



## **APPENDIX 4E – Preliminary Final Report FOR THE YEAR ENDED 31 DECEMBER 2017**

Viva Energy REIT is Australia's largest listed REIT owning solely service station properties with a high quality portfolio of service stations across all Australian states and territories. Viva Energy REIT's objective is to maximize the long-term income and capital returns from its ownership of the portfolio for the benefit of all security holders.

Viva Energy REIT is a stapled entity comprising one share in Viva Energy REIT Limited (ABN 35 612 986 517) and one unit in the Viva Energy REIT Trust (ARSN 613 146 464).

The Financial Report has been prepared to show the consolidated results of Viva Energy REIT Limited and Viva Energy REIT Trust and their controlled entities, together 'Group'.

### **REPORTING PERIOD**

This preliminary final report details the consolidated results of Viva Energy REIT for the year ended 31 December 2017. The comparative period shown is the part-period from 14 June 2016, the incorporation date of Viva Energy REIT Limited and the establishment date of Viva Energy REIT Trust, to 31 December 2016.

### **RESULTS FOR ANNOUNCEMENT TO THE MARKET**

Statutory net profit was \$170.5 million, compared to the forecast contained in the Group's Prospectus and Product Disclosure Statement ('PDS') dated 22 July 2016 of \$117.6 million.

|                                                                               | <b>Year ended<br/>31 December 2017</b> | <b>Period ended<br/>31 December 2016</b> | <b>Change %</b> |
|-------------------------------------------------------------------------------|----------------------------------------|------------------------------------------|-----------------|
| Revenue from ordinary activities                                              | \$157.8 million                        | \$61.7 million                           | 156             |
| Net profit from ordinary activities after tax attributable to Group investors | \$122.3 million                        | \$1.0 million                            | 12,130          |
| Net profit after tax attributable to Group investors (statutory net profit)   | \$170.5 million                        | \$1.0 million                            | 16,950          |
| Net operating profit (distributable income)                                   | \$95.0 million                         | \$36.5 million                           | 160             |
| Total assets                                                                  | \$2,338.1 million                      | \$2,173.3 million                        | 8               |
| Net assets                                                                    | \$1,589.5 million                      | \$1,429.7 million                        | 11              |

The statutory net profit is higher than forecast in the PDS due to the net increase in the value of investment properties of \$48.2 million which was not forecast in the PDS.

Net operating profit (distributable income) of \$95.0 million compared to the PDS of \$90.2 million is due to borrowings being contracted at a lower rate than the forecast, higher rental income due to property acquisitions and operating costs being lower than forecast. This represents the underlying cash-based profit of the Group for the relevant period excluding fair value changes from asset and derivative revaluations and items of income or expense not representative of the Group's underlying operating earnings or cash flow.

Gearing was 32.1% at 31 December 2017, below the target gearing range of 35% - 45%.

## DISTRIBUTIONS

|                                                                            | Cents per security | Franked amount per security | Date paid or payable |
|----------------------------------------------------------------------------|--------------------|-----------------------------|----------------------|
| Final for the period ended 31 December 2016                                | 5.28               | -                           | 6 February 2017      |
| Interim for the year ended 31 December 2017                                | 6.60               | -                           | 11 August 2017       |
| Final for the year ended 31 December 2017<br>(record date 1 February 2018) | 6.60               | -                           | 15 February 2018     |

## NET ASSETS PER SECURITY

Net tangible assets per security at 31 December 2017 is \$2.19 (31 December 2016 \$2.07).

This information should be read in conjunction with the 2017 Financial Report of Viva Energy REIT and any public announcements made during the period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and Listing Rules. The 2017 Financial Report of Viva Energy REIT includes additional Appendix 4E disclosure requirements and commentary for the results of the year ended 31 December 2017.

This report is based on the Viva Energy REIT 31 December 2017 Financial Report which has been audited by PricewaterhouseCoopers. The Independent Auditor's Report provided by PricewaterhouseCoopers is included in the 31 December 2017 Financial Report.

## ANNUAL GENERAL MEETING

Viva Energy REIT Limited advises that its Annual General Meeting will be held on Tuesday 15 May 2018. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately after dispatch.

Signed



**Laurence Brindle**  
**Chairman**  
22 February 2018

# Viva Energy REIT Financial Report 2017

For the year ended 31 December 2017

# Contents

## Financial report

|                                                                |           |
|----------------------------------------------------------------|-----------|
| Directors' Report                                              | <b>3</b>  |
| Auditor's Independence Declaration                             | <b>16</b> |
| Financial Statements                                           | <b>17</b> |
| – Consolidated Statement of Comprehensive Income               | <b>17</b> |
| – Consolidated Balance Sheet                                   | <b>18</b> |
| – Consolidated Statement of Changes in Equity                  | <b>19</b> |
| – Consolidated Statement of Cash Flows                         | <b>20</b> |
| Contents of the Notes to the Consolidated Financial Statements | <b>21</b> |
| Notes to the Consolidated Financial Statements                 | <b>22</b> |
| Directors' Declaration                                         | <b>45</b> |
| Independent Auditor's Report                                   | <b>46</b> |
| ASX Additional Information                                     | <b>51</b> |
| Corporate Directory                                            | <b>53</b> |

This financial report is for Viva Energy REIT ('Group').

The financial report is presented in Australian currency.

Viva Energy REIT comprises Viva Energy REIT Limited ACN 612 986 517 ('Company'), and VER Limited ABN 43 609 868 000 AFSL 483795 as responsible entity of Viva Energy REIT Trust ARSN 613 146 464 ('Trust').

The manager of the Trust is VER Manager Pty Limited ('Manager').

The registered office of the Company, VER Limited ('Responsible Entity') and the Manager is:  
Level 16, 720 Bourke Street  
Docklands VIC 3008, Australia.

# Directors' Report

Your directors of Viva Energy REIT Limited ('Company') and VER Limited ('Responsible Entity'), the Responsible Entity of Viva Energy REIT Trust ('Trust'), present their report and financial statements for the year ended 31 December 2017 for Viva Energy REIT.

Viva Energy REIT ('Group') is a stapled group consisting of the Company and the Trust. The Trust, through its 100% ownership of VER Trust, owns the portfolio service station properties and receives rent under the leases. The Company owns all of the shares in VER Limited (the Responsible Entity).

The Company was incorporated and the Trust was established on 14 June 2016. Following an initial public offer of the stapled securities and a successful debt raising, the Group was formed on 3 August 2016 when the Company and the Trust were stapled. The stapled securities then commenced trading on the Australian Securities Exchange ('ASX') on a deferred settlement basis on 10 August 2016. Each stapled security consists of one share in the Company and one unit in the Trust.

This financial report contains the results of the Group for the year ended 31 December 2017. The comparative period shown reflects the results of the Group from the incorporation date of the Company and the establishment date of the Trust of 14 June 2016 to 31 December 2016.

## Directors of Viva Energy REIT Limited

The following persons held office as directors of Viva Energy REIT Limited during the year ended 31 December 2017 and up until the date of this report:

- Laurence Brindle (Independent Non-Executive Chairman)
- Georgina Lynch (Independent Non-Executive Director)
- Stephen Newton (Independent Non-Executive Director)
- Scott Wyatt (Non-Independent, Non-Executive Director)

Lachlan Pfeiffer (Non-Independent, Non-Executive Director) was appointed as a director on 28 March 2017, and continues at the date of this report.

Mark Licciardo and Kate Goland were appointed as Joint Company Secretaries on 11 October 2017.

Michael Bradburn (Non-Independent, Non-Executive Director) was appointed as a director on 14 June 2016, and resigned on 28 March 2017.

Tony Tran was appointed as Company Secretary on 10 July 2016 and resigned effective 11 October 2017.

## Directors of VER Limited

The following persons held office as directors of VER Limited during the year ended 31 December 2017 and up until the date of this report:

- Laurence Brindle (Independent Non-Executive Chairman)
- Georgina Lynch (Independent Non-Executive Director)
- Stephen Newton (Independent Non-Executive Director)

Lachlan Pfeiffer (Non-Independent, Non-Executive Director) was appointed as a director on 28 March 2017, and continues at the date of this report.

Mark Licciardo and Kate Goland were appointed as Joint Company Secretaries on 11 October 2017.

Michael Bradburn (Non-Independent, Non-Executive Director) was appointed as a director on 14 June 2016, and resigned on 28 March 2017.

Tony Tran was appointed as Company Secretary on 10 July 2016 and resigned effective 11 October 2017.

# Directors' Report (continued)

## Principal activities

The principal activity of Viva Energy REIT is investment in service station property.

Viva Energy REIT owns a portfolio of 438 freehold service station properties located in all Australian states and territories. The properties in the portfolio are leased to Viva Energy Australia Pty Limited, other fuel operators and various convenience or fast foods stores under long-term operating leases.

## Distributions to security holders

|                                                                                                                | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|----------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Final distribution for the period ended 31 December 2016<br>of 5.28 cents per security paid on 6 February 2017 | 36,440                     | -                          |
| Interim distribution for the year ended 31 December 2017<br>of 6.60 cents per security paid on 11 August 2017  | 47,899                     | -                          |
| <b>Total distributions to security holders</b>                                                                 | <b>84,339</b>              | <b>-</b>                   |

Since the end of the financial year, the directors have declared the payment of a final distribution for the year ended 31 December 2017 of \$47.9 million which was paid on 15 February 2018.

## Operating and financial review

Viva Energy REIT's investment objective is to own a portfolio of high quality and strategically located service station properties located throughout Australia, subject to long-term leases to tenants with strong financial credit profiles.

### Key financial metrics

|                                             | 31 December<br>2017 | 31 December<br>2016 |
|---------------------------------------------|---------------------|---------------------|
| Net profit (statutory)                      | \$170.5 million     | \$1.0 million       |
| Net operating profit (distributable income) | \$95.0 million      | \$36.5 million      |
| Distributable income per security           | 13.41 cents         | 5.28 cents          |
| Total assets                                | \$2,338.1 million   | \$2,173.3 million   |
| Investment properties                       | \$2,281.0 million   | \$2,104.8 million   |
| Borrowings                                  | \$733.0 million     | \$731.5 million     |
| Net assets                                  | \$1,589.5 million   | \$1,429.7 million   |
| Net asset value ('NAV') per security *      | \$2.19              | \$2.07              |
| Gearing **                                  | 32.1%               | 34.4%               |
| Management expense ratio ***                | 0.24%               | 0.24%               |

\* NAV includes cash which subsequent to year end was distributed to security holders on 15 February 2018 (refer to note 22 to the consolidated financial statements).

\*\* Gearing calculated as total liabilities/total assets excluding derivative financial instruments.

\*\*\* The management expense ratio is shown on an annualised basis; and is calculated as the ratio of operating expenses incurred (excluding financing costs and initial transaction costs) over total assets (excluding derivative assets).

### 2017 highlights

Statutory net profit was \$170.5 million, compared to the forecast contained in the Group's Prospectus and Product Disclosure Statement ('PDS') dated 22 July 2016 of \$117.6 million. The statutory net profit is higher than forecast in the PDS due to the net increase in the value of investment properties of \$48.2 million which was not forecast in the PDS.

# Directors' Report (continued)

## Operating and financial review (continued)

Distributable Income of \$95.0 million compared to the PDS of \$90.2 million is due to borrowings being contracted at a lower rate than the forecast, higher rental income due to property acquisitions and operating costs being lower than forecast.

Gearing was 32.1% at 31 December 2017, below the target gearing range of 35% - 45%.

NAV per security at 31 December 2017 was \$2.19.

The management expense ratio was 0.24% for the financial year being the ratio of operating expenses incurred (excluding financing costs and initial transaction costs) over total assets (excluding derivative assets).

### Financial results

|                                                                                 | 31 December 2017 | 31 December 2016 |
|---------------------------------------------------------------------------------|------------------|------------------|
|                                                                                 | \$'000           | \$'000           |
| Rental income                                                                   | 127,901          | 49,191           |
| Finance income                                                                  | 936              | 385              |
| <b>Total operating income</b>                                                   | <b>128,837</b>   | <b>49,576</b>    |
| Management fee expenses                                                         | (3,274)          | (1,060)          |
| Board and other corporate costs                                                 | (2,229)          | (1,050)          |
| Interest paid or payable                                                        | (28,379)         | (11,012)         |
| <b>Net operating profit (distributable income) *</b>                            | <b>94,955</b>    | <b>36,454</b>    |
| Non-distributable items                                                         |                  |                  |
| Net revaluation gain on investment properties                                   | 48,168           | -                |
| Straight-line rental income                                                     | 28,984           | 12,118           |
| Impact of straight-line lease adjustment on fair value of investment properties | -                | (11,118)         |
| Establishment costs                                                             | -                | (34,852)         |
| Amortisation of borrowing costs                                                 | (1,610)          | (626)            |
| <b>Statutory net profit</b>                                                     | <b>170,497</b>   | <b>976</b>       |

\* Net operating profit (distributable income) is not a statutory measure of profit. Items are excluded from distributable income on the basis that they do not reflect the underlying earnings or net cash flow from operating activities of the Group.

### Financial results summary

|                                                       | 31 December 2017 | 31 December 2016 |
|-------------------------------------------------------|------------------|------------------|
| Net operating profit (distributable income) (\$'000)  | 94,955           | 36,454           |
| Weighted average number of ordinary securities ('000) | 708,320          | 690,152          |
| Distributable income per security (cents)             | 13.41            | 5.28             |

# Directors' Report (continued)

## Operating and financial review (continued)

Net operating profit is the measure used to determine security holder distributions and represents the underlying cash-based profit of the Group for the relevant period. Net operating profit excludes fair value changes from asset and derivative revaluations and items of income or expense which, in the opinion of the directors, are not representative of the Group's underlying operating earnings or cash flow.

### *Investment property portfolio*

|                                             | 31 December 2017<br>\$2,281.0 million | 31 December 2016<br>\$2,104.8 million |
|---------------------------------------------|---------------------------------------|---------------------------------------|
| <b>Total value of investment properties</b> |                                       |                                       |
| Total properties in portfolio               | 438                                   | 425                                   |
| Portfolio occupancy                         | 100%                                  | 100%                                  |
| Weighted average lease expiry               | 13.7 years                            | 14.9 years                            |

### *Capital management*

**Equity** – The Group completed an institutional placement on 28 June 2017 raising \$80.0 million (before costs), and a Securities Purchase Plan on 24 July 2017 raised \$2.2m. It paid a distribution of \$36.4 million during February 2017 for the period ended 31 December 2016 and a distribution of \$47.9 million during August 2017 for the half year ended 30 June 2017.

**Bank facilities and gearing** – On 21 June 2017, the Group executed a new loan facility for \$60.0 million, and at 31 December 2017 has facilities available and undrawn of \$160.0 million. Gearing at 32.1% is below the target range of 35% to 45%.

### *Interest rate management*

At 31 December 2017, 100% of the Group's borrowings are hedged with a weighted average term of 2.6 years. The average fixed interest rate at 31 December 2017 is 2.02% per annum, excluding the margin (refer to note 10 to the consolidated financial statements) and the amortisation of debt establishment costs.

### *2018 outlook*

The Group is Australia's largest ASX listed REIT owning solely service station properties with a high quality portfolio of service stations across all Australian states and territories. Its objective is to maximize the long-term income and capital returns from its ownership of the portfolio for the benefit of all security holders.

As at 31 December 2017 the Group owned 438 freehold service station properties and had contracted to purchase additional properties for an aggregate purchase price of \$24 million before transactions costs. Settlement of one of these properties has occurred in January 2018 and the balance are expected to settle during the first half of the Group's 2018 financial year.

The Group expects income from the existing service station portfolio to grow in line with contracted annual rental increases and will consider opportunities to acquire new service station properties that satisfy its investment objectives and guidelines.

### Significant changes in the state of affairs

In the opinion of the directors, other than the matters identified in this report, there were no significant changes in the state of affairs of the Group that occurred during the financial period.

# Directors' Report (continued)

## Matters subsequent to the end of the financial period

Subsequent to the end of the financial year, the directors have declared the payment of a final distribution for the year ended 31 December 2017 of \$47.9 million which was paid on 15 February 2018.

The Group has contracted to purchase properties for an aggregate purchase price of \$24.0 million before transaction costs. Settlement of one property occurred in January 2018, and the balance are expected to settle during the first half of the Group's 2018 financial year.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect:

- (i) the operations of the Group in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Group in future financial years.

## Likely developments and expected results of operations

The Group will continue to be managed in accordance with its existing investment objectives and guidelines.

The results of the Group's operations will be affected by a number of factors, including the performance of investment markets in which the Group invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

## Material business risks

The Responsible Entity has adopted a Compliance Plan which sets out the key processes, systems and measures that the Responsible Entity will apply in operating the Trust. The Compliance Plan also comprises an extensive compliance management and reporting structure. The material business risks that could adversely affect the achievement of the Group's financial prospects include the following:

### *Tenant concentration risk, financial standing and sector concentration risk*

As Viva Energy Australia Pty Limited is presently the tenant of 98% of the investment properties, 98% of the Group's rental income is received from Viva Energy Australia Pty Limited. If Viva Energy Australia Pty Limited's financial standing materially deteriorates, Viva Energy Australia Pty Limited's ability to make rental payments to Viva Energy REIT may be adversely impacted, which may have a materially adverse impact on the Group's results of operations, financial position and ability to service and/or obtain financing.

### *Investment property value*

The value of the Group's portfolio of investment properties may be adversely affected by a number of other factors, including a number of factors outside the control of the Group, such as supply and demand for service station properties, fuel volume throughput of the properties, general property market conditions, the availability of credit, the ability to attract and implement economically viable rental arrangements, Viva Energy Australia not extending the term of leases, re-leasing of properties, capitalisation rates and general economic factors such as the level of inflation and interest rates. The valuation of properties may fall. As changes in valuations are recorded on the profit and loss statement, any decreases in value will have a negative impact on the income statement and in turn the market price of the Group's securities may fall.

### *Environmental risk*

Viva Energy REIT also depends on Viva Energy Australia Pty Limited to perform its obligations under the environmental indemnification arrangements. If Viva Energy Australia Pty Limited was to fail to meet its obligations under these arrangements (including due to its insolvency), Viva Energy REIT may incur significant costs to rectify contamination on (and in respect of) its properties.

## Directors' Report (continued)

### *Cash flow and fair value interest rate risk*

The Group's cash and cash equivalents, floating rate borrowings and interest rate swaps expose it to a risk of change in the fair value or future cash flows due to changes in interest rates. The Group economically hedges some or all of its exposure to changes in interest rates on variable rate borrowings by using floating-to-fixed interest rate swaps. By hedging against changes in interest rates, the Group has limited its exposure to changes in interest rates on its cash flows.

### *Liquidity risk*

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The Group monitors its exposure to liquidity risk by ensuring that there is sufficient cash on hand as required or debt facility funding available to meet the contractual obligations of financial liabilities as they fall due.

### *Debt agreement and refinancing risk*

The Trust has outstanding debt facilities. General economic and business conditions that impact the debt or equity markets could impact the Group's ability to refinance its debt facilities when required. This indebtedness may result in the Trust being subject to increased interest rate margins and covenants restricting its ability to engage in certain types of activities or to pay distributions to unit holders, if the debt covenants are breached.

The directors regularly monitor the debt facility covenants to ensure compliance and consider the refinancing options and timing available to the Trust.

### *AFSL – compliance risk*

The Group is exposed to the risk of having inadequate capital and liquidity. VER Limited, a subsidiary of Viva Energy REIT Limited, holds an Australian Financial Services Licence ('AFSL') and acts as a responsible entity for the Group's managed investment scheme. The AFSL requires minimum levels of net tangible assets, liquid assets, cash reserves and liquidity, which may restrict the Group in paying distributions that would breach these requirements.

The directors regularly review and monitor the Group's balance sheet to ensure Viva Energy REIT's compliance with its AFSL requirements.

### *Excessive reliance on the Manager and its personnel*

Viva Energy REIT is managed by VER Manager Pty Limited ('Manager'), which is a subsidiary of Viva Energy Australia.

Viva Energy REIT does not have direct employees (other than directors) and consequently is reliant on the expertise and experience of the key executives of Viva Energy Australia made available to the Manager who provides the services to Viva Energy REIT under the Management Agreement. As a consequence, loss of such key personnel could potentially have an adverse impact on the management and the financial performance of Viva Energy REIT and in turn may affect the returns to security holders.

# Directors' Report (continued)

## Information on directors

The directors at the date of this report are:

---

### **Laurence Brindle – Independent Non-Executive Chairman**

- Laurence has extensive experience in funds management, finance and investment and is currently independent non-executive chairman of National Storage REIT.
- Until 2009, Laurence was an executive with Queensland Investment Corporation ('QIC'). During his 21 years with QIC, he served in various senior positions including Head of Global Real Estate, where he was responsible for a portfolio of \$9 billion. Laurence was also a long-term member of QIC's Investment Strategy Committee.
- Laurence provides advice to a number of investment institutions on real estate investment and funds management matters. He is a former chairman of the Shopping Centre Council of Australia and a former director of Westfield Retail Trust and Scentre Group.
- Laurence is a member of the Audit and Risk Management Committee.

---

### **Georgina Lynch - Independent Non-Executive Director**

- Georgina has over 25 years' experience in the financial services and property industry and is currently a non-executive director of Cbus Property and a consultant to Stockland.
- Georgina has significant global experience in corporate transactions, capital raisings, initial public offerings (IPOs), funds management, corporate strategy and acquisitions and divestments, having previously worked as a solicitor early in her career and having held senior executive roles at AMP Capital Investors and Galileo Funds Management.
- Georgina holds a Bachelor of Arts and Bachelor of Laws.
- Georgina is a member of the Audit and Risk Management Committee.

---

### **Stephen Newton - Independent Non-Executive Director**

- Stephen has extensive industry experience spanning in excess of 35 years across real estate investment and funds management, development and property management, as well as in infrastructure investment and management.
- Stephen has been a Principal of Arcadia Funds Management for more than 15 years. Prior to that, Stephen held various senior executive positions at Lend Lease over 22 years.
- Stephen is currently a non-executive director of Stockland Property Group, Gateway Lifestyle Group, and BAI Communications Group (formerly Broadcast Australia Group), and a former non-executive director of Australand Property Group.
- Stephen is a member of both Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors. He holds a Bachelor of Arts (Economics and Accounting) degree from Macquarie University and a Masters of Commerce from The University of New South Wales.
- Stephen is Chair of the Audit and Risk Management Committee.

---

### **Lachlan Pfeiffer – Non-Independent Non-Executive Director**

- Lachlan is the General Counsel of Viva Energy Australia Pty Limited.
- Lachlan has over 12 years' experience in corporate law including roles within mergers and acquisitions, private equity, corporate finance and equity markets in Australia, UK, USA and Europe.
- Lachlan's previous positions include seven years in London with Skadden, Arps, Slate, Meagher & Flom advising clients and implementing various corporate transactions across UK, USA and throughout Europe, and with Norton Rose Fulbright in Melbourne advising across a range of corporate transactions and advisory matters.
- Lachlan holds a Bachelor of Commerce and Bachelor of Laws, and is a member of the Australian Institute of Company Directors.
- Lachlan is a member of the Audit and Risk Management Committee.

---

### **Scott Wyatt – Non-Independent Non-Executive Director**

- Scott is the Chief Executive Officer ('CEO') of Viva Energy Australia Pty Limited.
  - Scott has 30 years' experience in the downstream oil industry across Australia and New Zealand, including roles within strategy, marketing, oil supply and distribution operations.
  - In mid-2013, Scott was appointed to head the country for Shell's downstream businesses in Australia before he transitioned to the role of CEO of Viva Energy Australia Pty Limited following the sale of the business.
  - Scott's previous positions with Shell included General Manager of Supply and Distribution for Australia, and an assignment in Singapore to lead a regional strategy team.
-

# Directors' Report (continued)

## Meetings of directors

The number of meetings of the Board of Directors' and of each board committee held during the year ended 31 December 2017, and the number of meetings attended by each director were:

| Director                                   | Viva Energy REIT Board |    | VER Limited Board |    | Audit and Risk Management Committee ('ARMC') |   |
|--------------------------------------------|------------------------|----|-------------------|----|----------------------------------------------|---|
|                                            | A                      | B  | A                 | B  | A                                            | B |
| Laurence Brindle (Chair Board)             | 18                     | 18 | 18                | 18 | 6                                            | 6 |
| Stephen Newton (Chair ARMC)                | 18                     | 18 | 18                | 18 | 6                                            | 6 |
| Georgina Lynch                             | 18                     | 18 | 18                | 18 | 6                                            | 6 |
| Lachlan Pfeiffer (appointed 28 March 2017) | 14                     | 14 | 14                | 14 | 4                                            | 4 |
| Scott Wyatt                                | 18                     | 18 | *                 | *  | *                                            | * |
| <b>Former Director</b>                     |                        |    |                   |    |                                              |   |
| Michael Bradburn (resigned 28 March 2017)  | 5                      | 5  | 5                 | 5  | 2                                            | 2 |

A – Number of meetings held during the period whilst the director was in office.

B – Number of meetings attended.

\* - Not a member of the board/committee.

## Remuneration report

This remuneration report presents Viva Energy REIT's remuneration arrangements for Key Management Personnel for the year ended 31 December 2017. The report has been prepared and audited in accordance with the requirements of the *Corporations Act 2001* and *Corporations Regulations 2001*.

### 1. Overview

#### 1.1 Governance

The directors have chosen not to establish a nomination and remuneration committee for the year ended 31 December 2017 on the basis that neither the Company nor the Trust have any employees (other than the directors), and the senior executives of the Manager are remunerated by Viva Energy Australia Pty Limited. The directors will consider nomination and remuneration matters from time to time at their regularly scheduled meetings. Any nomination and remuneration committee established will be comprised of independent non-executive directors.

# Directors' Report (continued)

## Remuneration report (continued)

### 1.2 Key Management Personnel ('KMP')

KMP are persons identified as having authority and responsibility for planning, directing and controlling the activities of Viva Energy REIT. There has been no change in KMP since the end of the reporting period.

| Non-Executive Directors | Position                                                                     | 2017 KMP | 2016 KMP |
|-------------------------|------------------------------------------------------------------------------|----------|----------|
| Laurence Brindle        | Independent Non-Executive Chairman<br>Member – ARMC                          | Yes      | Yes      |
| Stephen Newton          | Independent Non-Executive Director<br>Member – Board<br>Chair – ARMC         | Yes      | Yes      |
| Georgina Lynch          | Independent Non-Executive Director<br>Member – Board<br>Member – ARMC        | Yes      | Yes      |
| Lachlan Pfeiffer        | Non-Independent Non-Executive<br>Director<br>Member – Board<br>Member – ARMC | Yes      | No       |
| Scott Wyatt             | Non-Independent Non-Executive<br>Director<br>Member – Board                  | Yes      | Yes      |
| Michael Bradburn        | Non-Independent Non-Executive<br>Director<br>Member – Board<br>Member – ARMC | No       | Yes      |

### 1.3 Remuneration Policy

Under the Company Constitution, the Board may decide the remuneration to which each director is entitled for his or her services as a director. However, the total amount provided to all directors for their services as directors must not exceed in aggregate in any financial year the amount fixed by Viva Energy REIT. This amount has been fixed at \$750,000 per annum.

Each Non-Executive Director is currently entitled to receive \$100,000 per annum. The Chairman is entitled to receive \$200,000 per annum but no fee for membership of the Audit and Risk Management Committee.

The Chair of the Audit and Risk Management Committee is entitled to receive an additional \$20,000 per annum. Other Non-Executive Directors who are members of the Audit and Risk Management Committee are entitled to receive an additional \$10,000 per annum.

From time to time, the directors review the remuneration of directors of comparable listed entities to assess the appropriateness of the remuneration paid by Viva Energy REIT.

Directors who are representatives of Viva Energy Australia Pty Limited have waived their entitlement to fees.

# Directors' Report (continued)

## Remuneration report (continued)

The table below shows the details of the remuneration paid or payable by Viva Energy REIT Limited in respect of the KMP measured in accordance with the requirements of accounting standards, for the year ended 31 December 2017. No remuneration is paid to KMP by other entities in the Group.

| 31 December 2017                           | Short term benefits   |                |
|--------------------------------------------|-----------------------|----------------|
|                                            | Directors' fees<br>\$ | Total<br>\$    |
| <b>Independent Non-Executive Directors</b> |                       |                |
| Laurence Brindle                           | 200,000               | 200,000        |
| Stephen Newton                             | 120,000               | 120,000        |
| Georgina Lynch                             | 110,000               | 110,000        |
| <b>Other Non-Executive Directors</b>       |                       |                |
| Lachlan Pfeiffer                           | -                     | -              |
| Scott Wyatt                                | -                     | -              |
| Michael Bradburn                           | -                     | -              |
|                                            | <b>430,000</b>        | <b>430,000</b> |
| <b>31 December 2016</b>                    |                       |                |
|                                            | Short term benefits   |                |
|                                            | Directors' fees<br>\$ | Total<br>\$    |
| <b>Independent Non-Executive Directors</b> |                       |                |
| Laurence Brindle                           | 83,333                | 83,333         |
| Stephen Newton                             | 66,656                | 66,656         |
| Georgina Lynch                             | 65,000                | 65,000         |
| <b>Other Non-Executive Directors</b>       |                       |                |
| Scott Wyatt                                | -                     | -              |
| Michael Bradburn                           | -                     | -              |
|                                            | <b>214,989</b>        | <b>214,989</b> |

Prior to the stapling date of 3 August 2016, Laurence Brindle was engaged as a consultant to assist in the formation of the Group and preparation for listing. Consultancy fees paid to Laurence Brindle by the Company during this period were \$258,347; of this amount, \$25,000 was contingent on the listing of the Group.

Additionally, directors are entitled to reimbursement of travel and other out of pocket expenses.

Except as disclosed above, there was no other remuneration (including long-term benefits and post-employment benefits) paid to KMP.

## 2. Interests in securities

Interests in Viva Energy REIT securities held by directors is set out below:

| Ordinary securities                        | Balance<br>31 December 2016 | Acquired | Disposed | Received as<br>remuneration | Balance<br>31 December 2017 |
|--------------------------------------------|-----------------------------|----------|----------|-----------------------------|-----------------------------|
| <b>Independent Non-Executive Directors</b> |                             |          |          |                             |                             |
| Laurence Brindle                           | 100,000                     | -        | -        | -                           | 100,000                     |
| Stephen Newton                             | 25,000                      | -        | -        | -                           | 25,000                      |
| Georgina Lynch                             | 50,000                      | -        | -        | -                           | 50,000                      |
| <b>Other Non-Executive Directors</b>       |                             |          |          |                             |                             |
| Lachlan Pfeiffer                           | 50,000                      | -        | -        | -                           | 50,000                      |
| Scott Wyatt                                | 50,000                      | -        | -        | -                           | 50,000                      |

# Directors' Report (continued)

## Remuneration report (continued)

### 3. Service agreements

All directors have entered into service agreements and deeds of indemnity with the Company.

There are no other service agreements in place.

### Indemnification and insurance of officers and auditors

During the year, the Group has paid insurance premiums to insure each of the directors and officers of the Group against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacities as directors of the Group, other than conduct involving a willful breach of duty in relation to the Group.

The contract of insurance prohibits disclosure of the nature of the liability covered and the amount of the premium.

The Group has not during or since the end of the financial year indemnified or agreed to indemnify an auditor of the Group or of any related body corporate against a liability incurred in their capacity as an auditor.

### Non-audit services

Details of audit and non-audit services provided to the Group by the Independent Auditor during the year ended 31 December 2017 are disclosed in note 6 to the consolidated financial statements.

### Fees paid to Viva Energy Australia Pty Limited or its associates

Fees paid to Viva Energy Australia Pty Limited and its associates out of Group property during the year are disclosed in note 15 to the consolidated financial statements.

### Interest in the Group

The movement in securities on issue in the Group during the period is disclosed in note 12 to the consolidated financial statements.

# Directors' Report (continued)

## Corporate governance statement

### The Board of Viva Energy REIT

The Board of Viva Energy REIT comprises the boards of the Company and the Responsible Entity. The Board has overall responsibility for the corporate governance of Viva Energy REIT and has adopted a suite of corporate governance policies to assist with the proper discharge of that function.

The Board has responsibility for the overall strategic direction of Viva Energy REIT. However, the Board has engaged the Manager under the Management Agreement to provide strategic, operational and administrative services. In doing so, the Manager must act in good faith and in a manner consistent with what it reasonably considers to be in the best interests of Viva Energy REIT and the holders of stapled securities. The Board may delegate authority to the Manager from time to time and has done so, and may review and revise the terms of any such delegated authority when it considers appropriate.

The Manager also makes recommendations to Viva Energy REIT and, for matters that are outside the scope of the Manager's delegated authority, the Board will consider the Manager's recommendations and approve their implementation unless it considers that they are not in the best interests of security holders or would breach relevant law or be inconsistent with Viva Energy REIT's constituent documents or obligations under any document by which it is bound.

The Board may also make any proposal or recommendation to the Manager in relation to the services the Manager provides to Viva Energy REIT, which proposal or recommendation the Manager must use reasonable endeavours to promptly implement.

The Board monitors the operational and financial position and performance of Viva Energy REIT and oversees its business strategy, including approving the strategic goals of Viva Energy REIT. The Board is committed to maximising performance and financial return and sustaining the success of Viva Energy REIT. In conducting business with these objectives, the Board is concerned to ensure that Viva Energy REIT is properly managed to protect and enhance security holder interests, and that Viva Energy REIT, its directors and representatives of the Manager operate in an appropriate environment of corporate governance. Accordingly, the Board has adopted corporate governance policies and practices designed to promote the responsible management and conduct of Viva Energy REIT.

The boards of directors of the Company, the Responsible Entity and the Manager work together and take a coordinated approach to the corporate governance of the Group. A Board Charter details the composition, responsibilities, and protocols of each board and the ARMC. In addition, the Code of Conduct sets out the standard of business practices required of the Group's directors and staff.

Viva Energy REIT conducts its business in accordance with these charters and code, as well as other key policies which are published on its website. These include:

- Viva Energy REIT Conflict of Interest Policy;
- Viva Energy REIT Disclosure Policy;
- Viva Energy REIT Diversity Policy;
- Viva Energy REIT Securityholder Communication Policy; and
- Viva Energy REIT Securities Trading Policy.

In compliance with ASX Listing Rule 4.10.3, Viva Energy REIT also publishes a statement disclosing the extent to which the Group has followed the recommendations for good corporate governance set by the ASX Corporate Governance Council (3rd Edition) during the reporting period on its website, [www.vivaenergyreit.com.au](http://www.vivaenergyreit.com.au)

## Directors' Report (continued)

### Environmental regulation

As landlord, the operations of the Group are subject to a range of environmental laws and regulations under Commonwealth, state and territory law. However, the lease attaching to each investment property requires that the tenant manages the environmental conditions at each site and indemnifies the Group for any contamination caused by their operations.

The Group has not received any environmental infringements or notices from environmental regulators in the year ended 31 December 2017.

### Rounding of amounts to the nearest thousand dollars

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

### Auditor's Independence Declaration

The Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

This report is made in accordance with a resolution of directors.



**Laurence Brindle**

**Chairman**

22 February 2018



## Auditor's Independence Declaration

As lead auditor for the audit of Viva Energy REIT Limited for the year ended 31 December 2017, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Viva Energy REIT Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Charles Christie'.

Charles Christie  
Partner  
PricewaterhouseCoopers

Melbourne  
22 February 2018

# Financial Statements

## Consolidated Statement of Comprehensive Income

|                                                                                                                            | Notes | 31 December<br>2017<br>\$'000 | 31 December<br>2016<br>\$'000 |
|----------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------|-------------------------------|
| <b>Income</b>                                                                                                              |       |                               |                               |
| Rental income from investment properties                                                                                   |       | 127,901                       | 49,191                        |
| Revenue from investment properties – straight-line lease adjustment                                                        |       | 28,984                        | 12,118                        |
| Finance income                                                                                                             |       | 936                           | 385                           |
| Net revaluation of investment properties                                                                                   |       | 48,168                        | -                             |
| <b>Total income</b>                                                                                                        |       | <b>205,989</b>                | <b>61,694</b>                 |
| <b>Expenses</b>                                                                                                            |       |                               |                               |
| Establishment costs                                                                                                        | 4     | -                             | 34,852                        |
| Management fee expenses                                                                                                    |       | 3,274                         | 1,060                         |
| Board and other corporate costs                                                                                            |       | 2,229                         | 1,050                         |
| Finance costs                                                                                                              | 5     | 29,989                        | 11,638                        |
| Impact of straight-line lease adjustment on fair value of investment properties                                            |       | -                             | 12,118                        |
| <b>Total expenses</b>                                                                                                      |       | <b>35,492</b>                 | <b>60,718</b>                 |
| <b>Net profit for the period</b>                                                                                           |       | <b>170,497</b>                | <b>976</b>                    |
| <b>Other comprehensive income</b>                                                                                          |       |                               |                               |
| Items that may be reclassified subsequently to profit or loss                                                              |       |                               |                               |
| Effective portion of changes in fair value of cash flow hedges                                                             |       |                               |                               |
| - Unrealised (losses)/gains on cash flow hedges                                                                            |       | (7,010)                       | 12,373                        |
| <b>Total comprehensive income for the period</b>                                                                           |       | <b>163,487</b>                | <b>13,349</b>                 |
| <b>Total comprehensive income for the period is attributable to Viva Energy REIT stapled security holders, comprising:</b> |       |                               |                               |
| Shareholders of Viva Energy REIT Limited                                                                                   |       | 2,448                         | (3,485)                       |
| Unitholders of Viva Energy REIT Trust (non-controlling interests)                                                          |       | 161,039                       | 16,834                        |
|                                                                                                                            |       | <b>163,487</b>                | <b>13,349</b>                 |
| <b>Earnings per security</b>                                                                                               |       |                               |                               |
|                                                                                                                            |       | cents                         | cents                         |
| Basic earnings per stapled security                                                                                        | 7     | 23.08                         | 1.93                          |
| Diluted earnings per stapled security                                                                                      | 7     | 23.08                         | 1.93                          |

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

## Consolidated Balance Sheet

|                                       | Notes | 31 December<br>2017<br>\$'000 | 31 December<br>2016<br>\$'000 |
|---------------------------------------|-------|-------------------------------|-------------------------------|
| <b>Current assets</b>                 |       |                               |                               |
| Cash and cash equivalents             | 8     | 43,631                        | 54,122                        |
| Other current assets                  |       | 1,356                         | 2,013                         |
| <b>Total current assets</b>           |       | <b>44,987</b>                 | <b>56,135</b>                 |
| <b>Non-current assets</b>             |       |                               |                               |
| Investment properties                 | 9     | 2,280,967                     | 2,104,820                     |
| Derivative financial instruments      | 11    | 5,363                         | 12,373                        |
| Other non-current assets              |       | 6,812                         | -                             |
| <b>Total non-current assets</b>       |       | <b>2,293,142</b>              | <b>2,117,193</b>              |
| <b>Total assets</b>                   |       | <b>2,338,129</b>              | <b>2,173,328</b>              |
| <b>Current liabilities</b>            |       |                               |                               |
| Trade and other payables              |       | 4,662                         | 1,292                         |
| Interest payable                      |       | 11,059                        | 10,837                        |
| <b>Total current liabilities</b>      |       | <b>15,721</b>                 | <b>12,129</b>                 |
| <b>Non-current liabilities</b>        |       |                               |                               |
| Borrowings                            | 10    | 732,953                       | 731,506                       |
| <b>Total non-current liabilities</b>  |       | <b>732,953</b>                | <b>731,506</b>                |
| <b>Total liabilities</b>              |       | <b>748,674</b>                | <b>743,635</b>                |
| <b>Net assets</b>                     |       | <b>1,589,455</b>              | <b>1,429,693</b>              |
| <b>Equity</b>                         |       |                               |                               |
| Contributed equity – the Company      |       | 2,542                         | 2,286                         |
| Accumulated loss                      |       | (1,037)                       | (3,485)                       |
| Non-controlling interests – the Trust | 14    | 1,587,950                     | 1,430,892                     |
| <b>Total equity</b>                   |       | <b>1,589,455</b>              | <b>1,429,693</b>              |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

|                                                                   | Contributed<br>equity<br>\$'000 | Accumulated<br>profit/(loss)<br>\$'000 | Non-controlling<br>interests<br>\$'000 | Total equity<br>\$'000 |
|-------------------------------------------------------------------|---------------------------------|----------------------------------------|----------------------------------------|------------------------|
| <b>Balance at 14 June 2016</b>                                    | -                               | -                                      | -                                      | -                      |
| Profit/(loss) for the period                                      | -                               | (3,485)                                | 4,461                                  | 976                    |
| <b>Other comprehensive income:</b>                                |                                 |                                        |                                        |                        |
| Effective portion of changes in fair value of cash flow hedges    | -                               | -                                      | 12,373                                 | 12,373                 |
| <b>Total comprehensive income for the period</b>                  | -                               | <b>(3,485)</b>                         | <b>16,834</b>                          | <b>13,349</b>          |
| <b>Transactions with owners in their capacity as owners:</b>      |                                 |                                        |                                        |                        |
| Equity raised via initial public offer                            | 3,435                           | -                                      | 907,565                                | 911,000                |
| Equity retained by Viva Energy Australia Pty Limited              | 2,290                           | -                                      | 533,192                                | 535,482                |
| Equity raising costs                                              | (3,439)                         | -                                      | (26,699)                               | (30,138)               |
| <b>Total transactions with owners in their capacity as owners</b> | <b>2,286</b>                    | <b>-</b>                               | <b>1,414,058</b>                       | <b>1,416,344</b>       |
| <b>Balance at 31 December 2016</b>                                | <b>2,286</b>                    | <b>(3,485)</b>                         | <b>1,430,892</b>                       | <b>1,429,693</b>       |
| Profit for the year                                               | -                               | 2,448                                  | 168,049                                | 170,497                |
| <b>Other comprehensive income:</b>                                |                                 |                                        |                                        |                        |
| Effective portion of changes in fair value of cash flow hedges    | -                               | -                                      | (7,010)                                | (7,010)                |
| <b>Total comprehensive income for the period</b>                  | <b>-</b>                        | <b>2,448</b>                           | <b>161,039</b>                         | <b>163,487</b>         |
| <b>Transactions with owners in their capacity as owners:</b>      |                                 |                                        |                                        |                        |
| Issue of securities under institutional placement                 | 254                             | -                                      | 79,746                                 | 80,000                 |
| Issue of securities under Securities Purchase Plan                | 4                               | -                                      | 2,228                                  | 2,232                  |
| Equity raising costs                                              | (2)                             | -                                      | (1,616)                                | (1,618)                |
| Distributions paid                                                | -                               | -                                      | (84,339)                               | (84,339)               |
| <b>Total transactions with owners in their capacity as owners</b> | <b>256</b>                      | <b>-</b>                               | <b>(3,981)</b>                         | <b>(3,725)</b>         |
| <b>Balance at 31 December 2017</b>                                | <b>2,542</b>                    | <b>(1,037)</b>                         | <b>1,587,950</b>                       | <b>1,589,455</b>       |

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

# Consolidated Statement of Cash Flows

|                                                                                                                                                     | Notes | 31 December<br>2017<br>\$'000 | 31 December<br>2016<br>\$'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------|-------------------------------|
| <b>Cash flows from operating activities</b>                                                                                                         |       |                               |                               |
| Rental income from investment properties (GST inclusive)                                                                                            |       | 141,459                       | 54,110                        |
| Payments to suppliers (GST inclusive)                                                                                                               |       | (16,862)                      | (5,959)                       |
| Payments for establishment and initial listing costs                                                                                                |       | -                             | (4,444)                       |
| Interest received                                                                                                                                   |       | 800                           | 385                           |
| Interest paid                                                                                                                                       |       | (28,157)                      | (161)                         |
| <b>Net cash inflow from operating activities</b>                                                                                                    | 19    | <b>97,240</b>                 | <b>43,931</b>                 |
| <b>Cash flows from investing activities</b>                                                                                                         |       |                               |                               |
| Purchase of investment properties portfolio                                                                                                         |       | -                             | (837,621)                     |
| Payments for acquisition of investment properties                                                                                                   |       | (95,806)                      | -                             |
| Deposits paid for property acquisitions                                                                                                             |       | (8,200)                       | (1,805)                       |
| Stamp duty on initial purchase of investment property portfolio                                                                                     |       | -                             | (30,408)                      |
| <b>Net cash outflow from investing activities</b>                                                                                                   |       | <b>(104,006)</b>              | <b>(869,834)</b>              |
| <b>Cash flows from financing activities</b>                                                                                                         |       |                               |                               |
| Proceeds of equity issue (net of costs)                                                                                                             |       | 80,614                        | 911,000                       |
| Proceeds from borrowings                                                                                                                            |       | 10,000                        | -                             |
| Repayment of borrowings                                                                                                                             |       | (10,000)                      | -                             |
| Payments for establishment and initial listing costs                                                                                                |       | -                             | (30,138)                      |
| Payments for loan establishment costs                                                                                                               |       | -                             | (837)                         |
| Distributions paid                                                                                                                                  |       | (84,339)                      | -                             |
| <b>Net cash (outflow)/inflow from financing activities</b>                                                                                          |       | <b>(3,725)</b>                | <b>880,025</b>                |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                                                                                         |       | <b>(10,491)</b>               | <b>54,122</b>                 |
| Cash and cash equivalents at the beginning of the financial period                                                                                  |       | 54,122                        | -                             |
| <b>Cash and cash equivalents at the end of the financial period</b>                                                                                 | 8     | <b>43,631</b>                 | <b>54,122</b>                 |
| <b>Non-cash financing and investing activities</b>                                                                                                  |       |                               |                               |
| Proceeds of borrowings netted off against purchase of investment property portfolio                                                                 |       | -                             | 736,687                       |
| Loan establishment costs netted off against borrowings drawn down                                                                                   |       | -                             | (4,970)                       |
| Equity retained by Viva Energy Australia Pty Limited (40% of stapled securities retained, netted off against the purchase of investment properties) |       | -                             | 535,482                       |

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

# Contents

## Notes to the Consolidated Financial Statements

|     |                                                                       |    |
|-----|-----------------------------------------------------------------------|----|
| 1.  | Corporate structure and general information                           | 22 |
| 2.  | Summary of significant accounting policies                            | 22 |
| 3.  | Changes in accounting policies and disclosures                        | 29 |
| 4.  | Establishment costs                                                   | 30 |
| 5.  | Finance costs                                                         | 30 |
| 6.  | Remuneration of auditors                                              | 31 |
| 7.  | Earnings per security                                                 | 31 |
| 8.  | Cash and cash equivalents                                             | 31 |
| 9.  | Investment properties                                                 | 32 |
| 10. | Borrowings                                                            | 33 |
| 11. | Derivative financial instruments                                      | 34 |
| 12. | Contributed equity                                                    | 35 |
| 13. | Distributions to security holders                                     | 36 |
| 14. | Non-controlling interests                                             | 36 |
| 15. | Related party disclosures                                             | 36 |
| 16. | Investments in subsidiaries                                           | 37 |
| 17. | Parent entity financial information                                   | 38 |
| 18. | Financial risk management and fair value measurement                  | 38 |
| 19. | Reconciliation of profit to net cash inflow from operating activities | 43 |
| 20. | Business combination                                                  | 43 |
| 21. | Contingent assets and liabilities and commitments                     | 44 |
| 22. | Events occurring after the reporting period                           | 44 |

# Notes to the Consolidated Financial Statements

## 1. Corporate structure and general information

These consolidated financial statements cover Viva Energy REIT ('Group'). Viva Energy REIT is listed on the Australian Securities Exchange ('ASX') (code: VVR) and registered and domiciled in Australia.

Viva Energy REIT is a stapled group consisting of the Company and the Trust and their wholly owned entities. The Trust indirectly owns the investment property portfolio through its 100% ownership of VER Trust, the owner of the investment property portfolio, and receives rent under operating leases. The Company directly owns all of the shares in VER Limited ('Responsible Entity').

Each stapled security consists of one share in the Company and one unit in the Trust. The shares and the units together are stapled on and from allotment on 3 August 2016 in accordance with the constitutions of the Company, the Trust and the Stapling Deed. The Stapling Deed requires Viva Energy REIT to ensure that no issue, transfer or other dealing with a share may occur unless there is a corresponding and identical issue, transfer or other dealing of a unit (and vice versa). For so long as the stapling arrangements are in force, the directors must act in the best interests of security holders as a whole.

These consolidated financial statements contain the results of the Group for the year ended 31 December 2017. The comparative period shown is from the establishment date of the Trust and the incorporation date of the Company of 14 June 2016, to 31 December 2016.

The financial statements were authorised for issue by the directors on 22 February 2018. The directors have the power to amend and reissue the financial statements.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Viva Energy REIT is a for-profit entity for the purpose of preparing the financial statements.

The financial report has been prepared on an accruals and historical cost basis except for investment properties and derivative financial instruments which are measured at fair value. Cost is based on the fair value of consideration given in exchange for assets.

The consolidated financial statements of the Group are prepared and presented in Australian dollars (the presentation currency).

The financial statements present reclassified comparative information where required for consistency with the current period presentation. The accounting policies adopted are consistent with those of the previous financial period.

### **Compliance with International Financial Reporting Standards**

The financial statements of the Group also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### (b) Segment reporting

Viva Energy REIT has one business and geographic segment because it has only invested in service station properties within Australia.

# Notes to the Consolidated Financial Statements (continued)

## (c) Principles of consolidation

### (i) Stapled entities

Viva Energy REIT is a stapled group consisting of the Company and the Trust and their wholly owned entities. The Trust indirectly owns the investment property portfolio through its 100% ownership of VER Trust, the owner of the investment property portfolio, and receives rent under operating leases. The Company directly owns all of the shares in the Responsible Entity. Each stapled security consists of one share in the Company and one unit in the Trust. The shares and the units were stapled at allotment in accordance with the constitutions of the Company and the Trust and the Stapling Deed and trade together on the ASX. The securities in Viva Energy REIT cannot be traded separately and can only be traded as a stapled security. This financial report consists of the consolidated financial statements of Viva Energy REIT Group, which comprises Viva Energy REIT and its controlled entities.

AASB 3 Business Combinations requires one of the stapled entities in a stapling structure to be identified as the parent entity for the purpose of preparing consolidated financial reports. In accordance with this requirement, the Company has been identified as the parent entity in relation to the stapling with the Trust under Viva Energy REIT.

The consolidated financial statements of Viva Energy REIT Group incorporate the assets and liabilities of the entities controlled by the Company during the period, including those deemed to be controlled by the Trust by identifying it as the parent of Viva Energy REIT Group, and the results of those controlled entities for the period then ended. The effect of all transactions between entities in the consolidated entity are eliminated in full.

Non-controlling interests in the results and equity are shown separately in the consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of changes in equity respectively. Non-controlling interests are those interests in the Trust which are not held directly or indirectly by the Company.

### (ii) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Inter-entity transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of changes in equity respectively.

## (d) Presentation of members' interest in the Trust

As the Company has been assessed as the parent entity of the Group, the security holders' interests in the Trust are included in equity as non-controlling interests relating to the stapled entity. Security holders' interests in the Trust are not presented as attributable to owners of the parent, reflecting the fact that they are not owned by the Company, but by the security holders of the stapled group.

# Notes to the Consolidated Financial Statements (continued)

## (e) Revenue

### **Rental income**

Rental income from operating leases is recognised as income on an accruals basis. Where a lease has a fixed annual increase, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. This results in more income being recognised early in the lease term and less late in the lease term compared to the lease conditions (i.e. actual cash received). The difference between the lease income recognised and the actual lease payment received is shown within the fair value of the investment property on the consolidated balance sheet.

### **Interest income**

Interest income is recognised as it accrues using the effective interest rate method. Interest income is included in finance income in the consolidated statement of comprehensive income.

All income is stated net of goods and services tax.

## (f) Expenses

All expenses are recognised in the consolidated statement of comprehensive income on an accruals basis.

## (g) Management fees

The Group pays management fees to the Manager who manages Viva Energy REIT's operations.

## (h) Employee benefits

Viva Energy REIT has no employees other than the directors.

Management services are provided to Viva Energy REIT by VER Manager Pty Limited which is a subsidiary of Viva Energy Australia Pty Limited. The employees of Viva Energy Australia Pty Limited who are seconded to provide management services are employees of and paid directly by Viva Energy Australia Pty Limited, but they work exclusively for Viva Energy REIT. Incentives paid by Viva Energy Australia Pty Limited to staff seconded to VER Manager Pty Limited to provide these management services are based entirely on the performance of Viva Energy REIT.

## (i) Borrowings

Borrowings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to borrowings are recognised in the consolidated statement of comprehensive income over the expected life of the borrowings. Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings with maturities greater than 12 months after reporting date are classified as non-current liabilities.

## (j) Finance costs

Finance costs include interest expense on unsecured, floating debt financing arrangements, interest on interest rate swaps and amortisation of upfront borrowing costs incurred in connection with the arrangement of such borrowings.

# Notes to the Consolidated Financial Statements (continued)

## (k) Income tax

The Trust is treated as a 'flow-through' entity for Australian income tax purposes such that the net income of the Trust is taxable in the hands of unitholders.

Viva Energy REIT is not subject to Australian income tax provided its taxable income is fully distributed to security holders.

Upon lodgement of its income tax returns for the year to 31 December 2017, the Group will elect to be treated as an Attribution Managed Investment Trust for Australian tax purposes. Under current Australian income tax legislation, Viva Energy REIT is not liable for Australian income tax, on the basis that the security holders are generally liable for tax on the net income of the Trust on an attribution basis. Accordingly, no allowance for income tax has been made for the year ended 31 December 2017.

## (l) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the relevant taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the consolidated balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included within other current assets and trade and other payables in the consolidated balance sheet.

The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

## (m) Distributions

The Group distributes net operating profit, being net income adjusted for amounts determined by the Group. A provision is made for any distribution amount declared but not distributed, being appropriately disclosed and no longer at the discretion of the entity, on or before the end of the reporting date. When declared, the distributions are recognised within the consolidated balance sheet and consolidated statement of changes in equity as a reduction in equity.

## (n) Earnings per security

### (i) Basic earnings per security

Basic earnings per security is calculated by dividing:

- the profit for the period attributable to the security holders, excluding any costs of servicing equity other than ordinary securities; by
- the weighted average number of ordinary securities outstanding during the financial period.

### (ii) Diluted earnings per security

Diluted earnings per security adjust the figures used in the determination of basic earnings per security to take into account:

- the effect of interest and other financial costs associated with dilutive potential ordinary securities; and
- the weighted average number of additional ordinary securities that would have been outstanding assuming the conversion of all dilutive potential ordinary securities.

# Notes to the Consolidated Financial Statements (continued)

## (o) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## (p) Receivables

Trade and sundry debtors are initially recorded at fair value and subsequently accounted for at amortised cost. Collectability of trade debtors is reviewed regularly and bad debts are written off when identified. A specific provision for doubtful debts is made when there is objective evidence that Viva Energy REIT will not be able to collect the amounts due according to the original terms of the receivable. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows.

## (q) Investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in the consolidated statement of comprehensive income. The fair value of investment property is determined based on real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 Fair Value Measurement.

The fair value of the properties is reviewed by the directors at each reporting date. The directors' assessment of fair value is periodically assessed by engaging an independent valuer to assess the fair value of individual properties at least once every three consecutive years with at least one-third of the properties within the portfolio being independently valued on an annual rolling basis. Valuations may occur more frequently if there is reason to believe that the fair value of a property has materially changed from its carrying value (e.g. as a result of changes in market conditions, leasing activity in relation to the property or capital expenditure).

Valuations are derived from a number of factors that may include a direct comparison between the subject property and a range of comparable sales, the present value of net future cash flow projections based on reliable estimates of future cash flows, existing lease contracts, external evidence such as current market rents for similar properties, and using capitalisation rates and discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

## (r) Financial instruments

### (i) Classification

The Group's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification.

- Financial instruments designated at fair value through profit and loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts and commercial paper.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Group's documented investment strategy. The Group's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

# Notes to the Consolidated Financial Statements (continued)

## (ii) Recognition/derecognition

Financial assets and financial liabilities are recognised on the date the Group becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments has expired or the Group has transferred substantially all risks and rewards of ownership.

## (iii) Measurement

### *Financial assets and liabilities held at fair value through profit or loss*

At initial recognition, financial assets are recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Group is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Group recognises the difference in profit or loss to reflect a change in factors, including time that market participants would consider in setting a price.

Further detail on how the fair values of financial instruments are determined is disclosed in note 18(d).

### *Loans and receivables*

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

## (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## (s) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the Group's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

# Notes to the Consolidated Financial Statements (continued)

## (t) Use of estimates

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## (i) Investment properties

All of Viva Energy REIT's service station properties are treated as investment properties for the purpose of financial reporting. Under Australian Accounting Standards, investment property buildings and improvements are not depreciated over time. Instead, investment properties are initially valued at cost, including transaction costs, and then at the end of each accounting period the carrying values are then restated at their fair value at the time. Gains and losses arising from changes in the fair values of service station investment properties are recognised as a non-cash gain or loss in the profit and loss in the accounting period in which they arise. As a result of this accounting policy, changes in the fair value of Viva Energy REIT's service station properties may have a significant impact on its reported profit or loss in any given period.

At each reporting period, the directors assess the carrying value of Viva Energy REIT's service station investment properties, and where the carrying value differs materially from the assessed fair value an adjustment is made to the carrying value of such service stations.

## (ii) Financial instruments

For the Group's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

## (u) Contributed equity

Ordinary securities are classified as equity. Incremental costs directly attributable to the issue of new securities are shown in equity as a deduction, net of tax, from the proceeds.

## (v) Rounding of amounts

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

# Notes to the Consolidated Financial Statements (continued)

## 3. Changes in accounting policies and disclosures

### *(i) New and amended standards adopted by the Group*

There were no new accounting standards adopted during the period which had a significant impact on the reported performance of the Group or required disclosures within the financial statements.

### *(ii) New accounting standards and interpretations*

Certain new accounting standards have been published that are not mandatory for 31 December 2017 reporting periods, but may be applicable to the Group in future reporting periods. The Group's assessment of the impact of these new standards is set out below.

#### *i. AASB 9 Financial Instruments (and subsequent amendments)*

The revised AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. All financial assets and liabilities are to be recognised at fair value with the exception of debt instruments with basic loan features that are managed on a contracted yield basis. As the Group currently classifies its investments at fair value through profit or loss, the Group does not expect this to have a material impact. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

AASB 9 also introduces the expected credit losses model which is based on the concept of providing for expected impairment losses at inception of a contract. As the impairment requirements of AASB 9 do not apply to the financial assets at fair value through profit or loss, no significant impact is expected for the Group's investments.

The Group will be required to evaluate trade receivables for expected lifetime losses, if their credit risk has increased significantly since initial recognition, which is presumed to be the case for receivables that are more than 30 days past due. As of 31 December 2017, the Group does not have any outstanding receivables and hence, the Group does not expect a significant impact on the financial statements. The application date of AASB 9 is 1 January 2018.

#### *ii. AASB 15 Revenue from Contracts with Customers*

AASB 15 Revenue from Contracts with Customers was issued in May 2015 and is effective for reporting periods beginning on or after 1 January 2018. It is expected that the Group will adopt AASB 15 on 1 January 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

AASB 15 will require the Group to identify deliverables in contracts with customers that qualify as 'performance obligations'. The transaction price receivable from customers must be allocated between the Group's performance obligations under the contracts on a relative stand-alone selling price basis. The standard will also require additional disclosures for disaggregation of revenue, information about performance obligations, remaining performance obligations, costs to obtain or fulfil contracts and other qualitative disclosures.

The Group has assessed the impact of the application of AASB 15 and does not expect any impact on the financial statements.

#### *iii. AASB 16 Leases*

AASB 16 Leases was issued in February 2016 and is effective for reporting periods beginning on or after 1 January 2019. It is expected that the Group will adopt AASB 16 on 1 January 2019.

# Notes to the Consolidated Financial Statements (continued)

The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months with the exception of low value assets. Lessors continue to classify leases as operating or finance, with AASB 16's approach to lessor accounting substantially unchanged from AASB 117 Leases.

The Group's analysis of leases indicates that, as a lessor, the adoption of this standard will not impact the Group.

There are no other issued standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 4. Establishment costs

During the period ended 31 December 2016, the Group incurred \$65.0 million of advisory, legal fees, listing costs and stamp duty directly related to the creation of the Group, the purchase of the property portfolio and the listing on the ASX and all of these costs were one-off in nature.

No establishment costs were incurred in the financial year ended 31 December 2017.

| 31 December 2016                       | Expensed<br>\$'000 | Reduction from<br>contributed equity<br>\$'000 | Total<br>\$'000 |
|----------------------------------------|--------------------|------------------------------------------------|-----------------|
| Advisory, legal fees and listing costs | 4,444              | 30,138                                         | 34,582          |
| Stamp duty                             | 30,408             | -                                              | 30,408          |
| <b>Total establishment costs</b>       | <b>34,852</b>      | <b>30,138</b>                                  | <b>64,990</b>   |

Stamp duty on subsequent property acquisitions is considered to be part of the cost of purchase of that property, and will be capitalised upon acquisition and its carrying value assessed in accordance with the Group's accounting policy as described in note 2(q).

## 5. Finance costs

|                                     | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|-------------------------------------|----------------------------|----------------------------|
| Interest paid or payable (a)        | 28,379                     | 11,012                     |
| Amortisation of borrowing costs (b) | 1,610                      | 626                        |
| <b>Total finance costs</b>          | <b>29,989</b>              | <b>11,638</b>              |

(a) Represents interest expense under the borrowing facilities.

(b) Represents amortisation of the borrowing costs relating to the borrowing facilities available to the Group.

# Notes to the Consolidated Financial Statements (continued)

## 6. Remuneration of auditors

|                                                                             | 31 December 2017<br>\$ | 31 December 2016<br>\$ |
|-----------------------------------------------------------------------------|------------------------|------------------------|
| <b>PricewaterhouseCoopers Australia</b>                                     |                        |                        |
| <b>Audit and other assurance services</b>                                   |                        |                        |
| Audit and review of financial statements                                    | 170,000                | 95,000                 |
| <b>Total remuneration for audit and other assurance services</b>            | <b>170,000</b>         | <b>95,000</b>          |
| <b>Taxation services</b>                                                    |                        |                        |
| Consulting services on taxation and stamp duty                              | 60,000                 | 20,426                 |
| <b>Total remuneration of taxation services</b>                              | <b>60,000</b>          | <b>20,426</b>          |
| <b>Other accounting services relating to the establishment of the Group</b> |                        |                        |
| Consulting advice                                                           | -                      | 259,480                |
| Taxation services                                                           | -                      | 439,000                |
| <b>Total remuneration for other accounting services</b>                     | <b>-</b>               | <b>698,480</b>         |
| <b>Total remuneration of auditors</b>                                       | <b>230,000</b>         | <b>813,906</b>         |

## 7. Earnings per security ('EPS')

|             | 2017<br>Cents | 2016<br>Cents |
|-------------|---------------|---------------|
| Basic EPS   | 23.08         | 1.93          |
| Diluted EPS | 23.08         | 1.93          |

The following information reflects the income and stapled security numbers used in the calculations of basic and diluted EPS.

|                                                                                        | 31 December 2017<br>Number of securities<br>'000 | 31 December 2016<br>Number of securities<br>'000 |
|----------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| Weighted average number of stapled securities used in calculating basic EPS            | 708,320                                          | 690,152                                          |
| Adjusted weighted average number of stapled securities used in calculating diluted EPS | 708,320                                          | 690,152                                          |

## 8. Cash and cash equivalents

|                                        | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|----------------------------------------|----------------------------|----------------------------|
| Cash at bank                           | 43,631                     | 54,122                     |
| <b>Total cash and cash equivalents</b> | <b>43,631</b>              | <b>54,122</b>              |

The cash and cash equivalents disclosed above and in the consolidated statement of cash flows include \$5.5 million held in bank accounts as restricted cash. These deposits are maintained to satisfy the regulatory requirements of the Responsible Entity's Australian Financial Services Licence ('AFSL').

# Notes to the Consolidated Financial Statements (continued)

## 9. Investment properties

### (a) Valuations and carrying amounts

|                            | Carrying amount<br>2017<br>\$'000 | Carrying amount<br>2016<br>\$'000 |
|----------------------------|-----------------------------------|-----------------------------------|
| Service station properties | 2,280,967                         | 2,104,820                         |
| <b>Total</b>               | <b>2,280,967</b>                  | <b>2,104,820</b>                  |

Independent valuations were performed on 167 investment properties during the year ended 31 December 2017. The directors have reviewed these valuations and determined they are appropriate to adopt as at 31 December 2017.

For investment properties not independently valued during the year, directors' valuations have been performed. These properties were mostly recently independently valued effective 7 July 2016.

The key inputs into valuations are:

- passing rent;
- market rents;
- capitalisation rates; and
- lease terms.

The key inputs into the valuation are based on market information for comparable properties. The investment properties are located in markets with evidence to support valuation inputs. The independent valuers have experience in valuing similar assets and have access to market evidence to support their conclusions. Comparable assets are considered those in similar markets and condition with similar lease terms.

Key assumptions

|                                      | 31 December 2017 | 31 December 2016 |
|--------------------------------------|------------------|------------------|
| Weighted average capitalisation rate | 5.8%             | 5.9%             |
| Weighted average passing yield       | 5.8%             | 5.9%             |

Investment properties have been classified as level 3 in the fair value hierarchy (refer to note 18(e)). There have been no transfers between the levels in the fair value hierarchy during the period.

### (b) Movements during the financial period

|                                               | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|-----------------------------------------------|----------------------------|----------------------------|
| <b>At fair value</b>                          |                            |                            |
| Opening balance                               | 2,104,820                  | -                          |
| Initial acquisition of properties             | -                          | 2,104,820                  |
| Property acquisitions and capital expenditure | 98,995                     | -                          |
| Straight-line rental asset                    | 28,984                     | -                          |
| Net revaluation of investment properties      | 48,168                     | -                          |
| <b>Closing balance</b>                        | <b>2,280,967</b>           | <b>2,104,820</b>           |

# Notes to the Consolidated Financial Statements (continued)

## (c) Amounts recognised in profit or loss for investment properties

|                                                                                 | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|---------------------------------------------------------------------------------|----------------------------|----------------------------|
| Rental income                                                                   | 127,901                    | 49,191                     |
| Other rental income (recognised on a straight-line basis)                       | 28,984                     | 12,118                     |
| Impact of straight-line lease adjustment on fair value of investment properties | -                          | (12,118)                   |
| Net revaluation of investment properties                                        | 48,168                     | -                          |

## (d) Leasing arrangements

Investment properties are leased to Viva Energy Australia Pty Limited (98% of rental income), other fuel operators (1% of rental income) and various convenience or fast foods stores (1% of rental income) under long-term operating leases. Minimum lease payments receivable on leases of investment properties are as follows:

|                                                                                                                                                                | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Minimum lease receivable under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows: |                            |                            |
| Within one year                                                                                                                                                | 134,197                    | 125,121                    |
| Later than one year but not later than five years                                                                                                              | 573,119                    | 539,163                    |
| Later than five years                                                                                                                                          | 1,537,901                  | 1,653,380                  |
| <b>Total</b>                                                                                                                                                   | <b>2,245,217</b>           | <b>2,317,664</b>           |

## 10. Borrowings

|                                   | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|-----------------------------------|----------------------------|----------------------------|
| Syndicated facility               | 736,687                    | 736,687                    |
| Unamortised borrowing costs       | (3,734)                    | (5,181)                    |
| <b>Total unsecured borrowings</b> | <b>732,953</b>             | <b>731,506</b>             |

The Group has two debt facilities at 31 December 2017:

- (a) a syndicated facility agreement dated 10 July 2016 pursuant to which a syndicate of domestic and international banks provide unsecured debt facilities. This facility comprises a \$736.7 million term loan facility split evenly over two tranches (Facility A) with three and five year maturity terms respectively; and a \$100.0 million revolving credit facility (Facility B) with a three year maturity calculated from the date of the drawdown of Facility A (10 August 2016).

The interest margin applied to the borrowings under this facility will increase should the gearing ratio exceed 35% (increase of 0.15%) and 40% (increase of 0.15%), or if 30% or more of the Group's lease revenue is derived from tenants with a credit rating below investment grade (increase of 0.30%); and

- (b) a \$60.0 million bilateral debt facility agreement dated 21 June 2017 with a three-year term. The interest margin applied to the borrowings under the bilateral debt facility agreement will increase should the gearing ratio exceed 40% (increase of 0.15%), or if 30% or more of the Group's lease revenue is derived from tenants with a credit rating below investment grade (increase of 0.30%).

# Notes to the Consolidated Financial Statements (continued)

## Debt facility overview

|                            | Facility A1                                       | Facility A2                 | Facility B                  | Bilateral 3-yr            |
|----------------------------|---------------------------------------------------|-----------------------------|-----------------------------|---------------------------|
| <b>Term</b>                | 3 years from 10 August 2016                       | 5 years from 10 August 2016 | 3 years from 10 August 2016 | 3 years from 21 June 2017 |
| <b>Facility amount</b>     | \$368.3 million                                   | \$368.3 million             | \$100.0 million             | \$60.0 million            |
| <b>Amount drawn</b>        | \$368.3 million                                   | \$368.3 million             | Nil                         | Nil                       |
| <b>Undrawn amount</b>      | Nil                                               | Nil                         | \$100.0 million             | \$60.0 million            |
| <b>Interest margin</b>     | 1.60%                                             | 1.80%                       | 1.60%                       | 1.60%                     |
| <b>Interest rate basis</b> | Quoted bank bill swap rate for the relevant term. |                             |                             |                           |

The weighted average tenure of the drawn facilities as at 31 December 2017 is 2.6 years.

The interest rate applying to the drawn amount of the facilities is set on a periodic basis (each three or six months) at the prevailing market interest rate at the commencement of the period (bank bill swap rate), plus the applicable margin.

The undrawn amount of the debt facilities may be drawn at any time. The covenants over the Group's debt facilities require an interest cover ratio to be not less than 2.0 times (actual at 31 December 2017 of 4.4 times) and a gearing ratio of not more than 50% (actual at 31 December 2017 of 32.1%). The Group was in compliance with its covenants throughout the period.

## 11. Derivative financial instruments

|                                               | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|-----------------------------------------------|----------------------------|----------------------------|
| Interest rate swaps                           | 5,363                      | 12,373                     |
| <b>Total derivative financial instruments</b> | <b>5,363</b>               | <b>12,373</b>              |

The Group has entered into interest rate swap contracts under which they receive interest at variable rates and pay interest at fixed rates to protect interest-bearing liabilities from exposure to changes in interest rates. Periodic swap settlements match the period for which interest is payable on the underlying debt.

Swaps currently in place cover 100% of the facility principal outstanding. The weighted average fixed interest swap rate at 31 December 2017 was 2.02%, and the weighted average term was 2.6 years.

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

|                      | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|----------------------|----------------------------|----------------------------|
| Less than 1 year     | -                          | -                          |
| 1 – 2 years          | 368,343                    | -                          |
| 2 – 3 years          | -                          | 368,343                    |
| 3 – 4 years          | 368,344                    | -                          |
| 4 – 5 years          | -                          | 368,344                    |
| Greater than 5 years | -                          | -                          |
| <b>Total</b>         | <b>736,687</b>             | <b>736,687</b>             |

# Notes to the Consolidated Financial Statements (continued)

## 12. Contributed equity

### (a) Securities

|                            | 31 December 2017          |           | 31 December 2016          |           |
|----------------------------|---------------------------|-----------|---------------------------|-----------|
|                            | Number of securities '000 | \$'000    | Number of securities '000 | \$'000    |
| <b>Ordinary securities</b> |                           |           |                           |           |
| Fully paid                 | 725,750                   | 1,496,958 | 690,152                   | 1,416,344 |

### (b) Movement in ordinary securities

| Date                    | Details                                              | No. of securities '000 | \$'000           |
|-------------------------|------------------------------------------------------|------------------------|------------------|
| 14 June 2016            | Opening balance                                      | -                      | -                |
| 8 August 2016           | Equity raised via initial public offer               |                        |                  |
|                         |                                                      | 414,091                | 911,000          |
| 8 August 2016           | Equity retained by Viva Energy Australia Pty Limited | 276,061                | 535,482          |
| 8 August 2016           | Equity raising costs                                 | -                      | (30,138)         |
| <b>31 December 2016</b> | <b>Closing balance</b>                               | <b>690,152</b>         | <b>1,416,344</b> |
| 28 June 2017            | Issue of securities under institutional placement    | 34,632                 | 80,000           |
| 28 June 2017            | Equity raising costs                                 | -                      | (1,618)          |
| 24 July 2017            | Issue of securities under Securities Purchase Plan   | 966                    | 2,232            |
| <b>31 December 2017</b> | <b>Closing balance</b>                               | <b>725,750</b>         | <b>1,496,958</b> |

### (c) Capital management

The Group aims to invest to meet the Group's investment objectives while maintaining sufficient liquidity to meet its commitments. The Group regularly reviews performance, including asset allocation strategies, investment and operational management strategies, investment opportunities and risk management.

In order to maintain an appropriate capital structure, the Group may adjust the amount of distributions paid to security holders, return capital to security holders, issue new securities, sell or buy assets or reduce or raise debt.

The Group monitors capital through the analysis of a number of financial ratios, including the gearing ratio.

### (d) Gearing ratio

|                                                            | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|------------------------------------------------------------|----------------------------|----------------------------|
| Total liabilities                                          | 748,674                    | 743,635                    |
| Total assets (excluding derivatives financial instruments) | 2,332,766                  | 2,160,955                  |
| Gearing ratio                                              | 32.1%                      | 34.4%                      |

# Notes to the Consolidated Financial Statements (continued)

## 13. Distributions to security holders

|                                                                                        | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|----------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Final distribution for the period ended 31 December 2016<br>of 5.28 cents per security | 36,440                     | -                          |
| Interim distribution for the year ended 31 December 2017<br>of 6.60 cents per security | 47,899                     | -                          |
| <b>Total distributions to security holders</b>                                         | <b>84,339</b>              | <b>-</b>                   |

Other than the above, no distributions to security holders were declared or paid during the financial year.

## 14. Non-controlling interests

The financial statements reflect the consolidation of Viva Energy REIT. For financial reporting purposes, one entity in the stapled group must be identified as the acquirer or parent entity of the others. The Company has been identified as the acquirer of the Trust, resulting in the Trust being disclosed as non-controlling interests.

Movements in non-controlling interests were as follows:

|                                                                   | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|-------------------------------------------------------------------|----------------------------|----------------------------|
| <b>Opening balance</b>                                            | <b>1,430,892</b>           | <b>-</b>                   |
| Contributions of equity, net of transaction costs                 | 80,358                     | 1,414,058                  |
| Net profit for the period                                         | 168,049                    | 4,461                      |
| Effective portion of changes in fair value of cash flow<br>hedges | (7,010)                    | 12,373                     |
| Distributions paid                                                | (84,339)                   | -                          |
| <b>Closing balance at the end of the period</b>                   | <b>1,587,950</b>           | <b>1,430,892</b>           |

## 15. Related party disclosures

### Parent entity

The Company has been assessed as the parent entity of the Group; the security holders' interests in the Trust are included in equity as non-controlling interests relating to the stapled entity.

### Subsidiaries

Investments in subsidiaries are set out in note 16.

### Key management personnel compensation

Detailed remuneration disclosures are provided in the Remuneration report.

# Notes to the Consolidated Financial Statements (continued)

## Stapled Group

Viva Energy REIT is a stapled group consisting of the Company and the Trust and their wholly owned entities. The Trust indirectly owns the investment property portfolio through its 100% ownership of VER Trust, the owner of the investment property portfolio, and receives rent under operating leases. The Company directly owns all of the shares in VER Limited ('Responsible Entity'). Each stapled security consists of one share in the Company and one unit in the Trust.

## Responsible Entity

The Responsible Entity or its related parties are entitled to receive fees in accordance with the Scheme Deed, from the Group and its controlled entities.

|                                                                                                                                                                 | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>The following transactions occurred with related parties:</b>                                                                                                |                            |                            |
| Rental income received from Viva Energy Australia Pty Limited and its associated entities                                                                       | 126,194                    | 49,191                     |
| Management fees expense incurred to VER Manager Pty Limited                                                                                                     | 3,274                      | 838                        |
| Reimbursement of initial transaction costs paid to Viva Energy Australia Pty Limited                                                                            | -                          | 4,535                      |
| Purchase of investment properties from an associated entity of Viva Energy Australia Pty Limited (Liberty Oil Holdings Pty Limited and its controlled entities) | 11,850                     | -                          |
| <b>Amounts payable:</b>                                                                                                                                         |                            |                            |
| Amounts payable to VER Manager Pty Limited at the end of the period                                                                                             | 831                        | 222                        |

Viva Energy REIT has acquired investment properties during the year ended 31 December 2017 by the assignment to Viva Energy REIT of a purchase right which was held by Viva Energy Australia Pty Limited. No fees were payable by Viva Energy REIT for this assignment of the purchase right, and the purchase right allows for purchase of the investment property at equal to the best third party offer received by the previous owner.

## 16. Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries of the Company and the Trust:

| Name of entity                   | Country of incorporation | Class of equity | Equity holding 2017<br>% | Equity holding 2016<br>% |
|----------------------------------|--------------------------|-----------------|--------------------------|--------------------------|
| <u>Controlled by the Company</u> |                          |                 |                          |                          |
| VER Limited                      | Australia                | Ordinary shares | 100                      | 100                      |
| VER Custodian Pty Limited        | Australia                | Ordinary shares | 100                      | 100                      |
| <u>Controlled by the Trust</u>   |                          |                 |                          |                          |
| VER Trust                        | Australia                | Unit trust      | 100                      | 100                      |
| VER Finco Pty Limited            | Australia                | Ordinary shares | 100                      | 100                      |

# Notes to the Consolidated Financial Statements (continued)

## 17. Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

|                                                               | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|---------------------------------------------------------------|----------------------------|----------------------------|
| <b>Income statement information</b>                           |                            |                            |
| Net profit/(loss) attributable to the Company                 | 517                        | (1,659)                    |
| <b>Comprehensive income information</b>                       |                            |                            |
| Total comprehensive profit/(loss) attributable to the Company | 517                        | (1,659)                    |
| <b>Balance sheet</b>                                          |                            |                            |
| Current assets                                                | 10,613                     | 7,424                      |
| Non-current assets                                            | 6,017                      | 5,500                      |
| <b>Total assets</b>                                           | <b>16,630</b>              | <b>12,924</b>              |
| Current liabilities                                           | 15,230                     | 12,173                     |
| Non-current liabilities                                       | -                          | -                          |
| <b>Total liabilities</b>                                      | <b>15,230</b>              | <b>12,173</b>              |
| <b>Equity attributable to shareholders of the Company</b>     |                            |                            |
| Contributed equity                                            | 2,542                      | 2,410                      |
| Accumulated loss                                              | (1,142)                    | (1,659)                    |
| <b>Total equity</b>                                           | <b>1,400</b>               | <b>751</b>                 |

## 18. Financial risk management and fair value measurement

The Group's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk which the Group is exposed to are market risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The exposure to each of these risks, as well as the Group's policies and processes for managing these risks are described below.

### (a) Market risk

Market risk embodies the potential for both loss and gains and includes interest rate risk and price risk.

#### Cash flow and fair value interest rate risk

The Group's cash and cash equivalents, floating rate borrowings and interest rate swaps expose it to a risk of change in the fair value or future cash flows due to changes in interest rates. The specific interest rate exposures are disclosed in the relevant notes to the financial statements.

The Group economically hedges some or all of its exposure to changes in interest rates on variable rate borrowings by using floating-to-fixed interest rate swaps. By hedging against changes in interest rates, the Group has limited its exposure to changes in interest rates on its cash flows. The portion that is hedged is set by the directors and is influenced by the hedging requirements set out in the Group's debt facility documents, its hedging policy and the market outlook.

The Group ensures the tenor of individual swaps does not exceed the expected life of assets.

# Notes to the Consolidated Financial Statements (continued)

The Group's exposure to interest rate risk at reporting date, including its sensitivity to changes in market interest rates that were reasonably possible, is as follows:

|                                                              | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|--------------------------------------------------------------|----------------------------|----------------------------|
| <b>Financial assets</b>                                      |                            |                            |
| Cash and cash equivalents (floating interest rate)           | 43,631                     | 54,122                     |
| Derivative financial instruments (notional principal amount) |                            |                            |
| – fixed rate interest rate swaps                             | 736,687                    | 736,687                    |
| <b>Financial liabilities</b>                                 |                            |                            |
| Interest bearing liabilities – floating interest rate        | 736,687                    | 736,687                    |
| <b>Net exposure</b>                                          | <b>43,631</b>              | <b>54,122</b>              |

Sensitivity of profit or loss to movements in market interest rates:

|                                                    | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|----------------------------------------------------|----------------------------|----------------------------|
| Market interest rate increased by 100 basis points | 436                        | 541                        |
| Market interest rate decreased by 100 basis points | (436)                      | (541)                      |

## Instruments with fair value risk

|                                                                                                                     |   |   |
|---------------------------------------------------------------------------------------------------------------------|---|---|
| Derivative financial instruments                                                                                    |   |   |
| Sensitivity of profit or loss to movements in market interest rates for financial instruments with fair value risk: |   |   |
| Market interest rate increased by 100 basis points                                                                  | - | - |
| Market interest rate decreased by 100 basis points                                                                  | - | - |

As the Group has interest rate swaps in place for 100% of its drawn debt, subsequent movements in interest rates do not affect Viva Energy REIT's interest cost. The sensitivity solely relates to interest income on cash balances on hand.

The interest rate range for sensitivity purposes has been determined using the assumption that interest rates changed by +/- 100 basis points from year-end rates with all other variables held constant. In determining the impact of an increase/decrease in equity to security holders arising from market risk, the Group has considered prior period and expected future movements of the portfolio information in order to determine a reasonably possible shift in assumptions.

## (b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The Group's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the consolidated balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at reporting date.

|              | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|--------------|----------------------------|----------------------------|
| Cash at bank | 43,631                     | 54,122                     |

# Notes to the Consolidated Financial Statements (continued)

## Maximum exposure to credit risk

The Group manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank and interest rate swaps are held with high credit quality financial institutions.

All receivables are monitored by the Group. If any amounts owing are overdue, these are followed up and, if necessary, allowances are made for debts that are doubtful.

At the end of the reporting period, there were no issues with the credit quality of financial assets that were either past due or impaired, and all amounts are expected to be received in full.

## (c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group monitors its exposure to liquidity risk by ensuring that there is sufficient cash on hand as required or debt facility funding available to meet the contractual obligations of financial liabilities as they fall due. The Group sets budgets to monitor cash flows.

The average debt maturity is 2.6 years, and the weighted average lease term is 13.7 years.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

|                                                                     | Less than 12 months | 1 - 2 years    | Greater than 2 years | Total contractual cash flows | Carrying amount (assets)/ liabilities |
|---------------------------------------------------------------------|---------------------|----------------|----------------------|------------------------------|---------------------------------------|
|                                                                     | \$'000              | \$'000         | \$'000               | \$'000                       | \$'000                                |
| <b>31 December 2017</b>                                             |                     |                |                      |                              |                                       |
| Trade and other payables                                            | 4,662               | -              | -                    | 4,662                        | 4,662                                 |
| Variable rate borrowings                                            | 27,382              | 390,571        | 391,263              | 809,216                      | 747,746                               |
| <b>Contractual cash flows (excluding gross settled derivatives)</b> | <b>32,044</b>       | <b>390,571</b> | <b>391,263</b>       | <b>813,878</b>               | <b>752,408</b>                        |
| <b>31 December 2016</b>                                             |                     |                |                      |                              |                                       |
| Trade and other payables                                            | 1,292               | -              | -                    | 1,292                        | 1,292                                 |
| Variable rate borrowings                                            | 27,382              | 27,382         | 781,834              | 836,598                      | 747,524                               |
| <b>Contractual cash flows (excluding gross settled derivatives)</b> | <b>28,674</b>       | <b>27,382</b>  | <b>781,834</b>       | <b>837,890</b>               | <b>748,816</b>                        |

## (d) Fair value estimation

The carrying amounts of the Group's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

# Notes to the Consolidated Financial Statements (continued)

## (e) Fair value hierarchy

### (i) Classification of financial assets and financial liabilities

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of fair value hierarchy. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the directors. The directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table presents the Group's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2017 on a recurring basis:

|                         | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000  |
|-------------------------|-------------------|-------------------|-------------------|------------------|
| <b>31 December 2017</b> |                   |                   |                   |                  |
| <b>Financial assets</b> |                   |                   |                   |                  |
| Investment properties   | -                 | -                 | 2,280,967         | 2,280,967        |
| Interest rate swaps     | -                 | 5,363             | -                 | 5,363            |
| <b>Total</b>            | -                 | <b>5,363</b>      | <b>2,280,967</b>  | <b>2,286,330</b> |
| <b>31 December 2016</b> |                   |                   |                   |                  |
| <b>Financial assets</b> |                   |                   |                   |                  |
| Investment properties   | -                 | -                 | 2,104,820         | 2,104,820        |
| Interest rate swaps     | -                 | 12,373            | -                 | 12,373           |
| <b>Total</b>            | -                 | <b>12,373</b>     | <b>2,104,820</b>  | <b>2,117,193</b> |

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels during the period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2017.

# Notes to the Consolidated Financial Statements (continued)

## (ii) Valuation techniques used to derive level 2 and level 3 values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, taking into account any material credit risk.

## (f) AFSL – compliance risk

The Group is exposed to the risk of having inadequate capital and liquidity.

VER Limited, a subsidiary of Viva Energy REIT Limited, holds an Australian Financial Services Licence ('AFSL') and acts as a responsible entity for the Group's managed investment scheme. The AFSL requires minimum levels of net tangible assets, liquid assets, cash reserves and liquidity, which may restrict the Group in paying distributions that would breach these requirements.

The directors regularly review and monitor the Group's balance sheet to ensure Viva Energy REIT's compliance with its AFSL requirements.

## (g) Investment risk

### (i) Tenant concentration risk, financial standing and sector concentration risk

Viva Energy REIT's revenue is 98% derived from leases with Viva Energy Australia Pty Limited (Viva Energy Australia). Therefore, Viva Energy REIT depends on this tenant meeting its financial obligations to pay rent under the leases. If Viva Energy Australia fails to pay rent on time and/or becomes insolvent, Viva Energy REIT's financial condition and the share price of its stapled securities would be materially affected. It would be likely to also affect the going concern of the Group.

Termination of Viva Energy Australia's right to use Shell branding could adversely affect Viva Energy Australia's ability to meet its rental obligations and therefore the value of the portfolio of investment properties and Viva Energy REIT's ability to service and/or obtain financing.

Furthermore, a decline in the profitability of Viva Energy Australia's business could affect the perceived stability of the rental income of Viva Energy REIT and may affect Viva Energy REIT's ability to obtain financing on acceptable terms, and lead to lower market rents when renewal options are exercised and a decline in the values of Viva Energy REIT's properties.

The Group is also exposed to sector concentration risk given that all assets of Viva Energy REIT are invested in property leased to tenants that solely operate within the oil and gas sector.

### (ii) Excessive reliance on the Manager and its personnel

Viva Energy REIT is managed by VER Manager Pty Limited ('Manager'), which is a subsidiary of Viva Energy Australia.

Viva Energy REIT does not have direct employees (other than directors) and consequently is reliant on the expertise and experience of the key executives of Viva Energy Australia made available to the Manager who provides the services to Viva Energy REIT under the Management Agreement. As a consequence, loss of such key personnel could potentially have an adverse impact on the management and the financial performance of Viva Energy REIT and in turn may affect the returns to security holders.

# Notes to the Consolidated Financial Statements (continued)

## 19. Reconciliation of net profit to net cash inflow from operating activities

|                                                                                 | 31 December 2017<br>\$'000 | 31 December 2016<br>\$'000 |
|---------------------------------------------------------------------------------|----------------------------|----------------------------|
| Net profit for the period                                                       | 170,497                    | 976                        |
| Amortisation of borrowing costs                                                 | 1,610                      | 626                        |
| Net revaluation of investment properties                                        | (48,168)                   | -                          |
| Impact of straight-line lease adjustment on fair value of investment properties | -                          | 12,118                     |
| Straight-line adjusting on rental income                                        | (28,984)                   | (12,118)                   |
| Stamp duty on initial purchase of investment property portfolio                 | -                          | 30,408                     |
| Changes in operating assets and liabilities:                                    |                            |                            |
| Decrease/(increase) in other current assets                                     | 657                        | (208)                      |
| Increase in trade and other payables                                            | 1,406                      | 1,292                      |
| Increase in interest payable                                                    | 222                        | 10,837                     |
| <b>Net cash inflow from operating activities</b>                                | <b>97,240</b>              | <b>43,931</b>              |

## 20. Business combination

### (a) Summary of acquisition

Following settlement of the Group's initial public offering and debt financing, the Group was listed on the ASX on 8 August 2016. Concurrently, the Group purchased a portfolio of 425 service station properties from Viva Energy Australia.

There were no business combination events in the year ended 31 December 2017.

|                                                                               | 31 December 2016<br>\$'000 |
|-------------------------------------------------------------------------------|----------------------------|
| <b>Purchase consideration</b>                                                 |                            |
| Initial public offer of securities (net of costs and initial working capital) | 873,310                    |
| Equity retained by Viva Energy Australia Pty Limited                          | 535,482                    |
| Debt funding (net of costs)                                                   | 730,880                    |
| <b>Total purchase consideration</b>                                           | <b>2,139,672</b>           |
| Group establishment costs                                                     | (34,852)                   |
| <b>Net purchase consideration</b>                                             | <b>2,104,820</b>           |

The assets recognised as a result of the purchase of service station properties are as follows:

|                                         | 31 December 2016<br>Fair value<br>\$'000 |
|-----------------------------------------|------------------------------------------|
| Investment properties                   | 2,104,820                                |
| <b>Net identifiable assets acquired</b> | <b>2,104,820</b>                         |

### (b) Establishment related costs

Refer to note 4 for details related to establishment costs.

# Notes to the Consolidated Financial Statements (continued)

## (c) Revenue and profit contribution

The acquired portfolio of 425 service station properties contributed all of the revenues and net profit of the Group for the period ended 31 December 2016.

## 21. Contingent assets and liabilities and commitments

At 31 December 2017, the Group has entered into contracts for the purchase of investment properties totalling in aggregate \$24.0 million. Deposits paid under these contracts total \$1.0 million. Settlement of one property occurred in January 2018, and the balance are expected to settle during the first half of the Group's 2018 financial year.

Other than that noted above, there are no material outstanding contingent assets, liabilities or commitments as at 31 December 2017.

## 22. Events occurring after the reporting period

Subsequent to the end of the financial year, the directors have declared the payment of a final distribution for the year ended 31 December 2017 of \$47.9 million which was paid on 15 February 2018.

The Group has contracted to purchase properties for an aggregate purchase price of \$24.0 million before transaction costs. Settlement of one property occurred in January 2018, and the balance are expected to settle during the first half of the Group's 2018 financial year.

Other than that noted above, no significant events have occurred since the end of the reporting period which would impact on the financial position of the Group disclosed in the consolidated balance sheet as at 31 December 2017 or on the results and cash flows of the Group for the period ended on that date.

# Directors' Declaration

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 17 to 44 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 Group's financial position as at 31 December 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, and
- (c) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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



**Laurence Brindle**

**Chairman**

22 February 2018



## *Independent auditor's report*

To the members of Viva Energy REIT Limited

### *Report on the audit of the financial report*

---

#### *Our opinion*

In our opinion:

The accompanying financial report of Viva Energy REIT Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *What we have audited*

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

---

#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

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

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Viva Energy REIT owns 438 service station properties located across all Australian States and Territories. The majority of properties in the portfolio are leased to Viva Energy Australia Pty Limited, a shareholder.



### *Materiality*

- For the purpose of our audit we used overall group materiality of \$4.6 million, which represents approximately 5% of the Group's profit before tax, adjusted for significant non-cash items such as investment property and derivative financial instrument revaluations.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose profit before tax adjusted for significant non-cash items as the benchmark because, in our view, it is the metric against which the performance of the Group is commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

### *Audit Scope*

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group's accounting processes and controls are performed at its Melbourne office, where we predominately performed our audit procedures.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Valuation of investment properties</b><br/>(Refer to note 9)</p> <p>The Group's investment property portfolio consists of 438 service station properties located across Australia. At 31 December 2017 the carrying value of the Group's total investment property portfolio was \$2,281 million.</p> <p>Investment properties are carried at fair value. The Group's accounting policy is disclosed in note 2 of the financial report. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property impact fair values. The following key inputs used in estimating fair value are derived from the long term leases:</p> <ul style="list-style-type: none"> <li>• Rental income</li> <li>• Lease terms</li> </ul> <p>The key judgemental assumption in estimating fair value is:</p> <ul style="list-style-type: none"> <li>• Capitalisation rate</li> </ul> <p>External valuations were obtained by the Group to assist in estimating fair value for 167 properties and director valuations were performed on the remainder of the portfolio.</p> <p>This was a key audit matter because of the:</p> <ul style="list-style-type: none"> <li>• Relative size of the investment property balance in the consolidated balance sheet</li> <li>• Quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of investment properties</li> <li>• Inherently subjective nature of investment property valuations due to the use of assumptions in the valuations</li> <li>• Sensitivity of valuations to key inputs/assumptions.</li> </ul> | <p><b>Independent valuations</b><br/>For a sample of independent valuations we:</p> <ul style="list-style-type: none"> <li>• Assessed the competency and capabilities of the independent valuer.</li> <li>• Read the valuer's terms of engagement - we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation.</li> <li>• Agreed the rental income and lease terms used in the independent valuations to the tenancy schedule and lease agreement, with no material differences noted.</li> <li>• Assessed the valuation reports based on our industry knowledge, including comparing the capitalisation rate assumption to a range we determined to be reasonable based on benchmark market data.</li> <li>• Inspected the final valuation reports and agreed the fair value to the Group's accounting records, noting no material differences.</li> </ul> <p><b>Director valuations</b><br/>For a sample of director valuations we:</p> <ul style="list-style-type: none"> <li>• Agreed the rental income and lease terms used in the director valuations to the tenancy schedule and lease agreement, with no material differences noted.</li> <li>• Compared the capitalisation rate between the directors' valuations and independent valuations to identify any unusual trends or anomalies in the directors' valuation outcomes.</li> <li>• Agreed the director valuations to the Group's accounting records, noting no material differences.</li> </ul> |

---

### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017, including Directors' Report, Corporate Directory and ASX Additional Information, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

---

### *Responsibilities of the directors for the financial report*

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

---

### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.



## *Report on the remuneration report*

---

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 10 to 13 of the directors' report for the year ended 31 December 2017.

In our opinion, the remuneration report of Viva Energy REIT Limited for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001*.

---

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'Charles Christie'.

Charles Christie  
Partner

Melbourne  
22 February 2018

## ASX Additional Information

### ASX additional information as at 29 January 2018

There were 725,749,702 fully paid stapled securities on issue, held by 5,649 security holders. There were 99 holders holding less than a marketable parcel.

The voting rights attaching to the stapled securities, set out in section 253C of the *Corporations Act 2001*, are:

- (i) on a show of hands, every person present who is a security holder has one vote; and
- (ii) on a poll, each security holder present in person or by proxy or attorney has one vote for each dollar of value of the securities they have in the Group.

### Distribution of security holders

| Number of securities held | Number of security holders | Total securities held | % of total securities on issue |
|---------------------------|----------------------------|-----------------------|--------------------------------|
| 1 - 1,000                 | 410                        | 226,373               | 0.03                           |
| 1,001 - 5,000             | 1,880                      | 6,128,110             | 0.85                           |
| 5,001 - 10,000            | 1,423                      | 11,250,375            | 1.55                           |
| 10,001 - 100,000          | 1,845                      | 44,342,188            | 6.11                           |
| 100,001 and over          | 91                         | 663,802,656           | 91.46                          |
| <b>Total</b>              | <b>5,649</b>               | <b>725,749,702</b>    | <b>100.00%</b>                 |

### Substantial security holders

| Name of substantial security holder                        | Number of securities |
|------------------------------------------------------------|----------------------|
| Viva Energy Australia Group Pty Limited and its associates | 276,060,625          |
| AMP Limited                                                | 49,231,452           |
| Perpetual Limited and its subsidiaries                     | 41,567,779           |
| Commonwealth Bank of Australia                             | 37,009,948           |
| The Vanguard Group, Inc.                                   | 36,293,034           |

## ASX Additional Information (continued)

### Twenty largest stapled security holders

| Holder name                                               | Number of securities | Fully paid %  |
|-----------------------------------------------------------|----------------------|---------------|
| Viva Energy Australia Group Pty Limited                   | 276,060,625          | 38.04         |
| HSBC Custody Nominees (Australia) Limited                 | 111,615,205          | 15.38         |
| J P Morgan Nominees Australia Limited                     | 95,018,784           | 13.09         |
| BNP Paribas Nominees Pty Ltd                              | 31,978,928           | 4.41          |
| CITICORP Nominees Pty Limited                             | 31,713,345           | 4.37          |
| National Nominees Limited                                 | 30,866,000           | 4.25          |
| BNP Paribas NOMS Pty Ltd                                  | 19,825,690           | 2.73          |
| HSBC Custody Nominees (Australia) Limited - A/C 2         | 14,406,559           | 1.99          |
| AMP Life Limited                                          | 7,488,549            | 1.03          |
| BNP Paribas Nominees Pty Ltd                              | 7,400,000            | 1.02          |
| CITICORP Nominees Pty Limited                             | 3,727,758            | 0.51          |
| BNP Paribas NOMS (NZ) Ltd                                 | 3,491,284            | 0.48          |
| Morgan Stanley Australia Securities (Nominee) Pty Limited | 3,046,994            | 0.42          |
| Woodross Nominees Pty Ltd                                 | 3,010,965            | 0.41          |
| IOOF Investment Management Limited                        | 1,875,854            | 0.26          |
| National Nominees Limited                                 | 1,628,557            | 0.22          |
| ECAPITAL Nominees Pty Limited                             | 1,494,949            | 0.21          |
| HSBC Custody Nominees (Australia) Limited-GSCO ECA        | 1,125,597            | 0.16          |
| Bond Street Custodians Limited                            | 905,637              | 0.12          |
| Netwealth Investments Limited                             | 871,980              | 0.12          |
| <b>Total</b>                                              | <b>647,553,260</b>   | <b>89.23%</b> |

# Corporate Directory

## **Viva Energy REIT Limited**

ACN 612 986 517

## **Viva Energy REIT Trust**

ARSN 613 146 464

## **VER Limited**

ABN 43 609 868 000 AFSL 483795

Responsible Entity

## Registered office

Level 16, 720 Bourke Street  
Docklands VIC 3008, Australia

**Website:** [www.vivaenergyreit.com.au](http://www.vivaenergyreit.com.au)

## Directors of Viva Energy REIT Limited

Laurence Brindle  
Georgina Lynch  
Stephen Newton  
Lachlan Pfeiffer  
Scott Wyatt

## Directors of VER Limited

Laurence Brindle  
Georgina Lynch  
Stephen Newton  
Lachlan Pfeiffer

## Company Secretaries

Mark Licciardo  
Kate Golland

## Auditor

PricewaterhouseCoopers  
2 Riverside Quay  
Southbank VIC 3006, Australia

## Security registry

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235, Australia  
Telephone: 1300 554 474

## Investor enquiries and correspondence

VER Manager Pty Limited  
Telephone: +61 3 8823 4863  
Website: [www.vivaenergyreit.com.au](http://www.vivaenergyreit.com.au)  
Email: [samantha.rist@vivaenergy.com.au](mailto:samantha.rist@vivaenergy.com.au)

## Stock exchange listing

Viva Energy REIT stapled securities are listed on the Australian Securities Exchange (ASX) with the code VVR.