VICINITY CENTRES

ASX Announcement

17 February 2016

Vicinity delivers 9.3% uplift in underlying EPS

- **Strong underlying earnings growth and total return performance**
- **Improved retail sales growth and portfolio metrics**
- **Significantly progressed development pipeline**
- **Well ahead of schedule on merger operational cost synergies**
- **Completed merger refinancing program and extended debt duration**
- **Acquired two high quality Perth shopping centres with strong fundamentals**
- **Announced $750 million to $1 billion of asset disposal opportunities**
- **Reiterated strategic focus**
- **Firmed FY16 underlying EPS guidance to the top end of previously announced range**

Vicinity Centres (Vicinity or the Group, ASX:VCX) today reported a statutory net profit of $424.6 million for the six months ended 31 December 2015[1]. Underlying earnings were up 10.1% to $377.6 million with underlying earnings per security (EPS) up 9.3% to 9.5 cents, compared to the six months to 31 December 2014 on an aggregate basis[2]. This reflects solid portfolio performance and the delivery of significant merger benefits. The first half distribution per security (DPS) of 8.8 cents was up 4.8% on the prior corresponding period (pcp)[3] and will be paid on 2 March 2016.

Mr Angus McNaughton, CEO and Managing Director, said: "We are pleased with the performance of the Group in the first six months post merger. Vicinity's portfolio is performing strongly. Our focus on intensive asset management, portfolio occupancy, realising merger benefits, ancillary income and operational efficiencies are evidenced in these strong operational and financial results. Accordingly, today we have firmed our FY16 underlying EPS guidance to 19.1 cents[4], the top end of our previously announced guidance range of 18.8 to 19.1 cents.

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1 Statutory net profit for the six months to 31 December 2014 was $412.7 million. Under accounting standards, Novion Property Group (Novion) was identified as the accounting acquirer in the merger with Federation Centres (Federation). Hence, the statutory net profit for the 6 months to 31 December 2014 reflects Novion results only. Comparisons in the statutory result are therefore not indicative of the underlying performance of the Group. For comparison purposes, management assesses Group performance against aggregated Federation and Novion results for the six months to 31 December 2014.

2 Aggregate underlying earnings of Novion and Federation for the six months to 31 December 2014.

3 Six months to 31 December 2014 (on an aggregate basis).

4 Subject to no unforeseen deterioration of economic conditions and no material asset sales in 2H FY16.

“Key operating metrics have improved across the board. Portfolio occupancy strengthened in the half by 30 basis points (bps) to 99.2%. We have seen comparable specialty store moving annual turnover (MAT) growth[5] improve to 3.4% and specialty occupancy costs remain largely unchanged. Comparable net property income (NPI) growth[6] of 3.7% is up from 2.5% at June 2015, supported by fixed rental increases, strong growth in ancillary income and flat expenses.

“The improvement in our sales performance is pleasing considering that two of our prime assets, Chadstone and Emporium Melbourne, are not in the comparable reporting basket. At Chadstone, which is in the midst of a significant development, same-store MAT growth for specialties was 5.0%. At Emporium Melbourne, monthly same-store specialty sales growth has been averaging 18%[7] compared to the previous year.

“We have enhanced the quality of our portfolio in the period with the acquisition of two high quality centres and the sale of five non-core assets.

“Following the completion of a comprehensive review of our portfolio, we reiterated our strategic focus to create value and drive sustainable growth from a quality portfolio of Australian assets across the retail spectrum. We also announced the Group’s through the cycle financial targets of a total return of greater than 9.0% per annum and underlying earnings growth of greater than 3.0% per annum.

“We have set clear investment criteria for benchmarking our existing assets and potential acquisitions. As a result, $750 million to $1 billion of asset disposal opportunities have been identified, with asset sale proceeds to be reinvested into value accretive development and acquisition opportunities over time.[8]

“We have also made very good progress in the half on extracting benefits from the merger. Integration activities are progressing well. We have co-located our teams, launched the Vicinity Centres brand and the IT systems consolidation is on track to be substantially completed by December 2016. We have already achieved both our FY16 and FY17 targets for operational cost synergies, with $44 million (90% of the scheme booklet target of $49 million) now locked in on a run-rate or annualised basis. At least $29 million of these synergies will be secured as cash savings in the current financial year. Upon cancellation of the $1.8 billion bridge facility, the merger refinancing program was completed and achieved at over $100 million lower transaction costs than detailed in the scheme booklet.”

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[5] Excludes acquisitions, divestments and development-impacted centres in accordance with Shopping Centre Council of Australia (SCCA) Guidelines.

[6] Excludes acquisitions, divestments and development-impacted centres and is calculated on a like-for-like basis versus the prior corresponding period. Current period is based on six months to 31 December 2015 and the comparable period is based on 12 months to 30 June 2015.

[7] For the December 2015 quarter.

[8] No impact on FY16 underlying EPS guidance is anticipated due to the expected timing of asset sales. In the short term, proceeds from asset sales are assumed to be used to repay debt. Prior to any reinvestment, the expected impact of the asset sales on underlying EPS is approximately 0.7 to 0.9 cents dilution on an annualised basis and on gearing, a reduction of between approximately 350 bps to 450 bps.

VICINITY CENTRES

Highlights for the period[9]

Financial

- Statutory net profit of $424.6 million for the six months ended 31 December 2015.
- Underlying earnings of $377.6 million, up 10.1% on pcp.
- Underlying EPS of 9.5 cents, up 9.3% on pcp.
- DPS of 8.8 cents, up 4.8% on pcp.
- Net property valuation gain of $422 million[10], driving net tangible assets per security (NTA) up 3.7% to $2.54.
- Net asset value per security of $2.69, up 0.4%, following the valuation gains offset by a reduction in goodwill of $296.6 million.
- Total return[11] of 13.1% for the 12 months to 31 December 2015.
- Management expense ratio[12] of 36 bps.
- Gearing[13] of 29.5% compared to 28.0%.
- Weighted average interest rate of 4.0%[14] and weighted average debt duration increased to 4.0 years from 3.0 years[15].

Portfolio

- 95 retail assets or $23.5 billion of retail assets under management (Direct portfolio: 85 retail assets valued at $15.0 billion).
- Comparable net property income growth of 3.7%, up from 2.5%.
- Portfolio occupancy improved 30 bps to 99.2%.
- Comparable total MAT growth of 1.6%, up from 1.3%.
- Comparable specialty store MAT growth of 3.4%, up from 3.3%.
- Average leasing spreads improved to -1.8%, compared to -2.2%.
- Acquired two high quality Perth shopping centres for $320 million[16].

Development

- Well progressed on projects in $3.1 billion pipeline (Vicinity's share is $1.5 billion).
- Cranbourne Park development completed and is trading strongly.
- Three projects (Colonnades, Halls Head Central and Warriewood Square) on track for completion by June 2016.

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9 Comparisons are to 30 June 2015 statistics unless otherwise indicated.

10 As announced to the ASX on 27 January 2016 and includes the impact of equity accounted investments and excludes 15 Bowes Street, Woden (commercial property).

11 Implied total return calculated as: (Change in NTA during period + distributions)/Aggregate NTA as at 31 December 2014 (per the scheme booklet).

12 Calculated as: Net corporate overheads for the six months to 31 December 2015, annualised/Total assets under management.

13 Calculated as: Drawn debt net of cash/Total tangible assets excluding cash and derivative financial assets.

14 Inclusive of margins and line fees. Calculated as an average for the six months to 31 December 2015.

15 Assumes option to extend term of $1.8 billion bridge facility was not exercised.

16 Including acquisition costs of $17 million.

At 31 December 2015, 59 of Vicinity's 85 directly-owned retail assets were valued independently, and the remainder were subject to internal valuations. This resulted in a net valuation gain of $422 million, a 3.0% increase, reflecting income growth and the portfolio weighted average capitalisation rate tightening to 6.10%.

Strong valuation gains were reported at Chadstone (up $171.0 million or 9.1% to $2.1 billion[17]), DFO Homebush (up $46.4 million or 14.5% to $365.8 million), QueensPlaza (up $34.8 million or 5.2% to $705.0 million) and Emporium Melbourne (up $29.8 million or 6.1% to $520.0 million[17]). With respect to The Glen, the valuation was prepared on a 'no development' scenario which factors in David Jones vacating at lease expiry in April 2016 and the associated backfill of this tenancy and other works to the centre. As such, the centre recorded a net valuation decline of $48.3 million to $170.0 million[17], down 22.1%.

Mr McNaughton said: "Plans for a major redevelopment of The Glen continue to progress well. David Jones has agreed terms for 8,000 sqm of space within the upcoming development which remains on schedule to commence in 2017, subject to final approval."

"Our $3.1 billion[18] development pipeline is a major component of our portfolio enhancement strategy to generate future growth, improve the customer experience and adapt to changing retail trends.

"During the period, the $109 million[19] Cranbourne Park redevelopment was completed. It has been well received by customers and retailers and is trading above expectations.

"At Chadstone, strong progress has been made on the $622 million[19] redevelopment of the centre, with leasing on the retail project now largely complete and on budget. In response to overwhelming demand for flagship and premium stores, and subject to Board and joint owner approval, the project scope is expected to be expanded by $44 million[20] to include further tenant remixing opportunities. Forecast returns are expected to be maintained at a year one yield of greater than 6% and an IRR of greater than 10%," added Mr McNaughton.

Three current projects at Colonnades, Halls Head Central and Warriewood Square remain on track to open by June 2016. There are also a further two minor projects (DFO South Wharf and Rockingham) totalling $21 million, which are forecast to have a blended year one yield exceeding 12% and an IRR exceeding 19%, that will complete later in this calendar year. Development plans are well advanced at Mandurah Forum, with the project expected to commence in mid-2016, while planning for major redevelopments at Roselands and Galleria remains on program.

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17 Reflects Vicinity's ownership share of 50%.
18 Vicinity's share is $1.5 billion.
19 Total project cost. Vicinity's share is 50%.
20 Vicinity's share is $22 million.

FY16 guidance and focus

Mr McNaughton said: "These first half results demonstrate that our underlying assets and business are performing well in a retail environment that is steadily improving, notwithstanding increased market volatility.

"In the second half of the year, we will continue to focus on extracting the benefits of the merger, operational cost efficiencies and new ancillary income opportunities. The IT platform consolidation also remains a major focus for the Group.

"We will look to improve the quality of our portfolio through managing our assets intensively, the progression of our development pipeline, including the commencement of our next major redevelopment at Mandurah Forum, and making significant inroads into our asset disposal program. Demand for retail assets remains strong as evidenced by recent transactions and capitalisation rate tightening.

"Our debt capital management focus will be on extending duration and diversifying funding sources."

FY16 underlying EPS guidance has been firmed to 19.1 cents[21], the top end of our previously announced guidance range. The Group's payout ratio is expected to be 90% to 95% of underlying EPS.

Additional detail on Vicinity's FY16 interim results can be found in the Financial Report and associated presentation released to the ASX today. A briefing by management elaborating on this announcement will be webcast live from 10.30am sharp (AEDT) today and can be accessed via Vicinity's website at www.vicinity.com.au.

Vicinity's FY16 annual results will be released to the ASX on 17 August 2016.

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For further information please contact:

Investor enquiries:
Penny Berger
Head of Investor Relations
T +61 2 8229 7760
E penny.berger@vicinity.com.au

Media enquiries:
Brandon Phillips
GM External Affairs
T +61 3 9236 6321
E brandon.phillips@vicinity.com.au

About Vicinity Centres

Vicinity Centres (Vicinity or the Group) is one of Australia's leading retail property groups with a fully integrated funds and asset management platform, and over $23 billion in retail assets under management across 95 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a directly-owned portfolio with interests in 85 shopping centres and manages 38 assets on behalf of Strategic Partners, 28 of which are co-owned by the Group. Listed on the Australian Securities Exchange under the trading code 'VCX', Vicinity has over 24,000 securityholders. For more information visit the Group's website vicinity.com.au, or use your smartphone to scan this QR code.

[21] Subject to no unforeseen deterioration of economic conditions and no material asset sales in 2H FY16.