Vicinity Centres Trust

Financial report for the half year ended

31 December 2017

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

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

Contents

Directors' Report

The Directors of Vicinity Centres RE Ltd, the Responsible Entity of Vicinity Centres Trust (the Trust or VCT), present the financial report of Vicinity Centres Trust and its controlled entities (VCT Group or the Trust Group) for the half year ended 31 December 2017.

Vicinity Centres Trust is stapled to Vicinity Limited 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 the Vicinity Centres Group available at www.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 2017 and up to the date of this report unless otherwise stated:

(i) Chairman

Peter Hay (Independent)

(ii) Non-executive Directors

Charles Macek (Independent) (Retired 16 November 2017)

David Thurin

Debra Stirling (Independent) (Retired 16 November 2017)

Janette Kendall (Independent) (Appointed 1 December 2017)

Karen Penrose (Independent)

Peter Kahan (Independent)

Tim Hammon (Independent)

Trevor Gerber (Independent)

Wai Tang (Independent)

(iii) Executive Directors

Angus McNaughton (CEO and Managing Director) (Retired 31 December 2017)

Grant Kelley (CEO and Managing Director) (Appointed 1 January 2018)

Company Secretaries

Carolyn Reynolds

Michelle Brady

Rohan Abeyewardene (Appointed 13 February 2018)

Principal activities

The Trust has its principal place of business at Level 4, Chadstone Tower One, 1341 Dandenong Road, Chadstone, Victoria 3148. The principal activity of the Trust Group during the period was property investment.

Distributions

On 14 December 2017, the Directors declared a distribution for the half year ended 31 December 2017 of 8.1 cents per Vicinity Centres Group stapled security, which equates to a total half year distribution payable to securityholders of $313.6 million.

The payment date of the half year distribution will be 28 February 2018.

Review of operations

A detailed review of the 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 www.vicinity.com.au.

(a) Financial performance

The highlights of the financial performance of the Trust Group based on the statutory results are:

- Net profit of $735.8 million representing basic earnings per unit (EPU) of 18.80 cents (31 December 2016: net profit of $943.1 million representing basic EPS of 23.82 cents);
- Net operating cash flows of $363.9 million (31 December 2016: net operating cash flows of $381.8 million); and
- A distribution of 8.1 cents per unit (31 December 2016: distributions of 8.7 cents per unit).

(b) Financial position

The key features of the Trust Group's financial position at 31 December 2017 include:

- Investment properties[1] increased over the six month period by $538.7 million to $15,988.2 million. The increase was largely driven by the $411.3 million revaluation increment, mainly due to Chadstone, and capital expenditure of $166.3 million, most notably at DFO Perth, Mandurah Forum and The Glen;
- An increase in interest bearing liabilities of $449.8 million due to capital expenditure and $227.3 million of Trust units being purchased as part of the Vicinity Centres Group on-market security buy-back program; and
- The Trust has $674.0 million of liquidity available through undrawn debt facilities.

(c) Capital management – Vicinity Centres Group on-market buy-back

During the six months ended 31 December 2017, the Trust Group bought back 87.0 million Trust units under the Vicinity Centres Group on-market security buy-back program. The Trust units were acquired for total consideration of $227.3 million.

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* is set out on page 5.

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, relating to the 'rounding off' of amounts in the Directors' report. Accordingly, amounts in the Directors' report have been rounded off to the nearest tenth of a million dollars ($m) in accordance with that Legislative Instrument, unless stated otherwise.

Signed in Melbourne on 14 February 2018 in accordance with a resolution of Directors.

Peter Hay
Chairman

[1] Refer to Note 2(a). Includes investment properties held for sale, non-current assets held for sale – Sydney CBD asset swap and excludes finance lease assets.

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

As lead auditor for the review of Vicinity Centres Trust for the half year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Vicinity Centres Trust and the entities it controlled during the financial period.

Ernst & Young

David Shewring
Partner
14 February 2018

Statement of Comprehensive Income

for the half year ended 31 December 2017

	Note	31-Dec-17 $m	31-Dec-16 $m
Revenue			
Property ownership revenue		618.6	596.2
Interest and other income		21.0	23.6
Total revenue and income		**639.6**	**619.8**
Share of net profit of equity accounted investments		3.7	6.5
Property revaluation increment for directly owned properties	2(b)	411.3	569.5
Direct property expenses		(190.0)	(180.8)
Borrowing costs	3(b)	(86.6)	(75.4)
Responsible entity fees		(29.2)	(29.7)
Other expenses from ordinary activities		(1.2)	(1.9)
Net foreign exchange movement on interest bearing liabilities		0.5	3.1
Net mark-to-market movement on derivatives		(12.3)	34.1
Stamp duty and other costs written off on acquisition of investment properties		-	(2.1)
Profit before tax for the half year		**735.8**	**943.1**
Income tax expense		-	-
Net profit for the half year		**735.8**	**943.1**
Other comprehensive income		-	-
Total comprehensive income for the half year		**735.8**	**943.1**
Earnings per unit attributable to unitholders of the Trust:			
Basic earnings per unit (cents)		**18.80**	**23.82**
Diluted earnings per unit (cents)		**18.77**	**23.80**

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

Balance Sheet

as at 31 December 2017

	Note	31-Dec-17 $m	30-Jun-17 $m
Current assets			
Cash and cash equivalents		38.9	31.2
Receivables and other assets		81.3	72.3
Investment properties held for sale	2(a)	41.7	33.5
Deposit paid - Sydney CBD asset swap	2(e)	27.8	-
Financial assets carried at fair value through profit or loss		-	4.3
Total current assets		**189.7**	**141.3**
Non-current assets held for sale – Sydney CBD asset swap	2(e)	1,121.2	-
Non-current assets			
Investment properties	2(a)	15,038.1	15,627.9
Investments accounted for using the equity method	2(d)	90.1	86.4
Derivative financial instruments	3(f)	57.2	68.3
Receivables and other assets		555.2	522.0
Total non-current assets		**15,740.6**	**16,304.6**
Total assets		**17,051.5**	**16,445.9**
Current liabilities			
Interest bearing liabilities	3	100.0	-
Distribution payable		313.6	340.4
Payables and other financial liabilities		167.9	183.3
Provisions		27.4	26.6
Derivative financial instruments	3(f)	0.8	2.3
Total current liabilities		**609.7**	**552.6**
Non-current liabilities			
Interest bearing liabilities	3	4,243.5	3,893.7
Other financial liabilities		203.8	202.7
Derivative financial instruments	3(f)	178.8	176.1
Total non-current liabilities		**4,626.1**	**4,272.5**
Total liabilities		**5,235.8**	**4,825.1**
Net assets		**11,815.7**	**11,620.8**
Equity			
Contributed equity	4	7,784.8	8,012.1
Retained profits		4,030.9	3,608.7
Total equity		**11,815.7**	**11,620.8**

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

Statements of Changes in Equity

for the half year ended 31 December 2017

	Attributable to unit holders of the Trust		
	Contributed equity $m	**Retained profits $m**	**Total $m**
As at 1 July 2016	**8,012.1**	**2,675.9**	**10,688.0**
Net profit for the half year	-	943.1	943.1
Total comprehensive income for the half year	**-**	**943.1**	**943.1**
Transactions with unitholders in their capacity as unitholders:			
Distributions declared	-	(344.4)	(344.4)
Total equity as at 31 December 2016	**8,012.1**	**3,274.6**	**11,286.7**
As at 1 July 2017	**8,012.1**	**3,608.7**	**11,620.8**
Net profit for the half year	-	735.8	735.8
Total comprehensive income for the half year	**-**	**735.8**	**735.8**
Transactions with unitholders in their capacity as unitholders:			
On-market securities buy-back	(227.3)	-	(227.3)
Distributions declared	-	(313.6)	(313.6)
Total equity as at 31 December 2017	**7,784.8**	**4,030.9**	**11,815.7**

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

Cash Flow Statement

for the half year ended 31 December 2017

	31-Dec-17 $m	31-Dec-16 $m
Cash flows from operating activities		
Receipts in the course of operations	680.8	680.3
Payments in the course of operations	(253.6)	(245.2)
Distributions and dividends received from equity accounted and managed investments	1.7	3.5
Interest and other revenue received	19.1	22.8
Interest paid	(84.1)	(79.6)
Net cash inflows from operating activities	**363.9**	**381.8**
Cash flows from investing activities		
Payments for capital expenditure on investment properties	(217.3)	(222.4)
Deposit paid – Sydney CBD asset swap	(27.8)	-
Payment to settle other financial liability – Bentons Square acquisition	-	(38.3)
Proceeds from disposal of investment properties	33.1	394.4
Stamp duty paid	-	(2.1)
Net cash (outflows)/ inflows from investing activities	**(212.0)**	**131.6**
Cash flows from financing activities		
Proceeds from borrowings	688.0	510.0
Repayment of borrowings	(236.0)	(699.0)
Distributions paid to external unitholders	(340.4)	(352.3)
Proceeds from repayment of loan to Tuggeranong Town Centre Trust	-	117.4
On-market unit buy-back	(227.3)	-
Proceeds received from Vicinity Limited	9.0	-
Funds advanced to Vicinity Limited	(37.2)	(66.1)
Debt establishment costs paid	(0.3)	(0.8)
Net cash outflows from financing activities	**(144.2)**	**(490.8)**
Net increase in cash and cash equivalents held	**7.7**	**22.6**
Cash and cash equivalents at the beginning of the half year	**31.2**	**37.5**
Cash and cash equivalents at the end of the half year	**38.9**	**60.1**

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

Notes to the Financial Statements

About this Report

The financial report includes financial statements of the consolidated entity consisting of Vicinity Centres Trust (the Trust) and its controlled entities (collectively the Trust Group).

Vicinity Centres 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 www.vicinity.com.au.

The Trust is for-profit entity that is domiciled and operates wholly within Australia.

Basis of preparation

The condensed consolidated financial report for the half year ended 31 December 2017 (the financial report):

- has been prepared in accordance with *Corporations Act 2001* (Cth), Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated;
- does not include all the notes of the type normally included in an annual financial report unless otherwise stated. Accordingly, this report is to be read in conjunction with the 30 June 2017 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 Australian Securities Exchange;
- is presented in Australian dollars ($) and rounded to the nearest tenth of a million dollars ($m) in accordance with ASIC Legislative Instrument 2016/191 (unless otherwise stated);
- has been prepared in accordance with the historical cost convention, except for certain financial assets and liabilities and investment properties which have been recognised at fair value; and
- was authorised for issue by the Board of Directors on 14 February 2018. The Directors have the power to amend and reissue the financial report.

Although the Trust Group has a net current deficiency of $420.0 million (current liabilities exceed current assets) at reporting date, the Trust Group has sufficient undrawn borrowing facilities of $674.0 million (refer to Note 3(a)), and generates sufficient operating cashflows to meet its current obligations as they fall due. Accordingly, this financial report has been prepared on a going concern basis.

The impact of new and amended standards

There are no new and amended standards that became effective for the Trust Group on 1 July 2017 that had a material impact for the Trust Group.

Critical accounting estimates and judgements

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 result of which form the basis of the carrying value of those assets and liabilities. Consequently, future actual results could differ from these estimates. There are no new key judgements, estimates and assumptions significant to the financial report for the half year ended 31 December 2017 not already noted in the 30 June 2017 Annual Report.

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.

As a result of this stapled structure, management does not report the individual results of the Trust to the Chief Operating Decision Makers (which for the Vicinity Centres Group were the CEO and Managing Director and the Chief Financial Officer (CFO)). Rather management reports the results for the stapled Vicinity Centres Group. Consequently, the Trust Group is considered to have only one operating segment as represented in the Statement of Comprehensive Income and Balance Sheet.

2. Investment properties

The Trust Group's investment properties represent freehold and leasehold interests in land and buildings held to derive rental income. They are initially measured at cost, including related transaction costs. Subsequently, at each reporting period, they are carried at their fair values based on the market value determined by independent (external) valuers or internal valuations. These valuations include the cost of capital works in progress on development projects. Further detail on the Trust Group's valuation process and valuation methods is provided in the 30 June 2017 Annual Report.

(a) Summary of portfolio

Shopping centre type	31-Dec-17			30-Jun-17		
	Number of properties	Value $m	Weighted average cap rate %	Number of properties	Value $m	Weighted average cap rate %
Super Regional[1]	1	3,000.0	3.75	1	2,675.0	4.25
Major Regional	7	3,398.6	5.41	7	3,358.0	5.45
City Centre	4	1,740.5	4.94	4	1,726.7	4.97
Regional	10	2,269.7	6.15	10	2,240.4	6.17
Outlet Centre	6	1,499.3	6.03	6	1,391.7	6.29
Sub Regional	31	3,348.0	6.34	31	3,308.0	6.37
Neighbourhood	14	703.5	6.44	15	728.4	6.51
Planning and holding costs[2]	-	28.6	-	-	21.3	-
Total	**73**	**15,988.2**	**5.45**	**74**	**15,449.5**	**5.61**
Add: Finance lease assets[3]		218.8			217.5	
Less: Investment properties held for sale (current asset)[4]		(41.7)			(33.5)	
Less: Property holdings by Vicinity Limited		(6.0)			(5.6)	
Less: Non-current assets held for sale – Sydney CBD asset swap[5]		(1,121.2)			-	
Total investment properties		**15,038.1**			**15,627.9**	

1. The weighted average cap rate reflects the core retail centre cap rate for Chadstone. The weighted average cap rate for the centre across all uses is 3.79% (30 June 2017: 4.25%).
2. Planning and holding costs relating to potential major development projects are capitalised and carried within the overall investment property balance. These costs are reviewed each period and the status of the project assessed to determine if continued capitalisation of these costs remains appropriate.
3. Disclosures relating to finance leases can be found in Note 18(b) of the 30 June 2017 Annual Report.
4. Represents the carrying amount of Toormina Gardens which the Trust Group has an agreement to sell (30 June 2017: Terrace Central).
5. Represents Chatswood Chase Sydney. Refer to Note 2(e) for further information.

(b) Movements for the period

	31-Dec-17 $m	31-Dec-16 $m
Opening balance at 30 June	15,449.5	14,444.5
Acquisitions including associated stamp duty and transaction costs	-	2.1
Capital expenditure[1]	166.3	213.2
Capitalised interest[2]	4.9	4.8
Disposals	(33.1)	(394.3)
Property revaluation increment	411.3	569.5
Stamp duty and transaction costs written off on acquisitions	-	(2.1)
Amortisation of incentives	(22.3)	(18.5)
Straight-lining of rent adjustment	11.6	1.6
Closing balance at 31 December	**15,988.2**	**14,820.8**

1. Includes development costs, maintenance capital expenditure, lease incentives and fit out costs.
2. Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate of 4.4% (December 2016: 4.3%).

2. Investment properties (continued)

(c) Portfolio valuation

Key inputs and sensitivities

The Trust Group has classified fair value measurements (such as those performed on investment properties) into the following hierarchy as required by AASB 13 *Fair Value Measurement*:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Inputs to investment property valuations are considered Level 3 of the fair value hierarchy as the capitalisation of income and discounted cash flow methods require assumptions to be made to determine certain inputs that are not based on observable market data.

At reporting date, the key unobservable inputs used in determining fair value of its investment properties are summarised below:

	31-Dec-17		30-Jun-17		
Unobservable inputs	**Range of inputs**	**Weighted average inputs**	**Range of inputs**	**Weighted average inputs**	**Sensitivity**
Capitalisation rate[1]	3.75% - 7.50%	5.45%	4.25% - 7.50%	5.61%	The higher the discount rate, terminal yield, capitalisation rate and downtime for tenants vacating, the lower the fair value.
Discount rate[2]	6.25% - 8.50%	7.28%	6.75% - 8.50%	7.55%	
Terminal yield[3]	4.00% - 7.75%	5.71%	4.50% - 7.75%	5.85%	
Expected downtime (for tenants vacating)	3 months to 12 months	5 months	2 months to 9 months	5 months	
Rental growth rate	2.29% - 4.44%	3.47%	2.27% - 4.44%	3.52%	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 annual total rate of return used to convert a forecast cash flow of an asset into a present value. 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 of the asset at the end of the cash flow period.

All of the above key assumptions have been taken from the latest external valuation reports and internal valuation assessments. DFO Perth is excluded from the inputs at 30 June 2017 as it was held at cost.

For all investment properties the current use equates to the highest and best use.

(d) Investments accounted for using the equity method

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

	Ownership		Carrying value	
	31-Dec-17 %	**30-Jun-17 %**	**31-Dec-17 $m**	**30-Jun-17 $m**
Victoria Gardens Retail Trust (Joint Venture)	50.0	50.0	90.1	86.4
Closing Balance			**90.1**	**86.4**

2. Investment properties (continued)

(e) Sydney CBD asset swap

As announced on 6 November 2017, the Trust Group has entered into contracts to exchange a 49% interest in Chatswood Chase Sydney for 50% interests in GIC Private Limited's (GIC) Queen Victoria Building, The Galeries and The Strand Arcade (together, the Sydney CBD Centres). The Sydney CBD asset swap remains subject to approvals by Sydney City Council and RailCorp, with settlement expected in 2018.

In relation to the disposal of the Trust Group's 49% interest in Chatswood Chase Sydney, the accounting standard requires 100% of the investment property to be presented as a 'non-current asset held for sale' at 31 December 2017. This accounting treatment is due to the pending change in ownership and corresponding loss of control of a subsidiary. Post completion of this disposal, the Trust Group's remaining 51% interest in Chatswood Chase Sydney will be presented within non-current assets as an equity accounted investment.

In addition, the 50% interests in the Sydney CBD Centres acquired will be presented within non-current assets as investment properties.

The following table outlines balances relating to the Sydney CBD asset swap at 31 December 2017:

	31-Dec-17 $m	30-Jun-17 $m
Deposit paid - Sydney CBD asset swap	27.8	-
Total deposit paid – Sydney CBD asset swap	**27.8**	**-**
Chatswood Chase Sydney (49% interest to be swapped for the Sydney CBD Centres)[1]	549.4	-
Chatswood Chase Sydney (51% interest in Joint Venture to be accounted for using the equity method)	571.8	-
Total non-current assets held for sale – Sydney CBD asset swap	**1,121.2**	**-**

1. Represents 49% of carrying value of Chatswood Chase Sydney at 31 December 2017 and excludes settlement adjustments.

3. Interest bearing liabilities and derivatives

During the period no new financing arrangements have been entered into by the Trust Group. Net draw downs on existing facilities have been made for the on-market securities buy-back and development expenditure.

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

	31-Dec-17 $m	30-Jun-17 $m
Current liabilities		
Unsecured		
Bank debt	100.0	-
Total current liabilities	**100.0**	**-**
Non-current liabilities		
Secured		
Related party borrowings[1]	314.5	317.4
Unsecured		
Bank debt	1,858.3	1,506.3
A$ Medium Term Notes (AMTNs)	646.0	645.7
GBP European Medium Term Notes (EMTNs)	599.3	588.1
US$ Private Placement Notes (USPPs)	839.4	852.2
Deferred debt costs[2]	(14.0)	(16.0)
Total non-current liabilities	**4,243.5**	**3,893.7**
Total interest bearing liabilities	**4,343.5**	**3,893.7**

1. The Trust Group has entered into a 'back-to-back' related party loan agreement with Vicinity Centres Finance Pty Ltd (VCFPL), a subsidiary of Vicinity Limited. The related party loan agreement between the Trust Group and VCFPL is secured and on the same terms and conditions as VCFPL's AMTN's.

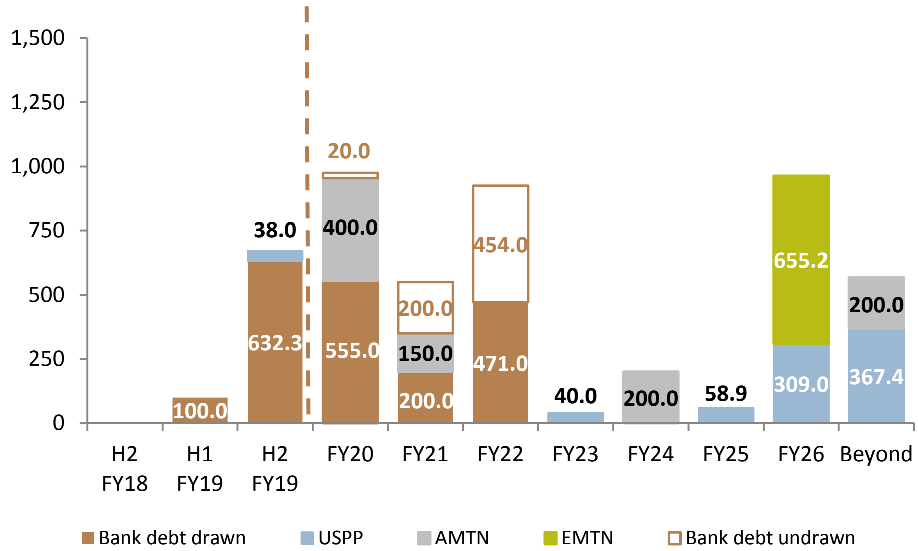
2. Deferred debt costs comprise the unamortised value of borrowing costs on establishment or refinance of debt facilities. These costs are deferred on the Balance Sheet and amortised to borrowing costs in the Statement of Comprehensive Income.

3. Interest bearing liabilities and derivatives (continued)

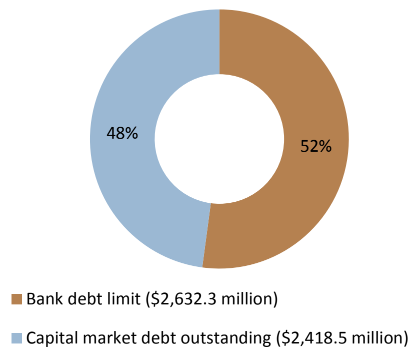
(a) Financing facilities

The chart below outlines the maturity of the Trust Group's total available facilities at 31 December 2017 by type, and the bank to capital markets debt ratio. Of the $5,050.8 million total available facilities (30 June 2017: $5,050.8 million), $674.0 million remains undrawn at 31 December 2017 (30 June 2017: $1,126.0 million).

Available facilities expiry profile ($m)[1,2]



Bank to capital market debt ratio (%)



1. The carrying amount of the USPPs, EMTNs, AMTNs and secured related party borrowings in the Balance Sheet includes net adjustments for fair value items and foreign exchange translation of -$19.3 million (30 June 2017: -$15.1 million). These adjustments are excluded from the calculation of total facilities available and amounts drawn. Additionally, deferred debt costs of $14.0 million (30 June 2017: $16.0 million) are not reflected in the amount drawn. Secured related party borrowings are included within the total value of AMTNs in this chart.

2. Total available bank debt facilities have been reduced by bank guarantees drawn against these facilities of $17.7 million drawn (30 June 2017: $17.7 million).

(b) Borrowing costs

Borrowing costs consist of interest and other costs incurred in connection with borrowing funds (such as establishment fees, legal fees 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 property which are capitalised to the cost of the investment property during the period of development.

For the six months to:	31-Dec-17 $m	31-Dec-16 $m
Interest costs on interest bearing liabilities and derivatives	**91.6**	**84.6**
Amortisation of deferred debt costs	2.3	2.3
Amortisation of fair value adjustments relating to discontinuation of hedge accounting	(1.3)	(5.7)
Amortisation of AMTN, EMTN and secured related party borrowing fair value adjustments	(2.4)	(2.9)
Finance lease interest	1.3	1.9
Capitalised borrowing costs	(4.9)	(4.8)
Total borrowing costs	**86.6**	**75.4**

3. Interest bearing liabilities and derivatives (continued)

(c) Capital risk management

The Trust Group maintains a strong and conservative capital structure with appropriate liquidity, a strong balance sheet and a diversified debt profile (by source and tenor). The Trust Group has long term credit ratings of 'A2/stable' from Moody's Investors Service and 'A/stable' from Standard & Poor's. Key metrics monitored are bank facilities to capital markets debt ratio (refer Note 3(a)) and gearing ratios (refer table below).

Gearing

	31-Dec-17	30-Jun-17
Total interest bearing liabilities	**4,343.5**	**3,893.7**
Add: Deferred debt costs	14.0	16.0
Add: fair value and foreign exchange adjustments to EMTNs	55.9	67.1
Less: fair value and foreign exchange adjustments to USPPs	(26.2)	(38.9)
Less: fair value adjustments to AMTNs	(10.4)	(13.1)
Total drawn debt	**4,376.8**	**3,924.8**
Drawn debt net of cash ($m)	4,337.9	3,893.6
Total tangible assets excluding cash, finance lease assets and derivative financial assets ($m)	16,736.6	16,128.9
Gearing ratio (target range of 25.0% to 35.0%)	**25.9%**	**24.1%**

(d) Fair value of borrowings

As at 31 December 2017, the Trust Group's debt had a fair value of $4,425.0 million (June 2017: $3,987.3 million).

The difference between the carrying amount and fair value is due to fixed rate borrowings held. The fair value of fixed rate borrowings is calculated by discounting the contractual cash flows using the yield to maturity or prevailing market discount rates for market fixed interest debt instruments, with similar terms, maturity and credit quality. Had the fixed debt 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.

(e) Defaults and covenants

At 31 December 2017, the Trust Group had no defaults on debt obligations or breaches of lending covenants (June 2017: None).

(f) Derivative financial instruments

The Trust Group holds interest rate swaps and cross currency swaps to hedge against the interest rate risk and foreign currency risk of the Trust Group's borrowings. The fair value of these derivatives are 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.

As at 31 December 2017 the carrying value and notional principal amounts of these derivative financial instruments are:

	Carrying Amount		Notional Principal Value	
	31-Dec-17 $m	30-Jun-17 $m	31-Dec-17 $m	30-Jun-17 $m
Cross currency swaps (pay A$ floating receive US$ fixed) – Assets	57.2	68.3	340.6	340.6
Total non-current assets	**57.2**	**68.3**	**n/a**	**n/a**
Interest rate swaps (floating to fixed) – Liabilities	(0.8)	(2.3)	450.0	1,187.0
Total current liabilities	**(0.8)**	**(2.3)**	**n/a**	**n/a**
Cross currency swaps (pay A$ floating receive US$ fixed) - Liabilities	(45.2)	(36.2)	357.8	357.8
Cross currency swaps (pay A$ floating receive GBP fixed) - Liabilities	(54.1)	(67.5)	655.2	655.2
Interest rate swaps (floating to fixed) – Liabilities	(79.5)	(72.4)	2,075.0	1,275.0
Total non-current liabilities	**(178.8)**	**(176.1)**	**n/a**	**n/a**

4. Contributed equity

	31-Dec-17 Number (m)	30-Jun-17 Number (m)	31-Dec-17 $m	30-Jun-17 $m
Total units on issue as at the beginning of the period	**3,958.6**	3,958.6	**8,012.1**	8,012.1
On-market buy-back[1]	**(87.0)**	-	**(227.3)**	-
Total units on issue as at the end of the period	**3,871.6**	3,958.6	**7,784.8**	8,012.1

1. The Trust Group units purchased on-market during the period were purchased as part of the Vicinity Centres Group on-market security buy-back program.

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

For the six months to:	31-Dec-17 Number (m)	31-Dec-16 Number (m)
Weighted average number of units used as the denominator in calculating basic earnings per unit	3,913.9	3,958.6
Adjustment for potential dilution from performance rights granted	5.9	2.0
Weighted average number of units and potential units used as the denominator in calculating the diluted earnings per unit	**3,919.8**	**3,960.6**

5. 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 6 to 17 are in accordance with the *Corporations Act 2001* (Cth), including:

  (i) complying with 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 2017 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.

This declaration is made in accordance with a resolution of the Directors of Vicinity Centres RE Ltd.

Peter Hay
Chairman

Melbourne
14 February 2018

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Vicinity Centres Trust

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Vicinity Centres Trust (the Trust), which comprises the balance sheet as at 31 December 2017, the statement of comprehensive income, statements of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising Vicinity Centres Trust and the entities it controlled at the half year end or from time to time during the half year.

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 Trust 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 2017 and of its consolidated financial performance for the half-year ended on that date; and

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

Directors' Responsibility for the Half-Year Financial Report

The directors of Vicinity Centres RE Ltd, the Responsible Entity of the Trust, are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Ernst & Young

David Shewring
Partner
Melbourne
14 February 2018