



Vicinity Centres Trust

Financial Report for the year ended
30 June 2018

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

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



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Directors' Report

The Directors of Vicinity Centres RE Ltd, the responsible entity of Vicinity Centres Trust (the Trust or VCT), present the financial report of Vicinity Centres Trust and its controlled entities (VCT Group or the Trust Group) for the year ended 30 June 2018.

The Trust is stapled to Vicinity Limited to form the stapled Group, Vicinity Centres (the Vicinity Centres Group), which is traded collectively on the Australian Securities Exchange (ASX) under the code 'VCX'. Accordingly, the financial report for Vicinity Centres Trust should be read in conjunction with the financial report of Vicinity Centres available at vicinity.com.au.

Responsible Entity

The responsible entity (RE) of the Trust is Vicinity Centres RE Ltd. The registered office and principal place of business of Vicinity Centres RE Ltd is Level 4, Chadstone Tower One, 1341 Dandenong Road, Chadstone, Victoria 3148.

Directors

The following persons were members of the Vicinity Centres RE Ltd Board from 1 July 2017 and up to the date of this report unless otherwise stated:

(i) Chairman

Peter Hay (Independent)

(ii) Non-executive Directors

Charles Macek (Independent) (Retired 16 November 2017)

David Thurin

Debra Stirling (Independent) (Retired 16 November 2017)

Janette Kendall (Independent) (Appointed 1 December 2017)

Karen Penrose (Independent)

Peter Kahan (Independent)¹

Tim Hammon (Independent)

Trevor Gerber (Independent)

Wai Tang (Independent)

(iii) Executive Director

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

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

Company Secretaries

Carolyn Reynolds

Michelle Brady

Rohan Abeyewardene (Appointed 13 February 2018)

¹ Mr Kahan previously held the position of Executive Deputy Chairman of The Gandel Group Pty Limited, a substantial unitholder. With effect from 1 September 2017, Mr Kahan ceased his employment and commercial relationships with The Gandel Group. As disclosed in the Notice of 2017 Annual General Meeting released to the ASX on 11 October 2017 in relation to Mr Kahan's re-election as a Director, the Vicinity Board carefully considered Mr Kahan's prior relationship with The Gandel Group and concluded that, from 1 September 2017, he is an independent Director.

Principal activities

The Trust has its principal place of business at Level 4, Chadstone Tower One, 1341 Dandenong Road, Chadstone, Victoria 3148.

The principal activity of the Trust Group during the year was property investment.

Review of results and operations

A detailed review of the results and operations for the Vicinity Centres Group is contained in the Directors' Report in the Vicinity Centres Group 30 June 2018 Annual Report which is available at vicinity.com.au. Key highlights of the results and operations of the Trust are outlined below:

(a) Financial performance

The statutory net profit after tax of the Trust Group for the year ended 30 June 2018 was \$1,175.6 million, a decrease of \$442.0 million on the prior year (30 June 2017: \$1,617.6 million). This decrease was primarily due to a lower revaluation increment on directly owned investment properties and net foreign exchange movements on interest bearing liabilities. Statutory result highlights for the current year included:

- Total revenue and income of \$1,270.4 million;
- Positive operating cash flows of \$698.6 million;
- Property revaluation increment for the year of \$629.1 million;
- Basic earnings per unit of 30.20 cents; and
- Distributions per unit of 16.30 cents.

(b) Financial position

At 30 June 2018 the Trust Group's net assets were \$11,938.0 million, up \$317.2 million from \$11,620.8 million at 30 June 2017. This increase was largely due to an increase in the value of property holdings of \$812.6 million to \$16,560.4 million (including investment properties and investments accounted for using the equity method). This movement included:

- Property revaluation gains for the year of \$629.1 million;
- The acquisition of investment properties valued at \$586.8 million, offset by disposals totalling \$729.0 million; and
- Development spend, most notably at Mandurah Forum, DFO Perth and The Glen.

(c) Capital management

During the year, the following financing activities have occurred:

- HKD \$640.0 million (\$108.2 million) of 10-year HKD Medium Term Notes (HKMTNs) were issued on 17 May 2018. The proceeds of this issue were used for general corporate purposes;
- Net drawdowns of existing facilities for the on-market unit buy-back, capital expenditure and asset acquisition, partially offset by repayments from asset sales;
- Maturities for \$400.0 million of bank debt were extended from June 2019 to July 2020; and
- \$435.0 million of new bank debt facilities were established (\$100 million maturing July 2019, \$250.0 million maturing July 2021 and \$85.0 million maturing May 2021) and \$100.0 million were cancelled.

Significant matters

The Directors are not aware of any matter or circumstance not otherwise dealt with in the Directors' Report or the financial statements that has significantly affected, or may significantly affect, the operations of the Trust Group, the results of those operations, or the state of the Trust Group's affairs in future financial years.

Distributions

Total distributions declared by Vicinity Centres Trust during the year were as follows:

	Total \$m	Cents per unit
Interim – 31 December 2017	313.6	8.10
Final – 30 June 2018	317.5	8.20
Total – year ended 30 June 2018	631.1	16.30

The final distribution of 8.2 cents per unit is expected to be paid on 29 August 2018.

Director-related information

Meetings of Directors of the RE held during the year

	Board		Special Purpose Board ¹		Audit Committee		Remuneration and Human Resources Committee		Risk and Compliance Committee		Nominations Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Peter Hay	7	7	4	4	-	-	-	-	-	-	2	2
Angus McNaughton	4	4	2	2	-	-	-	-	-	-	-	-
Charles Macek	3	3	2	1	-	-	2	2	-	-	1	1
David Thurin ²	7	7	4	4	-	-	-	-	4	4	1	1
Debra Stirling	3	3	2	2	-	-	2	2	1	1	-	-
Grant Kelley	3	3	2	2	-	-	-	-	-	-	-	-
Janette Kendall ³	4	4	2	2	-	-	3	3	-	-	1	1
Karen Penrose	7	7	4	4	5	4	-	-	4	4	-	-
Peter Kahan ⁴	7	7	4	4	5	5	5	5	-	-	1	1
Tim Hammon	7	7	4	4	-	-	5	5	4	4	2	2
Trevor Gerber	7	7	4	4	5	5	5	5	-	-	-	-
Wai Tang	7	7	4	4	5	5	-	-	4	4	-	-

1. Special purpose Board meetings were scheduled and convened at short notice to consider special purpose approvals.
2. Dr Thurin joined the Nominations Committee effective from 1 January 2018.
3. Ms Kendall joined the Remuneration and Human Resources Committee and the Nominations Committee effective from 1 January 2018.
4. Mr Kahan stepped down from the Nominations Committee effective 1 January 2018.

Remuneration and unitholdings of Directors

The Directors of the RE receive remuneration in their capacity as Directors of the RE. These amounts are paid directly by Vicinity Limited, the parent entity of the Vicinity Centres Group. The Trust pays the RE a fee to cover the management of the Trust Group, as disclosed in Note 12 to the financial statements. Amounts paid to and details of stapled securities held by Directors (and Key Management Personnel), can be found in the Remuneration Report within the Vicinity Centres Group 30 June 2018 Annual Report available at vicinity.com.au.

Indemnification and insurance of Directors and Officers

The RE must indemnify the Directors, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities incurred by the Directors as officers of the RE or of a related body corporate provided that the loss or liability does not arise out of misconduct, including lack of good faith.

During the financial year, the RE insured its Directors, Secretaries and Officers against liability to third parties and for costs incurred in defending any civil or criminal proceedings that may be brought against them in their capacity as Directors, Secretaries, or Officers of Vicinity Centres RE Ltd. This excludes a liability that arises out of wilful breach of duty or improper use of inside information. The premium also insures the Trust Group for any indemnity payments it may make to its Officers in respect of costs and liabilities incurred. Disclosure of the premium payable is prohibited under the conditions of the policy.

Directors' information

Information on the qualifications, experience and responsibilities of Directors are presented in the Directors' report in the Vicinity Centres Group 30 June 2018 Annual Report available at vicinity.com.au.

Auditor-related information

Ernst & Young (EY) is the auditor of the Trust Group and is located at 8 Exhibition Street, Melbourne, Victoria 3000.

Indemnification of the auditor

To the extent permitted by law, the Vicinity Centres Group has agreed to indemnify EY, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit (for an unspecified amount). The indemnity does not apply to any loss arising out of any breach of the audit engagement agreements or from EY's negligent, wrongful or wilful acts or omissions. No payment has been made under this indemnity to EY during or since the end of the financial year.

Non-audit services

The Vicinity Centres Group may decide to employ the auditor on assignments additional to statutory audit duties where the auditor's expertise and experience with the Vicinity Centres Group are essential and will not compromise auditor independence.

Details of the amounts paid or payable to EY for audit and assurance and non-audit services provided to the Vicinity Centres Group during the year are set out in Note 14 to the financial statements.

The Board of the RE has considered the non-audit services provided during the year and is satisfied these services are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth) for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* (Cth) is included immediately following the Directors' Report.

Environmental regulation

The Trust Group is subject to the reporting obligations under the *National Greenhouse and Energy Reporting (NGER) Act 2007* (Cth). This requires the Trust Group to report annual greenhouse gas emissions, energy use and production for all assets under management for years ending 30 June. The Trust Group met this obligation by submitting its NGER report to the Department of the Environment and Energy for the year ended 30 June 2017 by 31 October 2017. The 2018 NGER report will be submitted by the 31 October 2018 submission date. The Trust Group monitors its other environmental legal obligations and is compliant for the reporting period.

Options over unissued securities

As at 30 June 2018 and at the date of this report, there were 8,137,548 unissued ordinary securities of the Vicinity Centres Group under option in the form of performance rights. Refer to Note 14 of the Vicinity Centres Group 30 June 2018 financial statements available at vicinity.com.au for further details.

Option holders do not have any rights, by virtue of the option, to participate in any security issue of the Vicinity Centres Group.

Events occurring after the end of the reporting period

On-market unit buy-back

On 23 July 2018, the Trust announced an extension of its on-market unit buy-back program. The program will be extended for a further 12 months to 22 July 2019 with up to 5% of ordinary securities on issue at 30 June 2018 able to be acquired. The Trust will only continue to purchase securities where doing so is accretive to earnings per unit and net tangible assets, while also preserving ample capacity to fund other capital requirements.

Events occurring after the end of the reporting period (continued)

Ongoing portfolio enhancement

On 6 August 2018, the Vicinity Centres Group announced it had entered into a memorandum of understanding (MOU) with Keppel Capital Ventures Pte. Ltd (a subsidiary of Keppel Corporation Limited, a listed Singaporean company) in relation to the establishment of a new wholesale property fund, Vicinity Keppel Australian Retail Fund (VKF or the fund). The establishment of VKF remains subject to due diligence, definitive documentation and final board approval from both parties. Upon establishment of VKF Vicinity Centres Trust would divest approximately \$1 billion of retail property assets to the fund and retain an equity investment of up to 10%. Under the terms of the MOU, the Vicinity Centres Group will also provide property management, leasing and development services and establish a 50:50 joint venture with Keppel Capital Ventures Pte. Ltd to manage the fund.

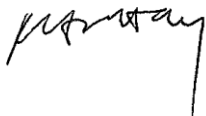
The announcement of VKF is in addition to existing plans for the sale of up to \$1.0 billion of Sub Regional and Neighbourhood shopping centres as disclosed in Note 4(b).

No matters other than those identified above have arisen since the end of the year which have significantly affected, or may significantly affect, the operations of the Trust Group, the results of those operations, or the state of affairs of the Trust Group in future financial periods.

Rounding of amounts

The Trust is an entity of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission (ASIC), relating to the “rounding off” of amounts in the Directors’ Report. Accordingly, amounts in the Directors’ Report have been rounded off to the nearest tenth of a million dollars (\$m) in accordance with that Legislative Instrument, unless stated otherwise.

Signed in Melbourne on 15 August 2018 in accordance with a resolution of Directors.



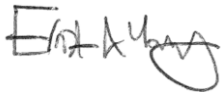
Peter Hay
Chairman

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

As lead auditor for the audit of Vicinity Centres Trust for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



David Shewring
Partner
15 August 2018

Statement of Comprehensive Income

for the year ended 30 June 2018

	Note	30-Jun-18 \$m	30-Jun-17 \$m
Revenue and income			
Property ownership revenue		1,229.3	1,222.6
Interest and other income		41.1	46.2
Total revenue and income		1,270.4	1,268.8
Share of net profit of equity accounted investments	5(a)	24.5	16.7
Property revaluation increment for directly owned properties	4(b)	629.1	931.1
Direct property expenses		(391.5)	(381.6)
Borrowing costs	6(c)	(182.3)	(154.7)
Responsible entity fees	12	(58.5)	(56.7)
Other expenses from ordinary activities		(2.0)	(1.7)
Net foreign exchange movement on interest bearing liabilities		(59.0)	60.7
Net mark-to-market movement on derivatives		12.6	(55.1)
Stamp duty	4(b)	(67.7)	(9.9)
Profit before tax for the year		1,175.6	1,617.6
Income tax expense	3	-	-
Net profit for the year		1,175.6	1,617.6
Other comprehensive income		-	-
Total comprehensive income for the year		1,175.6	1,617.6
Earnings per unit attributable to unitholders of the Trust Group:			
Basic earnings per unit (cents)	2	30.20	40.86
Diluted earnings per unit (cents)	2	30.15	40.81

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

Balance Sheet

as at 30 June 2018

	Note	30-Jun-18 \$m	30-Jun-17 \$m
Current assets			
Cash and cash equivalents		35.2	31.2
Receivables and other assets	9	79.1	72.3
Investment properties held for sale	4(a)	-	33.5
Derivative financial instruments	6(e)	3.2	-
Financial assets carried at fair value through profit or loss	9	-	4.3
Total current assets		117.5	141.3
Non-current assets			
Investment properties	4(a)	15,881.6	15,627.9
Investments accounted for using the equity method	5(a)	678.8	86.4
Derivative financial instruments	6(e)	62.5	68.3
Receivables and other assets	9	521.9	522.0
Total non-current assets		17,144.8	16,304.6
Total assets		17,262.3	16,445.9
Current liabilities			
Interest bearing liabilities	6(a)	41.6	-
Distribution payable		317.5	340.4
Payables and other financial liabilities	10	175.7	183.3
Provisions	11	25.5	26.6
Derivative financial instruments	6(e)	-	2.3
Total current liabilities		560.3	552.6
Non-current liabilities			
Interest bearing liabilities	6(a)	4,396.0	3,893.7
Other financial liabilities	10	204.8	202.7
Derivative financial instruments	6(e)	163.2	176.1
Total non-current liabilities		4,764.0	4,272.5
Total liabilities		5,324.3	4,825.1
Net assets		11,938.0	11,620.8
Equity			
Contributed equity	8	7,784.8	8,012.1
Retained profits		4,153.2	3,608.7
Total equity		11,938.0	11,620.8

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

Statement of Changes in Equity

for the year ended 30 June 2018

Attributable to unitholders of the Trust

	Contributed equity \$m	Retained profits \$m	Total \$m
As at 1 July 2016	8,012.1	2,675.9	10,688.0
Net profit for the year	-	1,617.6	1,617.6
Total comprehensive income for the year	-	1,617.6	1,617.6
Transactions with unitholders in their capacity as unitholders:			
Distributions declared	-	(684.8)	(684.8)
Total equity as at 30 June 2017	8,012.1	3,608.7	11,620.8
Net profit for the year	-	1,175.6	1,175.6
Total comprehensive income for the year	-	1,175.6	1,175.6
Transactions with unitholders in their capacity as unitholders:			
On-market unit buy-back	(227.3)	-	(227.3)
Distributions declared	-	(631.1)	(631.1)
Total equity as at 30 June 2018	7,784.8	4,153.2	11,938.0

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

Cash Flow Statement

for the year ended 30 June 2018

	Note	30-Jun-18 \$m	30-Jun-17 \$m
Cash flows from operating activities			
Receipts in the course of operations		1,365.5	1,384.1
Payments in the course of operations		(531.6)	(576.0)
Distributions and dividends received from equity accounted and managed investments		7.8	4.8
Interest and other revenue received		38.0	42.4
Interest paid		(181.1)	(158.4)
Net cash inflows from operating activities	13	698.6	696.9
Cash flows from investing activities			
Payments for capital expenditure on investment properties		(407.0)	(382.9)
Payments for acquisition of investment properties		(556.0)	(141.3)
Proceeds from disposal of investment properties		166.2	437.9
Proceeds from disposal of Chatswood Chase Sydney, net of cash disposed		558.2	-
Payment to settle other financial liability – Bentons Square acquisition		-	(38.3)
(38.3)		-	(38.3)
-			
Stamp duty paid		(67.7)	(9.9)
Net cash outflows from investing activities		(306.3)	(134.5)
Cash flows from financing activities			
Proceeds from borrowings		1,160.9	1,972.6
Repayment of borrowings		(670.5)	(1,946.3)
Proceeds from repayment of loan to Tuggeranong Town Centre Trust		-	117.4
Proceeds received from Vicinity Limited		59.3	67.6
Funds advanced to Vicinity Limited		(54.2)	(79.5)
On-market unit buy-back		(227.3)	-
Distributions paid to external unitholders		(654.0)	(696.7)
Debt establishment costs paid		(2.5)	(3.8)
Net cash outflows from financing activities		(388.3)	(568.7)
Net decrease in cash and cash equivalents held		4.0	(6.3)
Cash and cash equivalents at the beginning of the year		31.2	37.5
Cash and cash equivalents at the end of the year		35.2	31.2

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

Notes to the Financial Statements

The index of notes to the financial statements is shown below. Similar notes have been grouped into sections with relevant accounting policies and judgements and estimates disclosures incorporated within the notes to which they relate.

Operations

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- 2 Earnings per unit
- 3 Taxes
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- 5 Equity accounted investments

Capital structure and financial risk management

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About This Report

The financial report includes financial statements of the consolidated entity consisting of Vicinity Centres Trust (the Trust) and its controlled entities (collectively the Trust Group). The Trust is a for-profit entity that is domiciled and operates wholly in Australia.

The Trust is stapled to Vicinity Limited (the Company) to form the stapled group Vicinity Centres (the Vicinity Centres Group). Accordingly the financial report for Vicinity Centres Trust should be read in conjunction with the Vicinity Centres 30 June 2018 Annual Report available at vicinity.com.au.

Basis of preparation

This general purpose financial report:

- Has been prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards (AASBs) issued by the Australian Accounting Standards Board. Compliance with AASBs ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- Is presented in Australian dollars (\$) and rounded to the nearest tenth of a million dollars (\$m) in accordance with ASIC Legislative Instrument 2016/191 (unless otherwise stated);
- Has been prepared in accordance with the historical cost convention, except for certain financial assets and liabilities, and investment properties which have been recognised at fair value; and
- Was authorised for issue by the Board of Directors on 15 August 2018. The Directors have the power to amend and reissue the Financial Report.

Although the Trust Group has a net current deficiency of \$442.8 million (current liabilities exceed current assets) at reporting date, the Trust Group has sufficient current undrawn borrowing facilities (of \$1,078.8 million, refer to Note 6(b)) and generates sufficient operating cash flows to meet its current obligations as they fall due. Accordingly, this Financial Report has been prepared on a going concern basis.

The presentation of certain items has also been adjusted as necessary to provide more meaningful information in the context of the Trust Group. Where the presentation or classification of items in the Financial Report is amended, comparative amounts are also reclassified unless it is impractical. The adjustments made to the presentation of items had no impact on the net assets or net profit of the Trust Group.

Accounting policies

The Trust Group's accounting policies are contained within the relevant notes to these financial statements. Other accounting policies that relate to the financial statements as a whole, detail of any changes in accounting policies and the impact of new or amended accounting standards are contained in Note 18.

Critical accounting judgements and estimates

The preparation of financial statements requires the Trust Group to make judgements, estimates and assumptions. These are based on historical experience and other factors considered to be reasonable under the circumstances, but which are inherently uncertain, the results of which form the basis of the carrying value of certain assets and liabilities. Consequently, future actual results could differ from these estimates. Judgements and estimates considered material to this Financial Report are:

Judgement or estimate	Reference
Valuation of investment properties	Note 4
Valuation of derivatives	Note 6

Operations

1. Segment information

As described in the 'About This Report' section, the units in the Trust Group are stapled together with the shares of the Company and are traded jointly on the Australian Securities Exchange (ASX) under the ASX code VCX.

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

2. Earnings per unit

The basic and diluted earnings per unit for the Trust Group are calculated below in accordance with the requirements of AASB 133 *Earnings per Share*.

Basic earnings per unit is determined by dividing the net profit or loss after income tax by the weighted average number of units outstanding during the year.

Diluted earnings per unit adjusts the weighted average number of units for the weighted average number of performance rights on issue.

Basic and diluted earnings per unit are as follows:

For the 12 months to:	30-Jun-18	30-Jun-17
Earnings per unit attributable to unitholders:		
Basic earnings per unit (cents)	30.20	40.86
Diluted earnings per unit (cents)	30.15	40.81

The following net profit after income tax amounts are used in the numerator in calculating earnings per unit:

For the 12 months to:	30-Jun-18 \$m	30-Jun-17 \$m
Earnings used in calculating basic and diluted earnings per unit of the Trust Group	1,175.6	1,617.6

The following weighted average number of units are used in the denominator in calculating earnings per unit:

For the 12 months to:	30-Jun-18 Number (m)	30-Jun-17 Number (m)
Weighted average number of units used as the denominator in calculating basic earnings per unit	3,892.9	3,958.6
Adjustment for potential dilution from performance rights granted	7.1	5.0
Weighted average number of units and potential units used as the denominator in calculating the diluted earnings per unit	3,900.0	3,963.6

3. Taxes

The Trust and its controlled trusts are not liable to pay income tax (including capital gains tax) on the basis that the taxable income from the Trust's property investments is taxed on a flow through basis in the hands of the Trust's unitholders in accordance with the Attribution Managed Investment Trust Regime. The Trust's unitholders pay tax at their marginal tax rates, in the case of Australian resident unitholders, or through the Managed Investment Trust withholding rules for non-resident unitholders. As a result, the Trust has zero income tax expense recognised in respect of the Trust's profit.

Refer to Note 3 of the Vicinity Centres 30 June 2018 Group financial statements available at vicinity.com.au for further details of taxes paid by the Vicinity Centres Group.

4. Investment properties

The Trust Group's investment properties represent freehold and leasehold interests in land and buildings held to derive rental income. They are initially measured at cost, including related transaction costs. Subsequently, at each reporting period, they are carried at their fair values based on the market value determined by independent (external) valuers or internal valuations. These valuations include the cost of capital works in progress on development projects. Further detail on the Trust Group's valuation process and valuation methods is described in Note 4(c).

(a) Portfolio summary

Shopping centre type	30-Jun-18			30-Jun-17		
	Number of properties	Value \$m	Weighted average cap rate %	Number of properties	Value \$m	Weighted average cap rate %
Super Regional	1	3,050.0	3.75	1	2,675.0	4.25
Major Regional	6	2,323.0	5.69	7	3,358.0	5.45
City Centre	7	2,417.5	4.66	4	1,726.7	4.97
Regional	10	2,312.9	5.99	10	2,240.4	6.17
Outlet Centre	6	1,562.0	6.04	6	1,391.7	6.29
Sub Regional	29	3,288.6	6.29	31	3,308.0	6.37
Neighbourhood	13	684.1	6.31	15	728.4	6.51
Planning and holding costs ¹	-	34.5	-	-	21.3	-
Total	72	15,672.6	5.38	74	15,449.5	5.61
Add: Finance lease assets ²		220.1			217.5	
Less: Properties held for sale (current asset) ³		-			(33.5)	
Less: Property holdings by Vicinity Limited		(11.1)			(5.6)	
Total investment properties		15,881.6			15,627.9	

1. Planning and holding costs relating to potential major development projects are capitalised and carried within the overall investment property balance. These costs are reviewed each period and the status of the project assessed to determine if continued capitalisation of these costs remains appropriate.
2. Refer to Note 18(b) for further detail.
3. Represents the carrying amount of investment properties which the Trust Group has an agreement to sell at year end and are expected to settle within 12 months of balance date. The 30 June 2017 balance represented Terrace Central which settled during the year.

(b) Movements for the year

During the year, the following major investment property transactions have occurred:

Sydney premium asset swap

The Trust Group exchanged a 49% interest in the sub-trust which indirectly owns Chatswood Chase Sydney for 50% interests in GIC Private Limited's (GIC) Queen Victoria Building, The Galleries and The Strand Arcade (together, the Sydney CBD Centres). The change in ownership and corresponding loss of control of the subsidiary sub-trust caused the remaining 51% interest in Chatswood Chase Sydney to be transferred to equity accounted investments (refer Note 5). The stamp duty paid on the acquisition of the Sydney CBD Centres totalled \$30.8 million.

Asset divestments

The Trust Group completed the sale of the following investment properties:

- Terrace Central (November 2017) for \$33.5 million;
- Toormina Gardens (January 2018) for \$41.7 million (50% ownership interest);
- Brandon Park (April 2018) for \$67.5 million (50% ownership interest); and
- Goldfields Plaza (June 2018) for \$27.5 million.

Additionally, on 4 June 2018, the Trust Group announced plans for the sale of up to \$1.0 billion of Sub Regional and Neighbourhood investment properties. These planned divestments are in line with the Trust Group's continuing focus on portfolio enhancement. As at 30 June 2018, no investment properties were required to be classified as held for sale as there were no sale agreements in place.

4. Investment properties (continued)

(b) Movements for the year (continued)

Acquisition of freehold interests in Myer Bourke Street and Emporium Melbourne

The Trust Group and its co-owners exercised their option to acquire the freehold interests in Myer Bourke Street and Emporium Melbourne. Previously the only interests the Trust Group held in these investment properties were leasehold. Upon acquisition of the freehold interests, \$36.9 million of stamp duty was paid.

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

	30-Jun-18 \$m	30-Jun-17 \$m
Opening balance at 1 July	15,449.5	14,444.5
Acquisitions including associated stamp duty and transaction costs	586.8	151.1
Capital expenditure ¹	403.3	385.1
Capitalised borrowing costs ²	6.3	8.0
Disposals	(729.0)	(437.9)
Non-cash transfer of Chatswood Chase Sydney to equity accounted investments	(575.8)	-
Property revaluation increment for directly owned properties	629.1	931.1
Stamp duty ³	(67.7)	(9.9)
Amortisation of incentives and leasing costs	(46.7)	(39.6)
Straight-lining of rent adjustment	16.8	17.1
Closing balance at 30 June	15,672.6	15,449.5

- Includes development costs, maintenance capital expenditure, lease incentives, fit-out costs and capital expenditure on property holdings by Vicinity Limited. The FY18 balance also includes stamp duty of \$36.9 million paid upon acquisition of the freehold interests in Myer Bourke Street and Emporium Melbourne.
- Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate of 4.4% (30 June 2017: 4.3%).
- Includes stamp duty of \$30.8 million paid on the acquisition of the Sydney CBD Centres and \$36.9 million paid on the acquisition of the freehold interest in Myer Bourke Street and Emporium Melbourne.

(c) Portfolio valuation

Process

Each investment property is valued either independently (externally) or internally in December and June each year as part of the biannual valuation process. This process requires:

- Each property to be independently valued at least once per year;
- Independent valuers (who are selected from a pre-approved panel) that are appropriately qualified. This is considered to be when they are authorised by law to carry out such valuations and have at least five years valuation experience (including at least two years in Australia);
- Internal valuations to be undertaken if a property is not due for an independent valuation;
- Where an internal valuation shows a variance greater than 10% from the last independent valuation, a new independent valuation to be undertaken (even if this results in a property being independently valued twice in one year); and
- Internal valuations to be reviewed by a director of an independent valuation firm to assess the assumptions adopted and the reasonableness of the outcomes.

The valuation process is governed by the Board and the internal management Investment Committee, with input from key executives as required. The process is reviewed periodically to take into account any regulatory changes, changes in market conditions and any other requirements that would need to be adopted.

Methodology

To determine fair value:

- Independent valuations commonly adopt the midpoint of the 'capitalisation of net income' and 'discounted cash flow' (DCF) methods;
- Internal valuations utilise the latest available property financial information in the 'capitalisation of net income' method with a cross-check using the DCF method;
- Both independent and internal valuations employ the 'residual value' method when valuing development properties; and
- Properties that have sale agreements in place by the end of the financial year (held for sale) are valued at the agreed sale amount.

4. Investment properties (continued)

(c) Portfolio valuation (continued)

Valuation method	Description
Capitalisation of net income	<p>The fully leased annual net income of the property is capitalised in perpetuity from the valuation date, except for leasehold properties where in most instances, depending on the term remaining on the ground lease, the fully leased annual net income of the property is capitalised for the remaining ground lease term. Various adjustments are then made to the calculated result, including estimated future incentives, capital expenditure, vacancy allowances and reversions to market rent.</p> <p>The capitalisation rate reflects the nature, location and tenancy profile of the property together with current market investment criteria, as evidenced by current sales results.</p>
Discounted cash flow	<p>Projected cash flows for a selected investment period (usually 10 years) are derived from contracted or market rents, operating costs, lease incentives, capital expenditure and future income on vacant space.</p> <p>The cash flows assume the property is sold at the end of the investment period for a terminal value. This terminal value is calculated by capitalising in perpetuity assumed market net income at the end of the investment period by an appropriate terminal yield, except for leasehold properties where market net income may be capitalised for the remaining ground lease term at that time.</p> <p>Fair value is determined to be the present value of these projected cash flows, which is calculated by applying a market-derived discount rate to the cash flows.</p>
Residual value (for properties under development)	<p>The value of the asset on completion is calculated using the capitalisation of net income and DCF methods as described above, based on the forecast income profile at development completion. The estimated cost to complete the development, including construction costs and associated expenditures, finance costs, and an allowance for developer's risk and profit is deducted from the value of the asset on completion to derive the current value.</p>

Key inputs and sensitivities

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

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

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

4. Investment properties (continued)

(c) Portfolio valuation (continued)

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

Unobservable inputs	30-Jun-18		30-Jun-17		Sensitivity
	Range of inputs	Weighted average inputs	Range of inputs	Weighted average inputs	
Capitalisation rate ¹	3.75% - 7.50%	5.38%	4.25% - 7.50%	5.61%	The higher the capitalisation rate, discount rate, terminal yield, and expected downtime due to tenants vacating, the lower the fair value.
Discount rate ²	6.25% - 8.75%	7.17%	6.75% - 8.50%	7.55%	
Terminal yield ³	4.00% - 7.75%	5.64%	4.50% - 7.75%	5.85%	
Expected downtime (for tenants vacating)	2 months to 9 months	5 months	2 months to 9 months	5 months	
Rental growth rate	2.18% - 4.19%	3.40%	2.27% - 4.44%	3.52%	The higher the rental growth rate, the higher the fair value.

1. The capitalisation rate is the required annual yield of net market income used to determine the value of the property. The rate is determined with regards to comparable market transactions.
2. The discount rate is a required annual total rate of return used to convert a forecast cash flow of an asset into a present value. It should reflect the required rate of return of the property given its risk profile relative to competing uses of capital. The rate is determined with regard to comparable market transactions.
3. The terminal yield is the capitalisation rate used to convert forecast annual income into a forecast asset value at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regard to comparable market transactions and the expected risk of the asset at the end of the cash flow period.

All of the above key assumptions have been taken from the latest external valuation reports and internal valuation assessments.

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

(d) Operating lease receivables

The investment properties are leased to tenants under operating leases with rentals payable monthly. Future minimum rental revenue receivables under non-cancellable operating leases of investment properties are as follows:

	30-Jun-18 \$m	30-Jun-17 \$m
Not later than one year	886.0	860.8
Later than one year and not later than five years	2,384.5	2,282.1
Later than five years	1,172.4	1,130.9
Total operating lease receivables	4,442.9	4,273.8

5. Equity accounted investments

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

(a) Summary of equity accounted investments

	Ownership		Carrying value	
	30-Jun-18 %	30-Jun-17 %	30-Jun-18 \$m	30-Jun-17 \$m
Chatswood Chase Sydney joint venture ¹	51.0	-	591.2	-
Victoria Gardens Retail Trust joint venture	50.0	50.0	87.6	86.4
Closing balance			678.8	86.4

- ¹ As described in Note 4(b), a 49% interest in the sub-trust which indirectly owns Chatswood Chase Sydney was disposed of on 30 April 2018. The change in ownership and subsequent loss of control caused the remaining 51% interest in the sub-trust which indirectly owns Chatswood Chase Sydney to be transferred to equity accounted investments. The value transferred represented \$575.8 million relating to the Chatswood Chase Sydney investment property and \$0.9 million relating to the net working capital of the joint venture (total \$576.7 million). Investment in joint venture held through CC Commercial Trust.

(b) Movements for the year

	30-Jun-18 \$m	30-Jun-17 \$m
Opening balance	86.4	77.8
Non-cash transfer of Chatswood Chase Sydney from investment properties	576.7	-
Additional investments made during the year	0.2	0.4
Share of net profit of equity accounted investments	24.5	16.7
Distributions of net income from equity accounted investments	(9.0)	(6.8)
Disposal of ownership in equity accounted investments	-	(1.7)
Closing balance	678.8	86.4

(c) Summarised financial information of joint ventures

Chatswood Chase Sydney

Summarised financial information represents 51% of the underlying financial statement information of the Chatswood Chase Sydney joint venture.

	30-Jun-18 \$m	30-Jun-17 \$m
Investment properties (non-current)	592.0	-
Other net working capital	(1.0)	-
Net assets	591.0	-
Total income ¹	10.5	-
Aggregate net profits after income tax ¹	18.7	-

- ¹ Results since classification as an equity accounted investment from 30 April 2018.

5. Equity accounted investments (continued)

(c) Summarised financial information of joint ventures (continued)

Victoria Gardens Retail Trust

Summarised financial information represents 50% of the underlying financial statement information of the Victoria Gardens Retail Trust joint venture.

	30-Jun-18 \$m	30-Jun-17 \$m
Investment properties (non-current)	140.3	138.2
Interest bearing liabilities (non-current)	(46.7)	(46.6)
Other net working capital	(6.0)	(5.2)
Net assets	87.6	86.4
Total income	10.6	10.3
Aggregate net profits after income tax	5.9	14.8
Interest expense	(1.9)	(1.9)

(d) Related party transactions with equity accounted investments during the year

Chatswood Chase Sydney (joint venture, 51% ownership interest)

The Trust Group has distributions receivable of \$1,065,417 at 30 June 2018.

Victoria Gardens Retail Trust (joint venture, 50% ownership interest)

The Trust Group has distributions receivable of \$6,795,253 at 30 June 2018 (30 June 2017: \$5,825,157).

Capital structure and financial risk management

6. Interest bearing liabilities and derivatives

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Foreign currency denominated notes are translated to AUD at the applicable exchange rate at year end with the gain or loss attributable to exchange rate movements recognised in profit or loss in the Statement of Comprehensive Income.

During the year, the following financing activities have occurred:

- HKD \$640.0 million (\$108.2 million) of 10-year HKD Medium Term Notes (HKMTNs) were issued on 17 May 2018. The proceeds of this issue were used for general corporate purposes;
- Net drawdowns of existing facilities have been made throughout the year for the on-market unit buy-back, capital expenditure and asset acquisitions, partially offset by repayments from asset sales;
- Maturities for \$400.0 million of bank debt were extended from June 2019 to July 2020; and
- \$435.0 million of new bank debt facilities were established (\$100.0 million maturing July 2019, \$250.0 million maturing July 2021 and \$85.0 million maturing May 2021) and \$100.0 million were cancelled.

(a) Summary of facilities

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

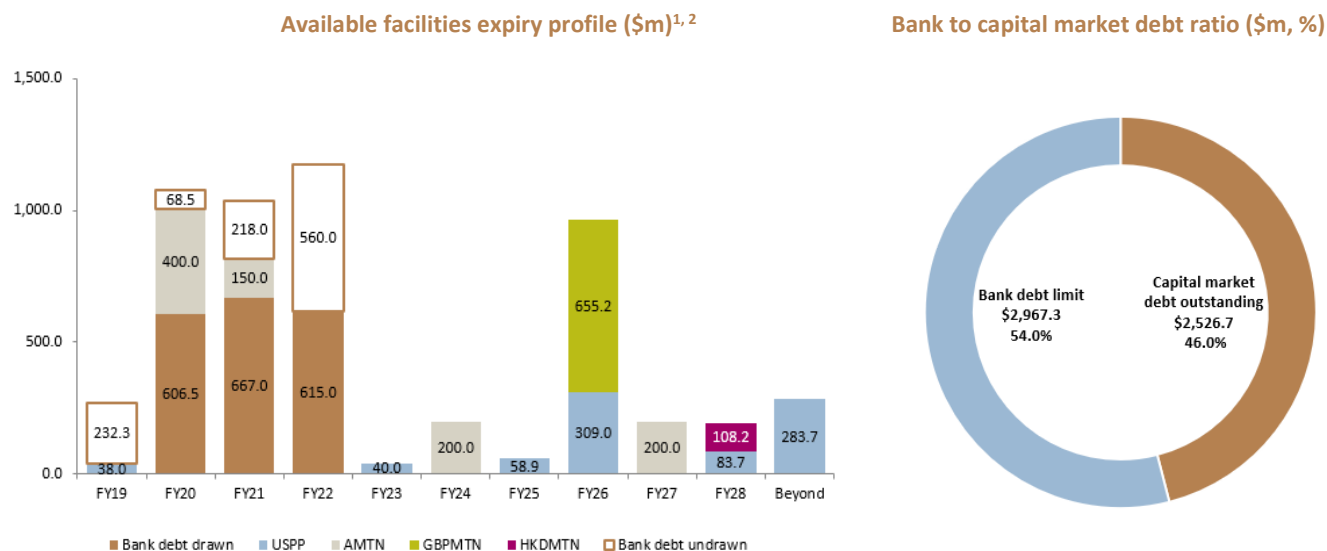
	30-Jun-18 \$m	30-Jun-17 \$m
Current liabilities		
Unsecured		
US\$ Private Placement Notes (USPPs)	41.6	-
Total current liabilities	41.6	-
Non-current liabilities		
Secured		
Related party borrowings ¹	311.5	317.4
Unsecured		
Bank debt	1,888.5	1,506.3
AUD Medium Term Notes (AMTNs)	646.2	645.7
GBP European Medium Term Notes (GBMTNs)	616.6	588.1
HKMTNs	110.4	-
USPPs	836.7	852.2
Deferred debt costs ²	(13.9)	(16.0)
Total non-current liabilities	4,396.0	3,893.7
Total interest bearing liabilities	4,437.6	3,893.7

1. The Trust Group has entered into a 'back-to-back' related party loan agreement with Vicinity Centres Finance Pty Ltd (VCFPL), a subsidiary of Vicinity Limited. The related party loan agreement between the Trust Group and VCFPL was secured and on the same terms and conditional as VCFPL's AMTNs.
2. Deferred debt costs comprise the unamortised value of borrowing costs on establishment or refinancing of debt facilities. These costs are deferred on the Balance Sheet and amortised to borrowing costs in the Statement of Comprehensive Income.

6. Interest bearing liabilities and derivatives (continued)

(b) Facility maturity and availability

The charts below outline the maturity of the Trust Group's total available facilities at 30 June 2018 by type and the bank to capital markets debt ratio. Of the \$5,494.0 million total available facilities (30 June 2017: \$5,050.8 million), \$1,078.8 million remains undrawn at 30 June 2018 (30 June 2017: \$1,126.0 million).



- The carrying amount of the USPPs, GBMTNs, HKMTNs and AMTNs in the Balance Sheet is net of adjustments for fair value items and foreign exchange translation of \$36.3 million (30 June 2017: -\$15.1 million). These adjustments are excluded from the calculation of total facilities available and amounts drawn as shown in the charts. Additionally, deferred debt costs of \$13.9 million (30 June 2017: \$16.0 million) are not reflected in the amount drawn. Secured related party borrowings are included within the total value of the AMTNs in this chart.
- Total available bank debt facilities are reduced by bank guarantees drawn against these facilities of \$17.7 million (30 June 2017: \$17.7 million).

(c) Borrowing costs

Borrowing costs consist of interest and other costs incurred in connection with borrowing funds (such as establishment fees, legal and other fees). Borrowing costs are expensed to the Statement of Comprehensive Income using the effective interest rate method, except for borrowing costs incurred for the development of investment properties which are capitalised to the cost of the investment property during the period of development.

For the 12 months to:	30-Jun-18 \$m	30-Jun-17 \$m
Interest and other costs on interest bearing liabilities and derivatives	189.0	167.2
Amortisation of deferred debt costs	4.6	5.2
Amortisation of fair value adjustments relating to discontinuation of hedge accounting	(2.6)	(7.9)
Amortisation of AMTN, GBMTN and secured related party borrowing fair value adjustment	(4.9)	(5.1)
Finance lease interest	2.6	3.3
Capitalised borrowing costs	(6.4)	(8.0)
Total borrowing costs	182.3	154.7

6. Interest bearing liabilities and derivatives (continued)

(d) Defaults and covenants

At 30 June 2018, the Trust Group had no defaults on debt obligations or breaches of lending covenants (30 June 2017: Nil).

(e) Derivatives

As detailed further in Note 7, derivative instruments are held to hedge against the interest rate risk and foreign currency risk of the Trust Group's borrowings. The fair value of these derivatives are estimated using valuation techniques, including referencing to the current fair value of other instruments that are substantially the same or calculation of discounted cash flows. These valuation techniques use observable Level 2 inputs, mainly interest rates and interest rate curves as well as foreign currency rates and foreign currency curves. Movements in fair value are recognised directly in profit or loss.

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

	Carrying amount		Notional principal value	
	30-Jun-18 \$m	30-Jun-17 \$m	30-Jun-18 \$m	30-Jun-17 \$m
Cross currency swaps (pay AUD floating receive USD fixed)	3.2	-	38.0	-
Total current assets	3.2	-	n/a	n/a
Cross currency swaps (pay AUD floating receive USD fixed)	60.7	68.3	302.5	340.6
Cross currency swaps (pay AUD floating receive HKD fixed)	1.8	-	108.2	-
Total non-current assets	62.5	68.3	n/a	n/a
Interest rate swaps (floating to fixed)	-	(2.3)	150.0	1,187.0
Total current liabilities	-	(2.3)	n/a	n/a
Cross currency swaps (pay AUD floating receive GBP fixed)	(48.3)	(67.5)	655.2	655.2
Cross currency swaps (pay AUD floating receive USD fixed)	(37.9)	(36.2)	357.8	357.8
Interest rate swaps (floating to fixed)	(77.0)	(72.4)	2,575.0	1,275.0
Total non-current liabilities	(163.2)	(176.1)	n/a	n/a

The movement in the net carrying amount of derivative financial instruments of \$12.6 million was due to mark-to-market fair value adjustments.

(f) Changes in interest bearing liabilities arising from financing activities

The table below details changes in the Trust Group's interest bearing liabilities arising from financing activities, including both cash and non-cash changes.

	Current interest bearing liabilities \$m	Non-current interest bearing liabilities \$m
Opening balance at 1 July 2017	-	3,893.7
Net cash drawdowns of borrowings	-	490.4
Reclassification from non-current to current interest-bearing liabilities	38.7	(38.7)
Foreign exchange rate adjustments recognised in profit and loss	3.7	55.3
Payment of deferred debt costs	-	(2.5)
Amortisation of deferred debt costs	-	4.6
Fair value movements, non-cash	(0.8)	(6.8)
Closing balance at 30 June 2018	41.6	4,396.0

7. Capital and financial risk management

The Vicinity Centres Group treasury team is responsible for the day to day management of the Trust Group's capital requirements and financial risk management. These activities are overseen by the internal management Capital Management Committee (CMC), operating under the CMC Charter and the treasury policy. This policy is endorsed by the Audit Committee and approved by the Board of Directors. The overall objectives of the CMC are to:

- Ensure that the Vicinity Centres Group has funds available to meet all financial obligations, working capital and committed capital expenditure requirements;
- Monitor and ensure compliance with all relevant financial covenants under the Vicinity Centres Group's debt facilities;
- Reduce the impact of adverse interest rate or foreign exchange movements on the Vicinity Centres Group using approved financial risk management instruments;
- Diversify banking counterparties to mitigate counterparty credit risk; and
- Ensure treasury operates in an appropriate control environment with effective systems and procedures in place.

The key financial risks monitored by the CMC and strategies adopted by the Vicinity Centres Group to assist in achieving these objectives are set out below:

Risk	Primary source(s)	Explanation and risk management strategy	Details
Interest rate risk	Floating rate borrowings	Interest rate risk represents the potential for changes in market interest rates to impact the total interest expense for the Vicinity Centres Group.	Note 7(a)
		Floating-to-fixed interest rate swaps ¹ are used to manage this risk. None of the Vicinity Centres Group's derivatives are currently in designated hedge relationships.	
		Under the terms of these swaps, the Vicinity Centres Group agrees to exchange, at specified intervals, amounts based on the difference between the contracted fixed interest rate and the floating market interest rate calculated by reference to an agreed notional principal amount.	
Foreign exchange rate risk	Foreign denominated interest bearing liabilities	Foreign exchange risk refers to the risk that cash flows arising from a financial commitment, asset or liability, denominated in a foreign currency, will fluctuate due to changes in a foreign exchange rate.	Note 7(b)
		This risk is managed through the use of cross currency swaps ¹ , which swap the foreign currency interest payments into Australian Dollars and fix the exchange rate for the conversion of the principal repayment. None of these derivatives are currently in designated hedge relationships.	
Liquidity risk	Interest bearing liabilities	Liquidity risk represents the risk that the Vicinity Centres Group will be unable to meet financial obligations as they fall due.	Note 7(c)
		To manage this risk, sufficient capacity under the Vicinity Centres Group's financing facilities is maintained to meet the needs arising from the Board approved short-term and medium-term business strategy. This is achieved through obtaining and maintaining funding from a range of sources (e.g. banks and Australian and foreign debt capital markets), maintaining sufficient undrawn debt capacity and cash balances, and managing the amount of borrowings that mature, or facilities that expire, in any one year.	
Credit risk	Tenant receivables, derivative counterparties and bank deposits	Credit risk is the risk that a tenant or counterparty to a financial instrument fails to meet their financial obligations to the Vicinity Centres Group.	Note 9
		To mitigate tenant credit risk, an assessment is performed taking into consideration the financial background of the tenant and the amount of any guarantee or bank guarantee provided as collateral under the lease.	
		To mitigate credit risk in relation to derivative counterparties and bank deposits, the Vicinity Centres Group has policies to limit exposure to any one financial institution.	
		The maximum exposure to credit risk at the balance date is the carrying amount of the Vicinity Centres Group's financial assets.	Note 6(e)

1. Derivative financial instruments such as interest rate swaps and cross currency swaps are not permitted to be entered into for speculative purposes under the Vicinity Centres Group's hedging policy. Limits are in place in respect of their use to hedge cash flows subject to interest rate and foreign exchange risk.

7. Capital and financial risk management (continued)

(a) Interest rate risk

As at the balance date, the Trust Group had the following exposure to cash flow interest rate risk:

	30-Jun-18 \$m	30-Jun-17 \$m
Total interest bearing liabilities (Note 6(a))	4,437.6	3,893.7
Add: Deferred debt costs	13.9	16.0
Add: Fair value and foreign exchange adjustments to GBMTNs	38.6	67.1
Less: Fair value and foreign exchange adjustments to USPPs	(65.0)	(38.9)
Less: Fair value adjustments to AMTNs and secured related party borrowings	(7.7)	(13.1)
Add: Fair value and foreign exchange adjustments to HKMTNs	(2.2)	-
Total drawn debt	4,415.2	3,924.8
Less: Fixed rate borrowings	(1,065.0)	(1,065.0)
Variable rate borrowings exposed to cash flow interest rate risk	3,350.2	2,859.8
Less: Notional principal of outstanding interest rate swap contracts	(2,725.0)	(2,462.0)
Net variable rate borrowings exposed to cash flow interest rate risk	625.2	397.8
Hedge ratio¹	86%	90%

1. Calculated as total drawn debt less representative net variable rate borrowings exposed to cash flow interest rate risk divided by total drawn debt.

Sensitivity to interest rates

A shift in the floating interest rate of +/- 25 bps, assuming the net exposure to cash flow interest rate risk as at 30 June 2018 remains unchanged for the next 12 months, would impact the Trust Group's cash interest cost for the next 12 months by \$1.6 million (30 June 2017 +/-25 bps: \$1.0 million).

The fair values of derivatives used by the Trust Group are also sensitive to interest rates. A shift in the forward interest rate curve of +/- 25 bps, assuming the net exposure to fair value interest rate risk as at 30 June 2018 remains unchanged for the next 12 months, would impact net profit and equity for the next 12 months by \$2.8 million (30 June 2017 +/-25 bps: \$8.6 million).

This sensitivity analysis should not be considered a projection.

(b) Foreign exchange rate risk

At 30 June 2018, the Trust Group has the following net exposure to foreign currency translation risk arising from GBP, HKD and USD denominated borrowings:

GBP borrowings	30-Jun-18 GBP £m	30-Jun-17 GBP £m
Total interest bearing liabilities in GBP	350.0	350.0
Less: Notional value of cross currency swaps (pay AUD receive GBP)	(350.0)	(350.0)
Net exposure to GBP translation risk	-	-
Hedge ratio for interest bearing liabilities in GBP	100%	100%

HKD borrowings	30-Jun-18 HKD \$m	30-Jun-17 HKD \$m
Total interest bearing liabilities in HKD	640.0	-
Less: Notional value of cross currency swaps (pay AUD receive HKD)	(640.0)	-
Net exposure to HKD translation risk	-	-
Hedge ratio for interest bearing liabilities in HKD	100%	-

7. Capital and financial risk management (continued)

(b) Foreign exchange rate risk (continued)

USD borrowings	30-Jun-18 USD \$m	30-Jun-17 USD \$m
Total interest bearing liabilities in USD	553.0	553.0
Less: Notional value of cross currency swaps (pay AUD receive USD)	(553.0)	(553.0)
Net exposure to USD translation risk	-	-
Hedge ratio for interest bearing liabilities in USD	100%	100%

The carrying values of debt and derivatives held by the Trust Group are also sensitive to foreign exchange rates. A shift in the forward GBP, HKD and USD exchange rate curves of +/- 5.0 cents, assuming the net exposure to fair value exchange rate risk as at 30 June 2018 remains unchanged for the next 12 months, would impact net profit and equity for the next 12 months by \$12.3 million (30 June 2017 +/- 5.0 cents: \$16.5 million).

(c) Liquidity risk

The contractual maturity of interest bearing liabilities and the interest payment profile is shown below. Estimated interest and principal payments are calculated based on the forward interest and foreign exchange rates prevailing at year end and are undiscounted. Timing of payments is based on current contractual obligations which may not align to the classifications of current and non-current liabilities. Refer to Note 10 for details on trade and other financial liabilities that are not included in the table below.

30-Jun-18	Less than 1 year \$m	1 to 3 years \$m	Greater than 3 years \$m	Total \$m	Carrying amount \$m
Bank debt	-	1,273.5	615.0	1,888.5	1,888.5
AMTNs	-	250.0	400.0	650.0	646.2
GBMTNs	-	-	695.0	695.0	616.6
HKMTNs	-	-	116.1	116.1	110.4
Related party borrowings	-	300.0	-	300.0	311.5
USPPs	40.5	-	829.5	870.0	878.3
Estimated interest payments and line fees on borrowings	167.9	256.8	424.8	849.5	n/a
Estimated net interest rate swap cash outflow	25.5	37.4	19.9	82.8	n/a
Estimated gross cross currency swap cash outflows	97.8	122.8	1,822.3	2,042.9	n/a
Estimated gross cross currency swap cash (inflows)	(95.1)	(105.1)	(1,833.9)	(2,034.1)	n/a
Total contractual outflows	236.6	2,135.4	3,088.7	5,460.7	4,451.5

30-Jun-17	Less than 1 year \$m	1 to 3 years \$m	Greater than 3 years \$m	Total \$m	Carrying amount \$m
Bank debt	-	1,108.3	398.0	1,506.3	1,506.3
AMTNs	-	400.0	250.0	650.0	645.7
GBMTNs	-	-	694.5	694.5	588.1
Related party borrowings	-	-	300.0	300.0	317.4
USPPs	-	39.4	851.9	891.3	852.2
Estimated interest payments and line fees on borrowings	129.9	262.1	485.4	877.4	n/a
Estimated net interest rate swap cash outflow	26.5	40.5	12.3	79.3	74.7
Estimated gross cross currency swap cash outflows	52.6	153.7	1,761.1	1,967.4	35.4
Estimated gross cross currency swap cash (inflows)	(48.6)	(135.9)	(1,761.8)	(1,946.3)	n/a
Total contractual outflows	160.4	1,868.1	2,991.4	5,019.9	4,019.8

7. Capital and financial risk management (continued)

(d) Fair value of borrowings

As at 30 June 2018, the Trust Group's debt has a fair value of \$4,476.5 million (30 June 2017: \$3,987.3 million).

The difference between the carrying amount and fair value is due to fixed rate borrowings held. The fair value of fixed rate borrowings is calculated by discounting the contractual cash flows using the yield to maturity or prevailing market discount rates for market fixed interest debt instruments, with similar terms, maturity and credit quality. Had the fixed debt been recognised at fair value, these inputs would have been classified as Level 2 under the fair value hierarchy as the market discount rates used are indirectly observable.

(e) Capital risk management

The Vicinity Centres Group maintains a strong and conservative capital structure with appropriate liquidity, a strong balance sheet and a diversified debt profile (by source and tenor). The Vicinity Centres Group has long-term credit ratings of 'A2/stable' from Moody's Investors Service and 'A/stable' from Standard & Poor's. Key metrics monitored by the Vicinity Centres Group are the bank facilities to capital markets debt ratio, gearing ratio and interest cover ratio. These metrics are shown below:

Bank facilities to capital market debt

Facility type	30-Jun-18 \$m	30-Jun-17 \$m
Total bank debt limit ¹	2,967.3	2,632.3
Total capital market debt outstanding	2,526.7	2,418.5
Total debt facilities available to the Trust Group	5,494.0	5,050.8
Bank facilities as a proportion of total debt facilities	54.0%	52.1%
Capital market debt as a proportion of total debt facilities	46.0%	47.9%

1. Total bank debt facilities are reduced by bank guarantees drawn against these bank debt facilities of \$17.7 million (30 June 2017: \$17.7 million).

Gearing

	30-Jun-18 \$m	30-Jun-17 \$m
Total drawn debt (Note 7(a))	4,415.2	3,924.8
Drawn debt net of cash	4,380.0	3,854.9
Total tangible assets excluding cash, finance lease assets and derivative financial assets	16,941.3	16,128.9
Gearing ratio (target range of 25.0% to 35.0%)	25.9%	24.1%

Interest cover ratio

The interest cover ratio (ICR) is calculated in accordance with the definitions within the Vicinity Centres Group's bank debt facility agreements as follows:

- EBITDA which generally means the Vicinity Centres Group's earnings before interest, tax, depreciation, amortisation, fair value adjustments and other items; divided by
- Total interest expense.

At 30 June 2018 the interest cover ratio was 4.8 times (30 June 2017: 5.6 times).

8. Contributed equity

An ordinary stapled security comprises one share in the Company and one unit in the Trust. Ordinary stapled securities entitle the holder to participate in distributions and the proceeds on winding up of the Vicinity Centres Group (if enacted) in proportion to the number of securities held. Ordinary stapled securities are classified as equity.

Incremental costs directly attributable to the issue of new stapled securities are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new stapled securities for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

The number of units of the Trust Group is shown in the table below. All units are fully paid.

	30-Jun-18 Number (m)	30-Jun-17 Number (m)	30-Jun-18 \$m	30-Jun-17 \$m
Total units on issue at the beginning of the year	3,958.6	3,958.6	8,012.1	8,012.1
On-market unit buy-back	(87.0)	-	(227.3)	-
Total units on issue at the end of the year	3,871.6	3,958.6	7,784.8	8,012.1

Working capital

9. Receivables and other assets

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Debts that are individually known to be uncollectable are written off when identified. An allowance account (provision for doubtful debts) is used when there is objective evidence that the Trust Group may not be able to collect all amounts due according to the original terms of the receivables.

	30-Jun-18 \$m	30-Jun-17 \$m
Trade debtors	14.4	14.3
Accrued income	16.7	15.5
Distribution receivable from joint ventures and associates	7.8	5.8
Less: Provision for doubtful debts	(6.7)	(6.0)
Total receivables	32.2	29.6
Prepayments	12.6	12.4
Land tax levies	12.0	13.1
Tenant security deposits held	0.8	1.2
Development receivables	1.6	-
Other	19.9	16.0
Total current receivables and other assets	79.1	72.3
Loan to Vicinity Limited	514.4	519.5
Investment in unlisted fund at fair value ¹	5.2	-
Investment in related party (Vicinity Enhanced Retail Fund) at fair value	2.3	2.5
Total non-current receivables and other assets	521.9	522.0

1. Previously classified within current financial assets carried at fair value through profit or loss (carrying value at 30 June 2017 of \$4.3 million)

Risk of tenant default

Tenant debtor balances are continually monitored with the Trust Group considering receivables that have not been paid for 30 days after the invoice date as past due. Prompt recovery of these balances is sought. Where there are indicators that full recovery will not occur, provision is made for these amounts.

Of the \$38.9 million trade and related party receivables outstanding (30 June 2017: \$35.6 million), \$13.7 million, which represents approximately 1.08% of total combined revenue, is considered past due but not impaired at 30 June 2018 (30 June 2017: \$12.1 million).

The Trust Group has recognised a loss of \$3.9 million (30 June 2017: \$5.6 million) in respect of impaired trade receivables during the year. The loss has been included in direct property expenses from ordinary activities in the Statement of Comprehensive Income.

The Trust Group does not hold any collateral in relation to trade or other receivables, other than security deposits or bank guarantees as is usual in leasing agreements.

The maximum exposure to credit risk at the balance date is the carrying amount of each class of receivables outlined above.

10. Payables and other financial liabilities

Payables and other financial liabilities represent liabilities for goods and services provided to the Trust Group prior to the end of the financial year and that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition, except finance lease liabilities. Trade and other payables are carried at amortised cost and are not discounted due to their short-term nature. At 30 June 2018, the carrying value of payables and other financial liabilities approximated their fair value.

	30-Jun-18 \$m	30-Jun-17 \$m
Current		
Trade payables and accrued expenses	49.4	49.7
Rents received in advance	27.7	34.5
Accrued interest expense	18.7	16.8
Accrued capital expenditure	23.8	54.9
Security deposits	0.5	0.6
Related party payables	36.5	10.0
Finance lease liabilities ¹	15.3	14.8
Other	3.8	2.0
Total current liabilities	175.7	183.3
Non-current		
Finance lease liabilities ¹	204.8	202.7
Total non-current liabilities	204.8	202.7

1. Refer Note 18(b).

11. Provisions

Provisions comprise liabilities for stamp duty obligations, levies and other property liabilities for which the amount or timing of the settlement is uncertain as it is outside the control of the Trust Group.

The movements for the year in other current provisions are as follows:

	30-Jun-17 \$m	Arising during the year \$m	Paid during the year \$m	30-Jun-18 \$m
Stamp duty	9.0	67.7	(67.7)	9.0
Land tax levies	13.1	12.0	(13.1)	12.0
Other	4.5	-	-	4.5
Total current provisions	26.6	79.7	(80.8)	25.5

Other disclosures

12. Remuneration of the Responsible Entity and Employees

The Trust Group is required to have an incorporated responsible entity (RE) to manage its activities. The RE provides Key Management Personnel for the Trust Group. The total RE fee recognised by the Trust Group for the year was \$58,535,000 (30 June 2017: \$56,749,000). At 30 June 2018 \$29,150,492 of RE fees remained payable to the RE (30 June 2017: \$nil).

The Trust Group is not required to prepare a Remuneration Report. The Remuneration Report for the Vicinity Centres Group can be found in the 30 June 2018 Vicinity Centres Annual Report at vicinity.com.au.

13. Notes to the Cash Flow Statement

The reconciliation of net profit after tax for the financial year to net cash provided by operating activities is provided below.

For the 12 months to:	30-Jun-18 \$m	30-Jun-17 \$m
Net profit after tax for the financial year	1,175.6	1,617.6
<i>Exclude non-cash items and cash flows under investing and financing activities:</i>		
Amortisation of incentives and leasing costs	46.7	39.6
Straight-lining of rent adjustment	(16.8)	(17.1)
Property revaluation increment for directly owned properties	(629.1)	(931.1)
Stamp duty	67.7	9.9
Share of net (profit)/loss of equity accounted investments	(24.5)	(16.7)
Distributions of net income from equity accounted investments	9.0	6.8
Amortisation of non-cash items included in interest expense	(0.3)	(4.5)
Net foreign exchange movement on interest bearing liabilities	59.0	(60.7)
Net mark-to-market movement on derivatives	(12.6)	55.1
Other non-cash items	0.4	(0.5)
<i>Movements in working capital:</i>		
Increase/(decrease) in payables, provisions and other liabilities	28.6	(5.7)
(Increase)/decrease in receivables and other assets	(5.1)	4.2
Net cash inflow from operating activities	698.6	696.9

14. Auditor's remuneration

During the year, the following fees were paid or payable for services provided to the Vicinity Centres Group by the auditor, EY, or its related practices.

For the 12 months to:	30-Jun-18 \$'000	30-Jun-17 \$'000
Audit and assurance services		
Statutory audit and review of financial reports	1,087.0	1,145.0
Other assurance services ¹	782.1	627.7
Total audit and assurance services	1,869.1	1,772.7
Non-audit-related services		
Taxation compliance services	525.0	544.0
Total non-audit-related services	525.0	544.0
Total auditor's remuneration	2,394.1	2,316.7

1. Other assurance services largely relate to:
- Audits of tenant outgoing and promotional fund statements (as required by state based legislation);
 - Assurance over sustainability information and disclosures;
 - Compliance audits of Australian Financial Services Licences and Real Estate Trust Bank Accounts; and
 - Contractually required assurance activities under Joint Venture arrangements.

15. Parent entity financial information

The financial information presented below represents that of the legal parent entity, Vicinity Centres Trust. Investments in subsidiary entities are accounted for at cost, less any impairment recognised since acquisition. Other accounting policies are consistent with those used for the preparation of the consolidated Financial Report.

	30-Jun-18 \$m	30-Jun-17 \$m
Balance Sheet		
Current assets	1,348.6	1,200.9
Total assets	15,577.7	14,957.1
Current liabilities	(1,396.5)	(1,027.4)
Total liabilities	(5,269.6)	(4,395.3)
Net assets	10,308.1	10,561.7
Equity		
Contributed equity	13,220.6	13,447.9
Accumulated losses	(2,912.5)	(2,886.2)
Total equity	10,308.1	10,561.7
Net profit for the financial year of Vicinity Centres Trust as parent entity	604.8	689.5
Total comprehensive profit for the financial year of Vicinity Centres Trust	604.8	689.5

The parent entity has no capital expenditure commitments which have been contracted but not provided for, or operating lease commitments and contingencies as at reporting date.

16. Related parties

(a) Background

The parent entity of the Trust Group is Vicinity Centres Trust which is domiciled and incorporated in Australia. The ultimate Australian parent entity for accounting purposes is Vicinity Limited.

(b) Information on related party transactions and balances

The following table shows transactions that occurred, on normal commercial terms, with related parties during the year, if not otherwise disclosed within these financial statements. Transactions and balances relating to equity accounted investments are disclosed in Note 5(d).

For the 12 months to:	30-Jun-18 \$'000	30-Jun-17 \$'000
Ultimate parent		
Interest income on loan to Vicinity Limited	36,880	37,865
Other related parties		
<i>Revenue and income</i>		
Distribution revenue	137	115
Rent and outgoings	8,488	7,340
<i>Expenses</i>		
Borrowing costs on secured related party borrowings	(16,740)	(16,898)
Asset management fees	(86,896)	(82,229)
Reimbursement of expenses	(57,258)	(56,244)

The following balances are outstanding at the reporting date in relation to transactions with related parties, if not otherwise disclosed within these financial statements:

	30-Jun-18 \$'000	30-Jun-17 \$'000
Ultimate parent		
Other payables	-	(42)
Other receivables	-	26
Other related parties		
Interest payable on secured related party borrowings	(1,124)	(1,103)
Asset management fees payable	-	(83)
Capital expenditure payable ¹	(3,427)	(9,643)
Other payables	(2,785)	(141)
Borrowing costs receivable on loan to Vicinity Limited	993	1,530
Property jointly owned²	-	528,000

- Represents value of capital expenditure paid by a subsidiary of the ultimate parent on behalf of the Trust and recoverable from the Trust.
- At 30 June 2017, represented the value of the Trust's 50% interest in Grand Plaza and 50% interest in Rockingham Centre. These were jointly owned with an entity for which a subsidiary of the ultimate parent acts as RE however that entity disposed of its interests in the properties during FY18.

17. Commitments and contingencies

(a) Operating lease commitments

Estimated operating lease expenditure contracted for at reporting date, but not provided for in the financial statements:

	30-Jun-18 \$m	30-Jun-17 \$m
Not later than one year	0.7	0.9
Later than one year and not later than five years	1.0	1.1
Later than five years	0.7	1.7
Total operating lease commitments	2.4	3.7

(b) Capital commitments

Estimated capital expenditure contracted for at reporting date, but not provided for:

	30-Jun-18 \$m	30-Jun-17 \$m
Not later than one year	105.8	168.9
Later than one year and not later than five years	7.0	52.5
Total capital commitments	112.8	221.4

(c) Contingent assets and liabilities

Bank guarantees totalling \$51.9 million have been arranged by the Vicinity Centres Group to guarantee obligations for two of the Vicinity Centres Group's Responsible Entities to meet their financial obligations under their Australian Financial Services Licences and other capital requirements.

As at reporting date, there were no material contingent assets or liabilities.

18. Other accounting matters

(a) Other accounting policies

This section contains other accounting policies that relate to the financial statements as a whole, detail of any changes in accounting policies and the impact of new or amended accounting standards.

Principles of consolidation

These consolidated financial statements comprise the assets and liabilities of all controlled entities at 30 June 2018 and the results of all controlled entities for the financial year unless otherwise stated. Controlled entities are:

- All entities over which the Trust 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 relevant activities of the entity; and
- Fully consolidated from the date on which control is transferred to the Trust Group, and, where applicable, deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of controlled entities, and the balances and effects of transactions between all controlled entities are eliminated in full.

Revenue and income

Revenue and income is recognised for the following activities:

Property ownership revenue

As the owner of a number of shopping centres, the Trust Group derives lease income as lessor from the leasing of the retail space in these properties. Lease income is recognised on a straight-line basis over the lease term. Items included in the straight lining calculation as required by accounting standards are lease incentives given to tenants and fixed rental increases that form part of rental contracts.

18. Other accounting matters (continued)

(a) Other accounting policies (continued)

Interest revenue

Interest revenue is recognised using the effective interest method.

Investments in joint operations

Included in investment properties are shopping centres that are accounted for as joint operations – in the form of direct ownership of a partial freehold or leasehold interest in a shopping centre with a strategic partner, based on standard market joint operation agreements. The Trust Group accounts for joint operations by recognising its share of the shopping centre, classified as investment property, and its share of other assets, liabilities, income and expenses from the use and output of the joint operation.

Impact of new and amended standards

AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* became effective as of 1 July 2017 and resulted in updated disclosures in the financial statements (refer Note 6(f)).

There were other new and/or amended standards that became effective as of 1 July 2017, but these did not have a material impact on the financial statements.

Future impact of Accounting Standards and Interpretations issued but not yet effective

AASB 9 Financial Instruments (effective for the Trust Group from 1 July 2018)

This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*. It introduces a new approach for classification and measurement; impairment of financial instruments by introducing a forward-looking 'expected loss' impairment model for recording expected credit losses; and hedge accounting. Following an assessment of the requirements of the standard, the Trust Group expects there will not be a material impact upon adoption of these new requirements as:

- **Classification and measurement:** The Trust Group's financial assets, which largely consist of trade and other receivables held at amortised cost and derivative financial instruments held at fair value, are already classified and measured in a manner consistent with the requirements of AASB 9;
- **Impairment of financial assets:** Lifetime expected credit losses will be determined under the simplified approach. These will not be materially different to the amount determined under AASB 139 impairment requirements; and
- **Hedge accounting:** The Trust Group does not have any existing designated hedging relationships for accounting purposes.

AASB 15 Revenue from Contracts with Customers (effective for the Trust Group from 1 July 2018)

This standard replaces AASB 118 *Revenue* and other revenue-related standards and interpretations. The 'core principle' of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of those goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard has introduced a five-step model as the framework for applying the core principle. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

This standard will not have a significant impact on the Trust Group's financial statements as:

- The majority of the Trust Group's revenue and income is base rental income derived from lease agreements with tenants. These agreements are outside the scope of AASB 15; and
- The Trust Group's accounting policies for the recognition of other revenue items derived by the Trust Group is similar to the revenue recognition requirements under AASB 15.

AASB 16 Leases (effective for the Trust Group from 1 July 2019)

This standard replaces AASB 117 *Leases* and other lease-related interpretations. It provides a new lessee accounting model which requires a lessee to recognise lease assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Trust Group is currently assessing the potential impact of the new lessee requirements, including any additional disclosure requirements. No material impact is expected as the Trust Group does not currently have any significant arrangements where it is a lessee.

Additionally, the accounting requirements for tenant leasing arrangements for which the Trust Group is the lessor, remain substantially unchanged under AASB 16 and accordingly no material impact on the Statement of Comprehensive Income is expected.

18. Other accounting matters (continued)

(b) Finance lease liabilities

A number of the Trust Group's investment properties are held under long-term leasehold arrangements. As per market practice, external and internal valuations performed to determine the fair values of these properties at reporting date (as disclosed in Note 4) have deducted the estimated lease payments from the valuation cash flows.

As required by AASB 140 *Investment Properties*, where the fair value model is used to value investment property, the present value of these minimum payments under the leasehold arrangements must then be presented separately as a:

- Finance lease asset that is added to the overall investment property balance (refer Note 4(a)); and
- Corresponding finance lease liability (refer Note 10).

The minimum lease payments under finance leases fall due as follows:

	30-Jun-18 \$m			30-Jun-17 \$m		
	Minimum lease payments	Future finance charges	Present value of payments	Minimum lease payments	Future finance charges	Present value of payments
Not later than one year	15.3	-	15.3	14.8	-	14.8
Later than one but not more than five years	66.7	(14.0)	52.7	64.5	(13.5)	51.0
More than five years	563.2	(411.1)	152.1	580.7	(429.0)	151.7
Total	645.2	(425.1)	220.1	660.0	(442.5)	217.5

19. Events occurring after the reporting date

On-market unit buy-back

On 23 July 2018, the Trust announced an extension of its on-market unit buy-back program. The program will be extended for a further 12 months to 22 July 2019 with up to 5% of ordinary securities on issue at 30 June 2018 able to be acquired. The Trust will only continue to purchase units where doing so is accretive to earnings per unit and net tangible assets, while also preserving ample capacity to fund other capital requirements.

Ongoing portfolio enhancement

On 6 August 2018, the Vicinity Centres Group announced it had entered into a memorandum of understanding (MOU) with Keppel Capital Ventures Pte. Ltd (a subsidiary of Keppel Corporation Limited, a listed Singaporean company) in relation to the establishment of a new wholesale property fund, Vicinity Keppel Australian Retail Fund (VKF or the fund). The establishment of VKF remains subject to due diligence, definitive documentation and final board approval from both parties. Upon establishment of VKF Vicinity Centres Trust would divest approximately \$1 billion of retail property assets to the fund and retain an equity investment of up to 10%. Under the terms of the MOU, the Vicinity Centres Group will also provide property management, leasing and development services and establish a 50:50 joint venture with Keppel Capital Ventures Pte. Ltd to manage the fund.

The announcement of VKF is in addition to existing plans for the sale of up to \$1.0 billion of Sub Regional and Neighbourhood shopping centres as disclosed in Note 4(b).

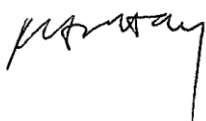
No matters other than those identified above have arisen since the end of the year which have significantly affected, or may significantly affect, the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial periods.

Directors' Declaration

In accordance with a resolution of the Directors of Vicinity Centres RE Ltd as Responsible Entity for Vicinity Centres Trust (the Trust), we declare that:

- (a) in the opinion of the Directors, the financial statements and notes set out on pages 9 to 37 are in accordance with the *Corporations Act 2001* (Cth), including:
 - i. giving a true and fair view of the Trust and its controlled entities' financial position as at 30 June 2018 and of the performance for the financial year ended on that date, and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth), and
 - iii. complying with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in the notes to the financial statements, and
- (b) in the opinion of the Directors, there are reasonable grounds to believe that the Trust and its controlled entities will be able to pay their debts as and when they become due and payable, and
- (c) the Directors have been given the Declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 30 June 2018.

Signed in accordance with a resolution of the Directors of Vicinity Centres RE Ltd.



Peter Hay
Chairman

Melbourne
15 August 2018

Independent Auditor's Report to the Unitholders of Vicinity Centres Trust

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Vicinity Centres Trust (the "Trust") and its subsidiaries (collectively the "Group"), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 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.

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

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 of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Shopping Centre Investment Property Portfolio – Carrying Values and Revaluations

Why significant	How our audit addressed the key audit matter
<p>The Group owns a portfolio of retail property assets valued at \$15,881.6 million at 30 June 2018, which represents 92.0% of total assets of the Group.</p> <p>The valuation of the property portfolio, which includes properties in a development phase and jointly held investments, is based on a number of assumptions, such as capitalisation rates, discount rates and terminal yields, which require significant estimation and judgement. This also includes the estimations for costs to complete and an allowance for developer's risk and profit for properties in the development phase. Minor adjustments to certain assumptions can lead to significant changes in the valuation of the retail property assets.</p> <p>As outlined in Note 4, the Group determined the valuation of the portfolio based upon valuations sourced from suitably qualified independent valuation experts and internal valuations.</p> <p>Refer to Note 4 for a description of the accounting policy, overview of the valuation methodology, process for valuation (including the use of independent expert valuers and internal valuations), significant assumptions and the relative sensitivity of the valuation to changes in these assumptions.</p>	<p>In performing our audit procedures, on a sample basis, we:</p> <ul style="list-style-type: none"> Assessed the competence and qualifications of valuers, as well as the objectivity of external valuers, and appropriateness of the scope and methodology of the valuation commissioned for the purposes of the financial report. Assessed the key inputs and assumptions adopted in the valuation methodologies including comparing capitalisation rates to those derived from relevant transactions and other external market sources. Compared the data used in the valuation to the actual and budgeted financial performance of the underlying properties. For properties under development, we compared the costs incurred to date plus the estimated costs to complete to the expected value of the completed project, as advised by the valuers. Discussed key developments in progress with representatives of the Group responsible for managing developments. Assessed the effectiveness of controls surrounding the development process and tested a sample of development spend on major projects to progress billing reports. Reviewed the portfolio assets with reference to external market data and portfolio performance in order to identify and investigate items that were outside of our audit expectations. Assessed the disclosures included in Note 4 of the financial report. <p>Our real estate valuation specialists were involved in the conduct of these procedures where appropriate.</p>

2. Property Portfolio Transactions

Why significant	How our audit addressed the key audit matter
<p>The Group undertook a significant number of acquisitions and disposals during the year, which had a significant effect on the financial position and results of the Group.</p> <p>As outlined in Note 4, these transactions included the exchange of 49% of the Group's units in CC Commercial Trust (which ultimately owns 100% of the Chatswood Chase Shopping Centre); in exchange for 50% of the leasehold interest in GIC Private Limited's Queen Victoria Building, and 50% of the freehold interests in The Galleries and The Strand. Determining the appropriate accounting treatment included assessing the divestment of units, loss of control and the classification of the assets going forward.</p> <p>Refer to Note 4 for the impact of these transactions on Investment Properties and Note 5 for the impact on Equity Accounted Investments.</p>	<p>In performing our audit procedures, we:</p> <ul style="list-style-type: none"> Reviewed the sale and purchase agreements and other related documents. Assessed these transactions against the recognition, derecognition, measurement and classification criteria of the Group's accounting policies set out in Note 4 and Note 5 of the financial report and applicable Australian Accounting Standards. <p>Assessed the adequacy of the disclosures in Note 4 and Note 5 of the financial report.</p>

Information Other than the Financial Report and Auditor's Report Thereon

The Directors of Vicinity Centres RE Ltd, the Responsible Entity of the Trust (the "RE") are responsible for the other information. The other information comprises the information included in the Vicinity Centres Trust Financial Report for the year ended 30 June 2018, 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 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 RE are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors of the RE 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 of the RE are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors of the RE 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

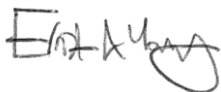
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the RE.
- Conclude on the appropriateness of the Directors of the RE's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors of the RE regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors of the RE with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors of the RE, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Ernst & Young



David Shewring
Partner
Melbourne
15 August 2018