Vicinity Centres Trust

Financial report for the half year ended
31 December 2015

Vicinity Centres Trust
(formerly Federation Centres Trust No. 1)
ASRN 104 931 928 comprising
Vicinity Centres Trust and its Controlled Entities

Responsible Entity of the Trust
Vicinity Centres RE Ltd
(formerly Federation Centres Limited)
ABN 88 149 781 322

Contents

Directors' Report

The Directors of Vicinity Centres RE Ltd, the Responsible Entity of Vicinity Centres Trust (the Trust or VCT), present the financial report of Vicinity Centres Trust and its controlled entities (VCT Group or the Group) for the half year ended 31 December 2015. Vicinity Centres Trust is stapled to Vicinity Limited to form the stapled Group, Vicinity Centres. Accordingly the financial report for Vicinity Centres Trust should be read in conjunction with the financial report of Vicinity Centres available at www.vicinity.com.au.

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 Chadstone Shopping Centre, 1341 Dandenong Road, Chadstone, Victoria 3148.

Directors

The following persons were members of the Board of Directors of Vicinity Centres RE Ltd as Responsible Entity of Vicinity Centres Trust from 1 July 2015 and up to the date of this report unless otherwise stated:

(i) Chairman

Peter Hay (Independent)

(ii) Non-executive directors

Trevor Gerber (Independent)

Richard Haddock AM (Independent)

Tim Hammon (Independent)

Peter Kahan

Charles Macek (Independent)

Karen Penrose (Independent)

Debra Stirling (Independent)

Wai Tang (Independent)

David Thurin

(iii) Executive directors

Angus McNaughton (appointed 3 August 2015)

Steven Sewell (resigned 3 August 2015)

Company Secretaries

Michelle Brady

Carolyn Reynolds (appointed 20 November 2015)

Principal activities

The Group has its principal place of business at Chadstone Shopping Centre, 1341 Dandenong Road, Chadstone, Victoria 3148. The principal activity of the Group during the period was property investment.

Change of corporate name

On 28 October 2015 the securityholders of Vicinity Centres (the stapled Group comprising Vicinity Centres Trust and Vicinity Limited) approved the change of the company's name to Vicinity Limited, formerly Federation Limited. Consequently:

- Federation Centres was rebranded as Vicinity Centres;
- Federation Centres Trust No.1 was renamed Vicinity Centres Trust;
- Federation Centres Limited was renamed Vicinity Centres RE Ltd; and
- the former Novion Property Group stapled entities, Novion Trust and Novion Limited, were renamed Vicnity NVN Trust and Vicinity Holdings Limited respectively.

Merger of Federation Centres and Novion Property Group

On 11 June 2015, the stapled entities Federation Centres (Federation) and Novion Property Group (Novion) merged (the Merger). This transaction was accounted for as a reverse acquisition under accounting standards (AASB 3 *Business Combinations*). The impact of the reverse acquisition accounting on the half year financial statements of VCT is explained in the table below. Further information on the reverse acquisition accounting can be located in the Vicinity Centres Trust 30 June 2015 year end financial report.

	6 months to 31-Dec-15	**6 months to 31-Dec-14**
Statement of Comprehensive Income Statement of Changes in Equity Cash Flow Statement	Vicinity Centres Trust and controlled entities	6 months Novion Trust only (Novion Property Group)[(1)]
	As at 31-Dec-15	**As at 30-Jun-15**
Balance sheet	Vicinity Centres Trust and controlled entities	Vicinity Centres Trust and controlled entities

(1) Up until the date of the merger Novion Trust was the deemed parent of Novion Property Group. As such the comparative information for Novion Trust for the half year ended 31 December 2015 is that of Novion Property Group.

Distributions

On 16 December 2015 the Directors declared a distribution for the half year ended 31 December 2015 of 8.8 cents per VCX stapled security, which equates to total half year distributions payable to securityholders of $348.4 million. The payment date of the half year distribution will be 2 March 2016.

Review of operations

A detailed review of the operations for the Vicinity Centres Group is contained in the Directors' Report in the Vicinity Centres Group half year financial report which is available at www.vicinity.com.au.

(a) Financial performance

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

- Net profit of $733.4 million representing basic earnings per security (EPS) of 18.54; and
- Distributions of 8.8 cents per security.

(b) Financial position

The key features of the VCT Group's financial position at 31 December 2015 include:

- Investment properties increased by $706.7 million to $14.8 billion from 30 June 2015, largely due to the $428.3 million revaluation increase. Further increases to investment properties were seen through development spend, most notably at Chadstone, Warriewood Square and Halls Head Central and strategic acquisitions offset by the sale of several non-core assets; and
- An increase in interest bearing liabilities of $413.6 million due to acquisitions and development activity net of assets sold.

(c) Capital management

The following refinancing activities were undertaken by the VCT Group during the period:

- In December 2015, the Group issued US$250.0 million and A$75.0 million of US private placement notes (USPPs) with expiries ranging from December 2025 to December 2030. The proceeds were used to repay A$432.8 million of the existing bridge facility. Foreign exchange movements on the US$ notes have been hedged under the Group's hedging strategy;
- $750 million of new 3 and 5 year unsecured bank debt facilities were established with a small group of international banks. $350 million of these facilities were drawn to repay the remainder of the $1.8 billion bridge facility. The bridge facility was cancelled on 24 December 2015.
- The remaining $270.4 million of convertible notes outstanding at 30 June 2015 were repaid after sufficient redemption notices were received to allow the Group to mandatorily repay all outstanding notes. This repayment was financed through available unsecured bank loans.

Events occurring after the end of the reporting period

No matters have arisen since the end of the half 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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

Rounding of amounts

The Trust is an entity of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Accordingly, amounts in the Directors' report have been rounded off to the nearest tenth of a million dollars ($m) in accordance with that Class Order, unless stated otherwise.

Signed in Melbourne on 17 February 2016 in accordance with a resolution of Directors.

P A F Hay
Chairman

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

As lead auditor for the review of Vicinity Centres Trust for the half year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

David Shewring
Partner
17 February 2016

Statement of Comprehensive Income

for the half year ended 31 December 2015

	Note	31-Dec-15 $m	31-Dec-14[1] $m
Revenue			
Property ownership revenue		620.2	378.1
Management fee revenue from strategic partnerships		-	24.5
Interest and other revenue		25.7	1.2
Total revenue		**645.9**	**403.8**
Share of net profits of associates and joint venture partnerships accounted for using the equity method		6.4	6.1
Property revaluation increment for directly owned properties	3(b)	428.3	250.3
Net movement on mark to market of derivatives		(19.6)	(28.4)
Direct property expenses		(183.5)	(92.1)
Borrowing costs	4(d)	(83.8)	(74.4)
Responsible Entity's base and performance fees		(28.5)	-
Employee benefits expenses		-	(35.6)
Other expenses from ordinary activities		(8.8)	(11.9)
Amortisation of intangible assets		-	(1.4)
Stamp duty and other costs written off on acquisition of investment properties		(17.0)	-
Transaction costs		(6.0)	(0.5)
Profit before tax for the half year		**733.4**	**415.9**
Income tax expense		-	(3.2)
Net profit for the half year		**733.4**	**412.7**
Other comprehensive income		-	-
Total comprehensive income for the half year		**733.4**	**412.7**
Unitholders of the Trust		733.4	409.3
Securityholders of other stapled entities of the Group		-	3.4
Net profit for the half year		**733.4**	**412.7**
Unitholders of the Trust		733.4	409.3
Securityholders of other stapled entities of the Group		-	3.4
Total comprehensive income for the half year		**733.4**	**412.7**
Earnings per security attributable to unitholders of the Trust:			
Basic earnings per security (cents)		18.54	16.36
Diluted earnings per security (cents)		18.51	16.02
Earnings per security attributable to securityholders of the Group:			
Basic earnings per security (cents)		18.54	16.51
Diluted earnings per security (cents)		18.51	16.15

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

(1) As a result of the reverse acquisition as described in Note 1(a), the comparative information for the period ended 31 December 2014 is that of Novion Property Group (Novion).

Balance Sheet

as at 31 December 2015

	Note	31-Dec-15 $m	30-Jun-15 $m
Current assets			
Cash and cash equivalents		91.3	63.4
Receivables and other assets		84.6	129.9
Financial assets carried at fair value through profit or loss		4.5	6.3
Investments accounted for using the equity method	3(d)	0.5	0.5
Total current assets		**180.9**	**200.1**
Non-current assets			
Investment properties	3(a)	14,811.0	14,104.3
Investments accounted for using the equity method	3(d)	99.7	92.5
Derivative financial instruments	4(e)	104.6	87.1
Related party receivables and other assets		671.0	654.9
Total non-current assets		**15,686.3**	**14,938.8**
Total assets		**15,867.2**	**15,138.9**
Current liabilities			
Interest bearing liabilities	4	439.9	1,357.4
Distributions payable		348.4	336.5
Payables and other financial liabilities		222.8	239.8
Provisions		36.0	97.1
Derivative financial instruments	4(e)	-	0.3
Total current liabilities		**1,047.1**	**2,031.1**
Non-current liabilities			
Interest bearing liabilities	4	4,276.8	2,945.7
Payables and other liabilities		-	38.9
Derivative financial instruments	4(e)	35.8	0.7
Total non-current liabilities		**4,312.6**	**2,985.3**
Total liabilities		**5,359.7**	**5,016.4**
Net assets		**10,507.5**	**10,122.5**
Equity			
Contributed equity		8,012.1	8,012.1
Retained profits		2,495.4	2,110.4
Total equity		**10,507.5**	**10,122.5**

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

Statements of Changes in Equity

for the half year ended 31 December 2015

	Attributable to unitholders of the Trust			Attributable to securityholders of other entities stapled to the Group			
	Contributed equity $m	**Reserves and Retained profits $m**	**Total $m**	**Contributed equity $m**	**Reserves and Retained profits $m**	**Total $m**	**Total equity $m**
As at 1 July 2014(1)	**3,914.9**	**1,965.0**	**5,879.9**	**224.1**	**(2.3)**	**221.8**	**6,101.7**
Net profit for the half year	-	409.3	409.3	-	3.4	3.4	412.7
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the half year	**-**	**409.3**	**409.3**	**-**	**3.4**	**3.4**	**412.7**
Transactions with securityholders in their capacity as securityholders:							
Issue of stapled securities	63.1	-	63.1	2.4	-	2.4	65.5
Securities-based payment reserve	-	0.7	0.7	-	-	-	0.7
Distributions payable	-	(210.5)	(210.5)	-	-	-	(210.5)
As at 31 December 2014	**3,978.0**	**2,164.5**	**6,142.5**	**226.5**	**1.1**	**227.6**	**6,370.1**
As at 1 July 2015	**8,012.1**	**2,110.4**	**10,122.5**	**-**	**-**	**-**	**10,122.5**
Net profit for the half year	-	733.4	733.4	-	-	-	733.4
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the half year	**-**	**733.4**	**733.4**	**-**	**-**	**-**	**733.4**
Transactions with securityholders in their capacity as securityholders:							
Issue of stapled securities	-	-	-	-	-	-	-
Distributions payable	-	(348.4)	(348.4)		-	-	(348.4)
As at 31 December 2015	**8,012.1**	**2,495.4**	**10,507.5**	**-**	**-**	**-**	**10,507.5**

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

(1) As a result of the reverse acquisition as described in Note 1(a), the comparative information for the period ended 31 December 2014 is that of Novion.

Cash Flow Statement

for the half year ended 31 December 2015

	31-Dec-15 $m	31-Dec-14[1] $m
Cash flows from operating activities		
Receipts in the course of operations	711.1	487.8
Payments in the course of operations	(299.4)	(205.9)
Distributions and dividends received from associates, joint ventures and managed investments	8.4	2.2
Interest and other revenue received	23.7	0.8
Interest paid	(81.0)	(83.6)
Net cash inflows from operating activities	**362.8**	**201.3**
Cash flows from investing activities		
Payments for capital expenditure on investment properties	(227.8)	(100.5)
Payments for acquisition of investment properties	(303.0)	-
Proceeds from disposal of investment properties	218.1	67.0
Payments for plant and equipment and other investments	-	(3.9)
Proceeds from other investments	1.8	7.7
Proceeds from capital distribution from equity accounted investments	-	38.0
Transaction costs paid	(6.9)	(4.5)
Stamp duty paid	(80.0)	-
Net cash (outflows)/inflows from investing activities	**(397.8)**	**3.8**
Cash flows from financing activities		
Proceeds from borrowings	2,797.5	1,137.2
Repayment of borrowings	(2,382.5)	(1,220.9)
Receipts from related parties	62.5	-
Payments to related parties	(72.2)	-
Distributions paid to external securityholders	(336.5)	(140.5)
Termination payments for derivatives	-	(8.9)
Debt establishment costs paid	(5.9)	-
Net cash inflows/(outflow) from financing activities	**62.9**	**(233.1)**
Net increase/(decrease) in cash and cash equivalents held	**27.9**	**(28.0)**
Cash and cash equivalents at the beginning of the half year	**63.4**	**91.1**
Cash and cash equivalents at the end of the half year	**91.3**	**63.1**

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

(1) As a result of the reverse acquisition as described in Note 1(a) the comparative information for the period ended 31 December 2014 is that of Novion.

Notes to the Financial Statements

1. Summary of significant accounting policies

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

Vicinity Centres Trust is stapled to Vicinity Limited (the Company) to form the stapled group Vicinity Centres (VCX) (formerly Federation Centres). Accordingly the financial report for Vicinity Centres Trust should be read in conjunction with the financial report of Vicinity Centres available at www.vicinity.com.au.

(a) Basis of preparation

The condensed consolidated financial report for the half year ended 31 December 2015 (the financial report) has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*, other applicable accounting standards, other mandatory professional reporting requirements and the *Corporations Act 2001*. The accounting policies adopted are consistent with those of the previous financial year. The financial report does not include all the notes of the type normally included in an annual financial report unless otherwise stated. Accordingly, this report is to be read in conjunction with the 30 June 2015 Annual Report and any public announcements issued by Vicinity Centres during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Listing Rules of the Australian Securities Exchange.

The financial report has also been prepared in accordance with the historical cost convention, except for certain financial assets and financial liabilities and investment properties which have all been recognised at fair value.

The financial report is presented in Australian dollars ($) and was approved by the Board of Directors on 17 February 2016. The Directors have the power to amend and reissue the financial report.

The Trust is an entity of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission. Accordingly, amounts in this financial report have been rounded to the nearest tenth of a million dollars ($m), unless stated otherwise.

Although the Group has a net current deficiency of $866.2 million (current liabilities exceed current assets) at reporting date, the Group has sufficient current undrawn borrowing facilities (of $1,406.8 million) and generates sufficient operating cashflows to meet its current obligations as they fall due. Accordingly, these financial statements have been prepared on a going concern basis.

Merger of Federation Centres and Novion Property Group

On 11 June 2015, the stapled entities Federation Centres (Federation) and Novion Property Group (Novion) merged (the Merger). This transaction was accounted for as a reverse acquisition under accounting standards (AASB 3 *Business Combinations*). The impact of the reverse acquisition accounting on the half year financial statements of VCT is explained in the table below. Further information on the reverse acquisition accounting can be located in the Vicinity Centres Trust 30 June 2015 year end financial report.

	6 months to 31-Dec-15	**6 months to 31-Dec-14**
Statement of Comprehensive Income Statement of Changes in Equity Cash Flow Statement	Vicinity Centres Trust and controlled entities	6 months Novion Trust only (Novion Property Group)(1)
	As at 31-Dec-15	**As at 30-Jun-15**
Balance sheet	Vicinity Centres Trust and controlled entities	Vicinity Centres Trust and controlled entities

(1) Up until the date of the merger Novion Trust was the deemed parent of Novion Property Group. As such the comparative information for Novion Trust for the half year ended 31 December 2015 is that of Novion Property Group.

1. Summary of significant accounting policies (continued)

Merger of Federation Centres and Novion Property Group (continued)

The presentation of certain items has also been adjusted as necessary to provide more meaningful information in the context of the Merger. 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 Group.

Impact of new and amended standards

There are no new and amended standards that became effective for the Group on 1 July 2015.

(b) Critical accounting estimates and judgements

Certain judgements, estimates and assumptions that affect the amounts reported in the financial statements are required in preparation of the financial statements. These judgements and estimates are based on historical experience and other various factors considered to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which form the basis of the carrying values of assets and liabilities. As a result, actual results could differ from those estimates. There are no key estimates and assumptions significant to Vicinity Centres Trust's financial statements not already noted in the 30 June 2015 Financial Report.

2. Segment information

AASB 8 *Operating Segments* requires a 'management approach' in identifying and presenting segment information. That is, segment information is presented on the same basis as that used for internal reporting purposes. The Group has identified its operating segments as the Property Investment segment and the Strategic Partnerships segment. This is based on the internal reports that are reviewed and used by the Chief Operating Decision Makers (CODMs) (which for the Group are the Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) in assessing performance and in determining the allocation of resources.

The units in the Trust are stapled together with the shares of Vicinity Limited and are traded on the Australian Securities Exchange (under the ASX code VCX). As a result of this stapled structure, management does not report results to the CEO and CFO individually for the Trust; rather it reports the results for VCX. Consequently, the Trust is considered to have only one operating segment as represented in the Statement of Comprehensive Income and Balance Sheet.

Refer to the Vicinity Centres Group half year financial report for Group segment information.

3. Investment properties

The Group's investment properties are valued independently (externally) or internally at each reporting period unless otherwise stated. Carrying value is equal to the valuation which includes the cost of capital works in progress on development projects.

Independent (external) valuations are performed at intervals of not more than one year by appropriately qualified valuers from a pre-approved panel of major property consultancy firms. Internal valuations are undertaken by management. Where the variance between the last independent valuation and the internal valuation is greater than 10% an external valuation is undertaken.

Independent valuations usually adopt the midpoint of the 'capitalisation of net income' and 'discounted cash flow' (DCF) methods to valuing retail property, whereas internal valuations use the 'capitalisation of net income' method to value properties with a cross check using the DCF method. Both independent and internal valuations employ the 'residual value' method when valuing development properties. The value of the asset on completion is calculated using the methodology above, and then the estimated cost to complete the development, including construction costs and associated expenditures, finance costs, and an allowance for developers risk and profit is deducted from the value of the asset on completion to derive the current value.

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.

Sundry properties are recently acquired property holdings acquired adjacent to existing investment properties and are carried at purchase price plus acquisition costs.

3. Investment properties (continued)

(a) Summary of portfolio

Shopping centre type	31-Dec-15			30-Jun-15		
	Number of properties	Value $m	Weighted average cap rate %	Number of properties	Value $m	Weighted average cap rate %
Super Regional	1	2,100.0	4.75	1	1,871.8	5.00
Major Regional	7	3,060.0	5.82	7	3,068.7	5.84
Regional	12	2,535.6	6.57	12	2,520.1	6.67
City Centre	4	1,752.0	5.31	4	1,665.0	5.56
Outlet Centre/Other	5	1,027.8	6.58	5	952.2	6.82
Sub-Regional	35	3,503.6	6.86	36	3,197.2	7.19
Neighbourhood and other	20	771.6	6.89	22	820.3	7.17
Total	**84**	**14,750.6**	**6.09**	**87**	**14,095.3**	**6.30**
Planning and holding costs		22.8			14.4	
Sundry properties		42.8			-	
Less: Property, plant and equipment holding in Vicinity Limited(1)		(5.2)			(5.4)	
Total investment properties		**14,811.0**			**14,104.3**	

(1) Vicinity Centres Trust is stapled to Vicinity Limited to form the stapled group Vicinity Centres. Vicinity Limited owns certain items of property, plant and equipment included in the fair value of investment properties. As a result, the value of this property, plant and equipment is excluded from the investment property value in Vicinity Centres Trust. Refer to the Vicinity Centres Group half year financial report for full details on investment properties.

(b) Movements for the period

	31-Dec-15 $m	31-Dec-14(1) $m
Opening balance at 30 June	14,104.3	8,830.4
Acquisitions including associated stamp duty and transaction costs	320.0(2)	-
Capital expenditure(3)	205.0	90.4
Capitalised interest(4)	5.0	7.4
Disposals	(218.1)	(67.0)
Property revaluation increment	428.3	250.3
Stamp duty and transaction costs written off on acquisitions	(17.0)	-
Amortisation of incentives and leasing fees	(21.1)	(12.3)
Straight-lining of rent adjustment	4.6	(0.1)
Closing balance at 31 December	**14,811.0**	**9,099.1**

(1) As a result of the reverse acquisition as described in Note 1(a), the comparative information is that of Novion.

(2) Comprises purchase price of $303.0 million plus stamp duty and transaction costs of $17.0 million.

(3) Capital expenditure includes redevelopment costs, additions and lease incentives.

(4) Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate of 5.3% (December 2014: 5.3%).

3. Investment properties (continued)

(c) Fair value measurement

Investment properties are categorised as Level 3 in the fair value hierarchy as the capitalisation of income and DCF methods require assumptions for inputs that are not based on observable market data. At reporting date, the key unobservable inputs used by the Group in determining fair value of its investment properties are summarised below:

	31-Dec-15		30-Jun-15		
Unobservable inputs	**Range of inputs**	**Weighted average inputs**	**Range of inputs**	**Weighted average inputs**	**Sensitivity**
Capitalisation rate[1]	4.75% - 8.50%	6.09%	5.00% - 10.0%	6.30%	The higher the discount rate, terminal yield, capitalisation rate and downtime for tenants vacating the lower the fair value
Discount rate[2]	7.50% - 9.25%	8.15%	8.00% - 10.25%	8.50%	
Terminal yield[3]	5.00% - 9.00%	6.34%	5.25% - 10.25%	6.54%	
Expected downtime for tenants vacating	2 months to 12 months	5 months	2 months to 12 months	4 months	
Rental growth rate	2.70% - 4.60%	3.72%	2.50% - 4.60%	3.70%	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 rate of return used to convert a forecast cashflow of an asset into a present value. Theoretically it should reflect the required rate of return of the property given its risk profile relative to competing uses of capital. The rate is determined with regards to comparable market transactions.

(3) The terminal yield is the capitalisation rate used to convert forecast annual income into a forecast asset value at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to comparable market transactions and the expected risk of the asset at the end of the cashflow period.

All of the above key assumptions have been taken from the latest independent (external) valuation reports and internal valuation assessments. Bowes St is excluded as it is a commercial property.

(d) Investments accounted for using the equity method

The Group holds the following investments that are equity accounted:

	Ownership		Carrying value	
	31-Dec-15 %	**30-Jun-15 %**	**31-Dec-15 $m**	**30-Jun-15 $m**
Tuggeranong Hyperdome	50.0	50.0	23.7	21.7
Victoria Gardens Shopping Centre	50.0	50.0	76.0	70.8
Bent St Trust (current asset)	50.0	50.0	0.5	0.5
Closing Balance			**100.2**	**93.0**

4. Interest bearing liabilities

The following financing activities were undertaken by the Group during the period:

(i) US private placement notes (USPPs)

In December 2015, the Group issued the following USPPs:

- US$184 million expiring in December 2025, which were converted into A$263.4 million;
- US$66 million expiring in December 2030, which were converted into A$94.4 million; and
- A$75 million expiring in December 2030

The proceeds were applied toward the repayment of unsecured bridge facility.

(ii) Bank loans and bridge facility

A$750 million of new 3 and 5 year unsecured bank debt facilities were established with a small group of international banks in December 2015. Proceeds of $350 million were used to repay the remainder of the $1,800.0 million bridge facility. Consequently the limit on the bridge facility was cancelled.

(iii) Convertible notes

The remaining $270.4 million of convertible notes outstanding at 30 June 2015 were repaid following the receipt of sufficient redemption notices allowing the Group to exercise its right to acquire all remaining notes. This redemption was financed through available unsecured bank loans.

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

	31-Dec-15 $m	30-Jun-15 $m
Current liabilities		
Unsecured		
$A Medium-term notes(1)	440.0	440.0
US private placement notes	-	648.9
Convertible notes	-	270.4
Deferred debt costs(1)	(0.1)	(1.9)
Total current liabilities	**439.9**	**1,357.4**
Non-current liabilities		
Unsecured		
Bank loans	2,639.5	2,380.9
$A Medium-term notes	250.0	250.0
US private placement notes	1,077.9	-
Secured		
Related party borrowings	325.9	328.7
Deferred debt costs(2)	(16.5)	(13.9)
Total non-current liabilities	**4,276.8**	**2,945.7**
Total interest bearing liabilities	**4,716.7**	**4,303.1**

(1) Current A$ MTNs are expiring in May 2016. These are planned to be refinanced under existing available facilities of $1,406.8 million.

(2) Deferred debt costs comprise the unamortised value of borrowing costs on establishment or refinance of debt facilities. These costs are deferred on the Balance Sheet and released to the Statement of Comprehensive Income using the effective interest rate method. The amortisation is included in borrowing costs.

The Group has a long term credit rating of 'A-' from Standard & Poor's with a stable outlook.

4. Interest bearing liabilities (continued)

(a) Defaults on debt obligations

At 31 December 2015, the Group had no defaults on debt obligations (30 June 2015: None).

(b) Breaches of lending covenants

At 31 December 2015, the Group had no breaches of lending covenants (30 June 2015: None).

(c) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with borrowing funds such as establishment fees, legal fees and renegotiation fees.

Borrowing costs are expensed to the Statement of Comprehensive Income using the effective interest rate method, except for borrowing costs incurred for the development of investment property which are capitalised to the cost of the investment property during the period of time of the development.

	31-Dec-15 $m	31-Dec-14[1] $m
Interest expense	85.6	74.3
Amortisation of borrowing costs	3.2	7.5
Less: capitalised borrowing costs	(5.0)	(7.4)
Total borrowing costs	**83.8**	**74.4**

(1) As a result of the reverse acquisition as described in Note 1(a) comparative information for the period ended 31 December 2014 is that of Novion.

(d) Fair value of borrowings

As at 31 December 2015, the Group's debt has a fair value of $4,766.8 million (30 June 2015: $4,355.7 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 cashflows using the yield to maturity or prevailing market discount rates for market fixed interest debt instruments, with similar terms, maturity and credit quality. Had the fixed debt been recognised at fair value, these would have been classified as Level 2 under the fair value hierarchy as the market discount rates used are indirectly observable.

(e) Derivative financial instruments

The Group holds derivative financial instruments relating to interest rate swaps and cross currency swaps to hedge against the interest rate risk and foreign currency risk of the Group's borrowings. The fair value of these derivatives are estimated using valuation techniques, including use of reference to current fair value of other instruments that are substantially the same or discounted cash flow techniques. Valuation methodologies are observable inputs, mainly interest rates and interest rate curves as well as foreign currency rates. As such, the derivative instruments held by the Group are classified as Level 2 in the fair value hierarchy.

As at 31 December 2015 the carrying value and notional principal amounts of these are:

	Carrying amount		Notional principal value	
	31-Dec-15 $m	30-Jun-15 $m	31-Dec-15 $m	30-Jun-15 $m
Cross currency swaps (pay A$ receive US$) – assets	104.2	84.7	518.1	524.2
Interest rate swaps (floating to fixed) – assets	0.4	2.4	75.0	1,056.7
Total assets	**104.6**	**87.1**	**n/a**	**n/a**
Cross currency swaps (pay A$ receive US$) – liabilities	(17.2)	-	357.8	-
Interest rate swaps (floating to fixed) – liabilities	(18.6)	(1.0)	2,495.1	747.5
Total liabilities	**(35.8)**	**(1.0)**	**n/a**	**n/a**

5. Events occurring after the reporting date

No matters have arisen since the end of the half 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 the Directors' opinion:

(a) the half year financial statements and notes of Vicinity Centres Trust (the Trust) and its controlled entities (the Group) are set out on pages 7 to 16 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001*, the Constitutions of the Trusts and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

P A F Hay
Chairman

Melbourne
17 February 2016

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To the unitholders of Vicinity Centres Trust

Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report of Vicinity Centres Trust (the 'Trust'), which comprises the balance sheet as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and cash flow statement for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Trust and the entities it controlled at the half year end or from time to time during the half year.

Directors' Responsibility for the Half Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Vicinity Centres Trust and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of Vicinity Centres RE Ltd, a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Vicinity Centres Trust is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half year ended on that date; and

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

Ernst & Young

David Shewring
Partner
Melbourne
17 February 2016