ASX Announcement

16 August 2017

Solid FY17 results and strengthened capital position for future growth

KEY FINANCIAL HIGHLIGHTS

- Statutory net profit after tax of $1,583.6 million
- Underlying earnings[1] of $741.8 million or 18.7 cents on a per security basis, in line with guidance. Adjusting for acquisitions and divestments, comparable underlying earnings[2] were up 4.6%
- 7.3% reduction in net corporate overheads
- Distribution of 17.3 cents per security
- Net tangible assets per security (NTA) of $2.82, up 23 cents or 8.9%, underpinned by strong net property valuation gains of $852.5 million[3]
- Total return[4] of 15.5%
- Gearing of 24.7% provides ample capacity to fund capital requirements and the recently announced on-market securities buy-back
- Weighted average interest rate of 4.2% and weighted average debt duration of 5.3 years
- Standard & Poor's raised Vicinity's credit rating to 'A' with stable outlook

KEY OPERATING HIGHLIGHTS

- Sold interests in 10 retail assets for $586 million reflecting a 2.3% premium to book value[5]
- Acquired the remaining 25% interest in the strongly performing DFO South Wharf in Melbourne
- Completed the $666 million (Vicinity: $333 million) major development of Chadstone
- Comparable net property income (NPI) growth[6] of 2.5%
- Portfolio occupancy remains high at 99.5%
- Leasing spreads increased to 1.9%
- Specialty store moving annual turnover (MAT) growth[7] of 0.5%; excluding the vacated Dick Smith stores, growth was 1.0%
- Achieved a 3 Star Green Star Performance portfolio rating

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1 For a reconciliation of underlying earnings to statutory net profit, refer to Note 1(b) on page 74 of the 2017 Annual Report released to the ASX on 16 August 2017.

2 Refer to slide 45 of the FY17 annual results presentation released to the ASX on 16 August 2017.

3 Calculated as the aggregate net valuation gain for the two six-month periods. The net valuation gain excludes statutory accounting adjustments and assets divested during each period.

4 Calculated as: (Change in NTA during the period + distributions declared)/opening NTA.

5 Excludes transactions costs and includes contracts exchanged for the sale of Terrace Central, NSW which is expected to settle in November 2017.

6 Excluding acquisitions, divestments and development-impacted centres and is calculated on a like-for-like basis versus the prior corresponding period.

7 Sales are reported on a comparable basis which excludes divestments and development-impacted centres in accordance with Shopping Centre Council of Australia (SCCA) guidelines.

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Commenting on Vicinity Centres' (Vicinity, ASX:VCX) annual results for the 12 months to 30 June 2017 (FY17), CEO and Managing Director, Mr Angus McNaughton said: "The solid results we are delivering today reflect the benefit of ongoing portfolio enhancement, the realisation of further merger synergies and efficiencies, and the sound underlying performance of our assets.

"Statutory net profit after tax of $1,583.6 million for the period included strong net property valuation gains of $852.5 million, up 6.0% on book value. This was underpinned by income growth and a 34 bps tightening of the portfolio weighted average capitalisation rate to 5.61%. NTA was up 23 cents, or 8.9%, to $2.82 supporting a total return of 15.5% for the period.

"Underlying earnings for the period were $741.8 million or 18.7 cents on a per security basis, in line with guidance. Adjusting for acquisitions and divestments, comparable underlying earnings were up 4.6%. This was supported by comparable net property income growth of 2.5%, as a result of fixed base rental reviews, ancillary income growth and prudent property expense management, and a 7.3% reduction in net corporate overheads."

Distribution per security was 17.3 cents for FY17, compared to 17.7 cents in the prior year. Non-core assets divested to improve the quality and growth of the portfolio have had an impact on the distribution this year. The final distribution for the six months ended 30 June 2017 of 8.6 cents per security will be paid to securityholders on 30 August 2017.

ACTIVE MANAGEMENT SUPPORTING FUTURE GROWTH

There has been a significant transformation and strengthening of Vicinity's business over the past two years since formation:

- Non-core assets of $1.7 billion[8] have been divested at a 2.1% premium to book value
- $1 billion of development projects completed, with an initial yield of over 7% and an internal rate of return of over 12% on Vicinity's share of approximately $500 million
- The weighted average capitalisation rate for the portfolio has tightened by nearly 70 bps
- Specialty sales productivity has increased by over 12%
- The occupancy rate has improved 60 bps to 99.5%
- Average asset values have grown by a third, and
- The balance sheet has significantly strengthened, with reduced gearing and a material extension to debt duration.

This portfolio enhancement has been achieved during the same time that the merger integration was delivered well ahead of program, together with exceeding the merger synergies targeted. A total return of 14.1% per annum has been delivered over these two years.

Vicinity's active approach to capital management and portfolio enhancement was acknowledged in January 2017, with Standard & Poor's raising Vicinity's credit rating to 'A' with a stable outlook. In April 2017, Vicinity issued $200 million of 7-year and $200 million of 10-year Australian dollar medium term notes at competitive pricing, further diversifying its debt profile. This was followed by an extension of $1.5 billion of bank debt facilities. Gearing at 30 June 2017 was 24.7% and the weighted average debt duration was 5.3 years, with no debt expiries in FY18.

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[8] Includes core asset divestments to ISPT of a 25% interest in The Myer Centre Brisbane and 50% interest in Mornington Central.

Mr McNaughton said: “Prudent capital allocation decisions and the non-core asset divestments have put Vicinity in a strong position to capitalise on future portfolio enhancement opportunities, and other initiatives to create long-term value and sustainable earnings growth.”

Further initiatives announced today to strengthen Vicinity’s capital position are:

- Vicinity’s primary earnings measure will be revised from underlying earnings, which includes rent lost from developments, to funds from operations (FFO) effective from FY18
- Setting a distribution payout ratio of 95% to 100% of adjusted funds from operations (AFFO) effective from FY18[9], with the FY18 payout ratio expected to be 100% of AFFO[10], and
- The intended divestment of approximately $300 million of non-core assets in FY18.

These initiatives build on last month’s announcement of an on-market buy-back of up to 5% of Vicinity’s securities to be undertaken at a price that is accretive to both FFO per security and NTA, while also preserving ample capacity to fund Vicinity’s other capital requirements.

Mr McNaughton added: “This change in distribution policy will result in a lower distribution for FY18 than under the previous policy but is more sustainable over the long term and will support the future growth of Vicinity.”

RETAIL PERFORMANCE

Mr McNaughton said: “Vicinity is successfully navigating a challenging retail environment. Despite lower wages growth and rising household expenses having a dampening effect on sales growth across our portfolio, it has been a busy year and we remain active in leasing, repositioning our tenancy mix, improving our retail offer and enhancing the consumer experience. Overall portfolio occupancy increased to 99.5%, leasing spreads improved to 1.9%, comparable specialty sales per sqm were up strongly by 6.4% to $9,429 largely due to the non-core asset divestments and improvement in portfolio quality, and comparable specialty occupancy costs remained unchanged at 14.6%.”

Moving annual turnover (MAT)[11] growth at 30 June 2017 was 0.4%, compared to 2.1% for the prior period. Specialty store MAT growth was 0.5%, down from 3.0% a year earlier. Excluding the impact of the Dick Smith portfolio that went into administration in FY16, specialty store MAT was up 1.0%.

ENHANCING PORTFOLIO QUALITY

Mr McNaughton said: “During FY17, we continued to improve our portfolio quality through tenancy remixing, selling non-core assets, undertaking selective acquisitions and making good progress on our developments. We have also reduced our environmental footprint, improved our climate resilience and strategically invested in a number of community initiatives.

“We further re-weighted our portfolio from women’s apparel into categories experiencing higher demand such as food catering and retail services, in particular, hairdressing and beauty, and health and wellbeing retailers.

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9 The first distribution that the revised policy will apply to will be the December 2017 distribution payment, to be paid in March 2018.

10 Assuming no material deterioration to existing economic conditions.

11 Sales are reported on a comparable basis which excludes divestments and development-impacted centres in accordance with SCCA guidelines.

"We divested interests in 10 retail assets that no longer met our investment criteria[12] for $586 million, reflecting a 2.3% premium to prevailing book values.[13] We acquired the remaining interests in two assets we partly owned, 25% of DFO South Wharf and 50% of Bentons Square, both in Victoria, for a combined cost of $180 million.

"Works progressed on our extensive development pipeline, which remains an important driver of asset growth and quality, highlighted by the completion of the $666 million[14] major development of Chadstone in June 2017.

"Chadstone has continued to strengthen since the opening of the key retail stage in October 2016, attracting significant foot traffic, particularly on the weekends, with annual foot traffic up 21% to over 21 million visitors and MAT up 20% to $1.73 billion. This development has reaffirmed Chadstone's status as one of the leading retail assets globally, and has underpinned a strong valuation gain over the year of 13.5% to $5.35 billion (Vicinity share: $2.68 billion)."

Progress on other major projects includes:

- Substantial work on the $350 million[14] redevelopment at Mandurah Forum, including completing the first stage of retail which opened last month, fully leased
- Completion of site preparation works at the $150 million[14] DFO Perth development, with the retail construction commencing last month and strong leasing interest from retailers
- Construction commencing on the $460 million[14] redevelopment of The Glen, with the first stage fully leased and on track to open in late 2017, and entry into a contract for the sale of residential air rights to residential developer Golden Age for over 500 apartments across three towers
- Town planning approval for the $120 million[14] Chadstone hotel development being received in June 2017, positive discussions with international and domestic operators progressing, and the project on track for commencement in FY18, and
- Planning works continuing on Galleria with the project cost revised down from $700 million to $500 million[14] as the scope is refined.

In response to strong leasing demand, Vicinity will commence significant remix and reconfiguration projects at Chadstone and QueensPlaza in FY18. At Chadstone, this includes further expansion and remixing of the luxury precinct, and redevelopment of the existing second food court and cross mall reconfigurations. At QueensPlaza, the remix includes expansion of the luxury precinct and reconfiguration of the first floor tenancies. These projects will significantly improve the tenancy mix and growth potential of both assets, notwithstanding a short-term impact on FFO while works are completed.

Mr McNaughton said: "During the period, we improved the environmental sustainability of our business. We introduced climate change considerations into key business processes, including the investment criteria that underpin our acquisition and divestment decisions. We were also successful in reducing our environmental footprint through our company-wide environmental improvement program, which has resulted in improvements in carbon emissions, water use and waste across the portfolio.

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12 Excluding a 25% interest in The Myer Centre Brisbane and 50% interest in Mornington Central sold to ISPT.
13 Excludes transactions costs and includes contracts exchanged for the sale of Terrace Central, NSW which is expected to settle in November 2017.
14 100% interest. Vicinity's share is 50%.

"These initiatives, along with our responsible management practices, continue to be favourably recognised by three key sustainability surveys. In late 2016 we were included in three leaders indices in the Dow Jones Sustainability Index (DJSI), ranked above our retail peers by Global Real Estate Sustainability Benchmark (GRESB) and rated 'A-' for climate change performance by CDP."

Our environmental performance over FY17 includes:

- Reducing greenhouse gas emissions intensity by 8%[15, 16]
- Reducing energy use intensity by 6%[15], and
- Diverting 36% of waste from landfill.[17]

Mr McNaughton added: "Over the past 12 months we have increased our effort to invest in the local communities where we operate our centres. We worked with a number of social enterprises to employ 30 people through social procurement initiatives across our portfolio. We also worked with our community partner Beacon Foundation to provide support services to unemployed and disengaged youth in select communities. These initiatives strengthen the social cohesion of our communities, which in turn can benefit our centres."

INVESTING IN TECHNOLOGY TO CREATE BETTER RETAIL EXPERIENCES

Mr McNaughton said: "Digital technologies are changing the way consumers shop, the way retailers sell and how we manage our assets. These technologies are providing Vicinity with the opportunity to enhance the consumer and retailer experience, in addition to driving operational efficiencies. To that end, this year we have been building greater internal capabilities in digital and data analytics.

"During the year, we completed the connection of our retail assets and corporate offices to a single high-speed digital network with WiFi connectivity throughout. Our consumers now have access to free high-speed WiFi at our centres and the rich data we are gathering from this network is enabling us to gain insight into consumer behaviour, including dwell times, foot traffic and the way foot traffic flows around our centres. The focus for FY18 is to leverage this data to enhance the consumer experience, provide insights to retailers, and improve the way we manage our assets."

FY18 GUIDANCE AND FOCUS

Mr McNaughton said: "Our portfolio remains well positioned to create long-term value and sustainable growth, even though we expect the retail environment to remain challenging over the next 12 months.

"Over the coming year, our focus remains on building quality and strength across our business. We expect to divest approximately $300 million of non-core assets in FY18 and have a number of major remixes and reconfigurations to work through. On developments, we will focus on the successful completion of Mandurah Forum, opening the first stage of retail at The Glen and progressing the DFO Perth project.

"Across our portfolio we will continue to focus on creating the best tenant mix to enhance the retail experience, generating additional income streams and driving further operational efficiencies. On capital management, we will undertake to buy back Vicinity securities at a price that is accretive to both FFO per security and NTA, and look to extend our FY19 debt expiries."

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[15] FY17 compared to FY16 on a per sqm basis.
[16] Scope 1 and 2 emissions.
[17] For the 12 months to 30 June 2017.

Mr McNaughton added: "Over the coming months, together with the Board, I will also focus on ensuring a smooth transition to incoming CEO and Managing Director, Grant Kelley, through to his planned commencement on 1 January 2018."

Vicinity's FFO guidance for FY18 is 18.0 to 18.2 cents per security and assumes approximately $300 million of non-core asset divestments in the period and the rent lost while the major remixes at Chadstone and QueensPlaza are undertaken.[18] After adjusting for the impact of portfolio changes[19], this guidance reflects comparable FFO per security growth of 2.8% to 4.0%. Vicinity's revised distribution policy is a payout ratio of 95% to 100% of AFFO. For FY18 the payout ratio is expected to be 100% of AFFO.[18] Maintenance capital expenditure and incentives in total for FY18 are forecast to be approximately $70 million to $80 million.

Additional detail on Vicinity's FY17 annual results can be found in our 2017 Annual Report and investor presentation released to the ASX today. A briefing by management elaborating on this announcement will be webcast from 10.30am (AEDT) today and can be accessed via Vicinity's website at www.vicinity.com.au.

Vicinity's 2017 Annual General Meeting will be held on 16 November 2017.

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About Vicinity Centres
Vicinity Centres (Vicinity or the Group) is one of Australia's leading retail property groups with a fully integrated asset management platform, and over $25 billion in retail assets under management across 83 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 74 shopping centres (including the DFO Brisbane business) and manages 35 assets on behalf of Strategic Partners, 26 of which are co-owned by the Group. Vicinity is listed on the Australian Securities Exchange (ASX) under the code 'VCX' and has over 24,000 securityholders. Vicinity also has European medium term notes listed on the ASX under the code 'VCD'. For more information visit the Group's website vicinity.com.au, or use your smartphone to scan this QR code.

18 Assuming no material deterioration to existing economic conditions.

19 Acquisitions, divestments and major remixes of Chadstone and QueensPlaza. Refer to slide 37 of the FY17 annual results presentation released to the ASX on 16 August 2017.