1]	**6,557.0**	**416.0 - 1,517.0**	**2.65 - 3.79**	**4.63 - 6.75**	**4.88 - 7.25**	**6.00 - 7.25**
Industrial	**925.7**	**102.5 - 486.0**	**2.77 - 3.02**	**4.84 - 6.25**	**5.25 - 6.50**	**6.20 - 7.25**
Retail	**2,966.6**	**300.0 - 1,245.0**	**2.03 - 3.75**	**4.75 - 8.75**	**5.00 - 9.00**	**6.25 - 9.50**
30 June 2020						
Office[1]	6,375.4	312.0 - 1,573.0	2.64 - 3.97	4.63 - 6.75	4.88 - 7.25	6.25 - 7.25
Industrial	878.7	102.5 - 486.0	2.77 - 3.05	4.84 - 6.50	5.25 - 7.00	6.25 - 7.50
Retail	2,933.2	304.0 - 1,439.0	2.03 - 3.53	4.75 - 8.75	5.00 - 9.00	6.50 - 9.50

1. Includes investment properties under construction.

Movement in any of the unobservable inputs is likely to have an impact on the fair value of investment property. The higher the net market income or 10-year compound annual growth rate, the higher the fair value. The higher the capitalisation rate, terminal yield or discount rate, the lower the fair value. For further detail regarding the sensitivity analysis of these assumptions, please refer to the 30 June 2020 Annual Report.

C1 INVESTMENT PROPERTIES (continued)

Future committed operating lease receipts

Property rental revenue is accounted for as operating leases. The revenue and expenses are recognised in the consolidated SoCI on a straight-line basis over the lease term. Payments for operating leases are made net of any lease incentives.

The future receipts are shown as undiscounted contractual cash flows.

	31 December 2020 $m	30 June 2020 $m
Future operating lease receipts as a lessor		
Within one year	**425.2**	492.7
Between one and five years	**1,699.2**	1,558.6
Later than five years	**1,620.3**	1,415.2
Total future operating lease receipts as a lessor	**3,744.7**	3,466.5

C2 INVESTMENTS IN JOINT VENTURES

A joint venture (JV) is an arrangement where the Trust has joint control over the activities and joint rights to the net assets.

All JV are established or incorporated in Australia. The consolidated entity does not have any associates. The table below provides summarised financial information for the JV of the consolidated entity:

		31 December 2020		30 June 2020	
Joint venture	**Principal activities**	**Interest %**	**Carrying value $m**	Interest %	Carrying value $m
Mirvac 8 Chifley Trust	Property investment	**50.0**	**232.3**	50.0	237.3
Mirvac (Old Treasury) Trust	Property investment	**50.0**	**240.1**	50.0	228.0
Total			**472.4**		465.3

D CAPITAL STRUCTURE AND RISKS

This section outlines the market, credit and liquidity risks that the consolidated entity is exposed to and how it manages these risks. Capital comprises unitholders' equity and net debt.

D1 BORROWINGS AND LIQUIDITY

The consolidated entity borrows using loans from related parties.

The consolidated entity has one loan facility from a related party with a total facility limit as at 31 December 2020 of $2,500.0m (June 2020: $2,500.0m). This facility can be drawn and expires on 18 December 2023. Interest accrues at the related party's cost of financing from their borrowing facilities, calculated including associated derivative financial instruments. At 31 December 2020, the consolidated entity had $727.0m (June 2020: $734.0m) of undrawn facilities available.

	31 December 2020				30 June 2020			
	Current $m	Non-current $m	Total carrying amount $m	Total fair value $m	Current $m	Non-current $m	Total carrying amount $m	Total fair value $m
Unsecured facilities								
Loan from related party	**-**	**1,773.0**	**1,773.0**	**1,773.0**	-	1,766.0	1,766.0	1,766.0
Other								
Lease liabilities	**0.1**	**6.9**	**7.0**	**7.0**	0.1	6.9	7.0	7.0

Borrowings are initially recognised at fair value, net of transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest rate method. The fair value of borrowings is considered to approximate their carrying amount as the interest rates are variable.

D2 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The consolidated entity measures various financial assets and liabilities at fair value which, in some cases, may be subjective and depend on the inputs used in the calculations. The different levels of measurement are described below:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: not traded in an active market but calculated with significant inputs coming from observable market data; and
- Level 3: significant inputs to the calculation that are not based on observable market data (unobservable inputs).

The consolidated entity holds no Level 1 or Level 2 financial instruments.

The methods and assumptions used to estimate the fair value of financial instruments are as follows:

Other financial assets

At 31 December 2020, other financial assets were represented by units held in unlisted funds. The carrying value of other financial assets is equal to the fair value.

Units in unlisted funds are traded in inactive markets and the fair value is determined by the unit price as advised by the trustee of the fund, based on the value of the fund's underlying assets. The fund's assets are subject to regular external valuations. The valuation methods used by external valuers have not changed since 30 June 2020.

D2 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

The following table summarises the financial instruments measured and recognised at fair value on a recurring a basis:

	31 December 2020				30 June 2020			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets carried at fair value								
Units in unlisted funds	-	-	67.8	67.8	-	-	65.6	65.6
Balance	**-**	**-**	**67.8**	**67.8**	-	-	65.6	65.6

The following table presents a reconciliation of the carrying value of Level 3 instruments (excluding investment properties which are shown in note C1):

	31 December 2020 Units in unlisted funds $m	30 June 2020 Units in unlisted funds $m
Balance 1 July	**65.6**	58.0
Acquisitions	**1.1**	-
Net gain on financial instruments	**1.1**	7.6
Balance	**67.8**	65.6

E EQUITY

This section includes details of distributions and stapled unitholders' equity. It represents how the Trust raised capital from its stapled unitholders (equity) in order to finance the Trust's activities both now and in the future.

E1 DISTRIBUTIONS

Half yearly ordinary distribution	Distribution Cents per unit	Amount payable/paid $m	Date payable/paid
31 December 2020	**4.8**	**189.0**	**1 March 2021**
31 December 2019	6.1	240.0	28 February 2020

E2 CONTRIBUTED EQUITY

Ordinary units are classified as equity. Each ordinary unit entitles the holder to receive distributions when declared, to one vote per unit at securityholders' meetings on polls and to a proportional share of proceeds on winding up of the Trust.

When new units or options are issued, the directly attributable incremental costs are deducted from equity.

Movements in paid up equity

	31 December 2020		30 June 2020	
	No. units m	Units $m	No. units m	Units $m
Balance 1 July	**3,932.7**	**5,367.2**	3,909.4	5,316.4
Stapled units issued under the EEP	**0.5**	**0.9**	0.3	0.9
LTI vested	**2.8**	**5.0**	6.9	9.6
Legacy schemes vested	**0.1**	**0.3**	0.2	0.6
Stapled unit issuance under the SPP	**-**	**-**	15.9	39.7
Balance	**3,936.1**	**5,373.4**	3,932.7	5,367.2

The number of stapled units issued as listed on the ASX at 31 December 2020 was 3,937.6m (June 2020: 3,934.3m) which includes 1.5m of stapled units issued under the Employee Incentive Scheme (EIS) (June 2020: 1.6m). Stapled units issued to employees under the Mirvac LTI plan and EIS are accounted for as options and are recognised, by the Mirvac Group in the security-based payments reserve, not in contributed equity.

F OTHER DISCLOSURES

This section provides additional required disclosures that are not covered in the previous sections.

F1 RECEIVABLES

Receivables are initially recognised at their fair value. Receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment if required. Due to the short-term nature of current receivables, their carrying amount (less loss allowance) is assumed to be the same as their fair value.

For the majority of the non-current receivables, the carrying amount is also not significantly different to their fair value. The expected credit loss (ECL) of receivables is reviewed on an ongoing basis. The consolidated entity applies the simplified approach to measuring ECL as appropriate based on the different characteristics of each financial asset class. To measure the ECL, management has grouped together the consolidated entity's receivables based on shared credit risk characteristics and the days past due. The consolidated entity uses judgement in making assumptions about risk of default and ECL rates and the inputs to the impairment calculation, based on the consolidated entity's past history, existing market conditions and future looking estimates at the end of each reporting period. Receivables which are known to be uncollectable are written off.

The consolidated entity has considered the impact on its trade debtors in light of increased credit risk resulting from the impacts of COVID-19.

Trade debtors
For trade debtors relating to Retail, Office and Industrial for investment property rental income, many of the consolidated entity's tenants have experienced cash flow and financial difficulties due to mandatory closures, a halt on discretionary spending, employment instability and the general economic downturn.

The calculation of the ECL considers the historical bad debt write-offs which are specific to each segment, less collateral held and adjusted for specific known factors, including:

- financial situation of a tenant;
- industry in which the tenant operates and if this has been impacted by mandatory government restrictions;
- size and legal structure of the tenant;
- location and demographic information affecting the tenant; and
- sales data, rental relief requests and other impacts on trading activities during the pandemic.

	31 December 2020			30 June 2020		
	Gross $m	**Loss allowance $m**	**Net $m**	Gross $m	Loss allowance $m	Net $m
Trade receivables	**41.5**	**(38.4)**	**3.1**	47.1	(36.8)	10.3
Accrued income	**3.5**	**-**	**3.5**	7.9	-	7.9
Total receivables	**45.0**	**(38.4)**	**6.6**	55.0	(36.8)	18.2

Loss allowance

	31 December 2020 $m	30 June 2020 $m
Balance 1 July	**(36.8)**	(2.5)
Amounts utilised for write-off of receivables	**10.4**	-
Loss allowance recognised	**(12.0)**	(34.3)
Balance 31 December	**(38.4)**	(36.8)

F2 EARNINGS PER STAPLED UNIT

Basic earnings per stapled unit (EPU) is calculated by dividing:
- the profit for the half year attributable to stapled unitholders; by
- the weighted average number of ordinary units (WANOU) outstanding during the half year.

Diluted EPU adjusts the WANOU to take into account dilutive potential ordinary securities from security-based payments.

	31 December 2020	31 December 2019
Basic EPU (cents)	**8.9**	13.9
Diluted EPU (cents)	**8.9**	13.9
Profit for the half year attributable to stapled unitholders used to calculate basic and diluted EPU ($m)	**351.5**	546.5
WANOU used in calculating basic EPU (m)	**3,935.1**	3,930.6
WANOU used in calculating diluted EPU (m)	**3,936.6**	3,932.3

F3 RECONCILIATION OF PROFIT TO OPERATING CASH FLOW

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash at bank and short-term deposits at call.

	31 December 2020 $m	**31 December 2019 $m**
Profit for the half year attributable to stapled unitholders	**351.5**	546.5
Revaluation of investment properties	**(163.3)**	(324.2)
Amortisation expenses	**55.6**	25.5
Impairment loss on receivables	**12.0**	1.0
Lease incentives and straight-lining of lease revenue	**(39.5)**	(1.9)
Net gain on financial assets revalued through profit or loss	**(1.1)**	(0.8)
Net gain on sale of assets	**(2.5)**	(18.1)
Share of net profit of JV, net of distributions received	**(6.9)**	(0.8)
Change in operating assets and liabilities		
Increase in receivables	**(0.5)**	(7.1)
Increase in other assets	**(17.8)**	(13.8)
Increase in payables	**41.4**	28.7
Net cash inflows from operating activities	**228.9**	235.0

In the Directors' opinion:

(a) the financial statements and notes set out on pages 7 to 21 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial half year ended on that date; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

The basis of preparation note confirms that the financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Directors have been given the declarations by the Chief Executive Officer/Managing Director and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Susan Lloyd-Hurwitz

Susan Lloyd-Hurwitz
Director

Sydney
12 February 2021

Independent auditor's review report to the unitholders of Mirvac Property Trust

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Mirvac Property Trust (the Registered Scheme) and the entities it controlled during the half-year (together the Consolidated Entity), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors of Mirvac Funds Limited's (the Responsible Entity) declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Mirvac Property Trust does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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

Responsibility of the directors of the Responsible Entity for the half-year financial report

The directors of the Responsible Entity of the Registered Scheme 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 of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

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Joe Sheeran

Voula Papageorgiou
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Joe Sheeran
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Sydney
12 February 2021

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