



# Vicinity Centres Trust

Financial report for the half year ended  
31 December 2016

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

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



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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 half year ended 31 December 2016. 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](http://www.vicinity.com.au).

### Responsible Entity

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

### Directors

The following persons were members of the Vicinity Centres RE Ltd Board from 1 July 2016 and up to the date of this report unless otherwise stated:

**(i) Chairman**

Peter Hay (Independent)

**(ii) Non-executive directors**

Charles Macek (Independent)

David Thurin

Debra Stirling (Independent)

Karen Penrose (Independent)

Peter Kahan

Richard Haddock AM (Independent)

Tim Hammon (Independent)

Trevor Gerber (Independent)

Wai Tang (Independent)

**(iii) Executive Director**

Angus McNaughton (CEO and Managing Director)

### Company Secretaries

Michelle Brady

Carolyn Reynolds

### Principal activities

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

## Distributions

On 14 December 2016, the Directors declared a distribution for the half year ended 31 December 2016 of 8.7 cents per Vicinity Centres stapled security, which equates to total half year distributions payable to securityholders of \$344.4 million.

The payment date of the half year distribution will be 2 March 2017.

## 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](http://www.vicinity.com.au).

### (a) Financial performance

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

- Net profit of \$943.1 million representing basic earnings per security (EPS) of 23.82 cents (31 December 2015: net profit of \$733.4 million representing basic EPS of 18.54 cents); and
- Distributions of 8.7 cents per security.

### (b) Financial position

The key features of the Trust Group's financial position at 31 December 2016 include:

- Investment properties increased by \$378.3 million to \$15.0 billion from 30 June 2016, largely driven by the \$569.5 million revaluation increase and capital expenditure of \$213.2 million, most notably at Chadstone and Mandurah Forum. This increase was partially offset by the disposal of nine investment properties during the period; and
- A decrease in interest bearing liabilities of \$198.4 million due to the repayment of debt utilising proceeds from assets sold. The Trust has \$1.4 billion of liquidity available through undrawn debt facilities.

### (c) Capital management

There have been no significant financing activities during the six months to 31 December 2016.

## Events occurring after the end of the reporting period

### Acquisition of remaining interest in DFO South Wharf

As announced to the Australian Securities Exchange in February 2017, the Group has entered into an agreement to purchase the remaining 25% of DFO South Wharf for \$141.3 million.

### Credit rating upgrade

On 24 January 2017 Standard & Poor's upgraded the Vicinity Group's credit rating to 'A' with a stable outlook.

No matters other than those identified above have arisen since the end of the period 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.

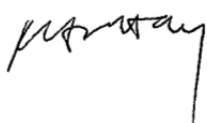
## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

## Rounding of amounts

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

Signed in Melbourne on 15 February 2017 in accordance with a resolution of Directors.



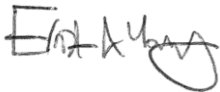
**Peter Hay**  
Chairman

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

As lead auditor for the review of Vicinity Centres Trust for the half year ended 31 December 2016, 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  
Melbourne  
15 February 2017

# Statement of Comprehensive Income

for the half year ended 31 December 2016

	Note	31-Dec-16 \$m	31-Dec-15 \$m
<b>Revenue</b>			
Property ownership revenue		596.2	620.2
Interest and other income		23.6	25.7
<b>Total revenue and income</b>		<b>619.8</b>	<b>645.9</b>
Share of net profits of associates and joint venture partnerships accounted for using the equity method		6.5	6.4
Property revaluation increment for directly owned properties	2(b)	569.5	428.3
Foreign exchange gain		3.1	-
Net movement on mark-to-market of derivatives		34.1	(19.6)
Direct property expenses		(180.8)	(183.5)
Borrowing costs	3(b)	(75.4)	(83.8)
Responsible Entity's base and performance fees		(29.7)	(28.5)
Other expenses from ordinary activities		(1.9)	(8.8)
Stamp duty and other costs written off on acquisition of investment properties		(2.1)	(17.0)
Integration costs		-	(6.0)
<b>Profit before tax for the half year</b>		<b>943.1</b>	<b>733.4</b>
Income tax expense		-	-
<b>Net profit for the half year</b>		<b>943.1</b>	<b>733.4</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the half year</b>		<b>943.1</b>	<b>733.4</b>
<b>Earnings per security attributable to securityholders of the Trust:</b>			
Basic earnings per security (cents)		<b>23.82</b>	18.54
Diluted earnings per security (cents)		<b>23.80</b>	18.51

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

# Balance Sheet

as at 31 December 2016

	Note	31-Dec-16 \$m	30-Jun-16 \$m
<b>Current assets</b>			
Cash and cash equivalents		60.1	37.5
Receivables and other assets		78.0	76.3
Investment properties held for sale	2(a)	-	232.1
Financial assets carried at fair value through profit or loss		3.6	3.6
Derivative financial instruments	3(d)	16.7	15.6
<b>Total current assets</b>		<b>158.4</b>	<b>365.1</b>
<b>Non-current assets</b>			
Investment properties	2(a)	15,031.9	14,421.5
Investments accounted for using the equity method	2(d)	81.0	77.8
Derivative financial instruments	3(d)	90.9	112.2
Receivables and other assets		580.2	631.5
<b>Total non-current assets</b>		<b>15,784.0</b>	<b>15,243.0</b>
<b>Total assets</b>		<b>15,942.4</b>	<b>15,608.1</b>
<b>Current liabilities</b>			
Interest bearing liabilities	3	194.4	193.1
Distributions payable		344.4	352.3
Payables and other financial liabilities		209.3	215.5
Provisions		31.3	30.0
Derivative financial instruments	3(d)	2.4	-
<b>Total current liabilities</b>		<b>781.8</b>	<b>790.9</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	3	3,549.4	3,749.1
Other financial liabilities		201.6	200.4
Derivative financial instruments	3(d)	122.9	179.7
<b>Total non-current liabilities</b>		<b>3,873.9</b>	<b>4,129.2</b>
<b>Total liabilities</b>		<b>4,655.7</b>	<b>4,920.1</b>
<b>Net assets</b>		<b>11,286.7</b>	<b>10,688.0</b>
<b>Equity</b>			
Contributed equity		8,012.1	8,012.1
Retained profits		3,274.6	2,675.9
<b>Total equity</b>		<b>11,286.7</b>	<b>10,688.0</b>

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 2016

	Attributable to unit holders of the Trust		
	Contributed equity \$m	Retained profits \$m	Total \$m
<b>As at 1 July 2015</b>	<b>8,012.1</b>	<b>2,110.4</b>	<b>10,122.5</b>
Net profit for the half year	-	733.4	733.4
<b>Total comprehensive income for the half year</b>	<b>-</b>	<b>733.4</b>	<b>733.4</b>
<b>Transactions with unit holders in their capacity as securityholders:</b>			
Distributions payable	-	(348.4)	(348.4)
<b>Total equity as at 31 December 2015</b>	<b>8,012.1</b>	<b>2,495.4</b>	<b>10,507.5</b>
<b>As at 1 July 2016</b>	<b>8,012.1</b>	<b>2,675.9</b>	<b>10,688.0</b>
Net profit for the half year	-	943.1	943.1
<b>Total comprehensive income for the half year</b>	<b>-</b>	<b>943.1</b>	<b>943.1</b>
<b>Transactions with unit holders in their capacity as securityholders:</b>			
Distributions payable	-	(344.4)	(344.4)
<b>Total equity as at 31 December 2016</b>	<b>8,012.1</b>	<b>3,274.6</b>	<b>11,286.7</b>

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



# Cash Flow Statement

for the half year ended 31 December 2016

	31-Dec-16 \$m	31-Dec-15 \$m
<b>Cash flows from operating activities</b>		
Receipts in the course of operations	680.3	711.1
Payments in the course of operations	(245.2)	(299.4)
Distributions and dividends received from associates, joint ventures and managed investments	3.5	8.4
Interest and other revenue received	22.8	23.7
Interest paid	(79.6)	(81.0)
<b>Net cash inflows from operating activities</b>	<b>381.8</b>	<b>362.8</b>
<b>Cash flows from investing activities</b>		
Payments for capital expenditure on investment properties	(222.4)	(227.8)
Payments for acquisition of investment properties	-	(303.0)
Proceeds from disposal of investment properties	394.4	218.1
Proceeds from other investments	-	1.8
Integration costs	-	(6.9)
Payment to settle other financial liability – Bentons Square acquisition	(38.3)	-
Stamp duty paid	(2.1)	(80.0)
<b>Net cash inflows/(outflows) from investing activities</b>	<b>131.6</b>	<b>(397.8)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	510.0	2,797.5
Repayment of borrowings	(699.0)	(2,382.5)
Proceeds from repayment of loan to Tuggeranong Town Centre Trust	117.4	-
Proceeds received from Vicinity Limited	-	62.5
Funds advanced to Vicinity Limited	(66.1)	(72.2)
Distributions paid to external securityholders	(352.3)	(336.5)
Debt establishment costs paid	(0.8)	(5.9)
<b>Net cash (outflows)/inflows from financing activities</b>	<b>(490.8)</b>	<b>62.9</b>
<b>Net increase in cash and cash equivalents held</b>	<b>22.6</b>	<b>27.9</b>
<b>Cash and cash equivalents at the beginning of the half year</b>	<b>37.5</b>	<b>63.4</b>
<b>Cash and cash equivalents at the end of the half year</b>	<b>60.1</b>	<b>91.3</b>

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

# Notes to the Financial Statements

## About this report

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

Vicinity Centres Trust is stapled to Vicinity Limited (the Company) to form the stapled group Vicinity Centres (the Vicinity Centres Group). Accordingly the financial report for Vicinity Centres Trust should be read in conjunction with the financial report of Vicinity Centres available at [www.vicinity.com.au](http://www.vicinity.com.au).

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

## Basis of preparation

The condensed consolidated financial report for the half year ended 31 December 2016 (the financial report):

- Has been prepared in accordance with the Constitutions of entities within the Trust Group, 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 unless otherwise stated;
- Does not include all the notes of the type normally included in an annual financial report unless otherwise stated. Accordingly, this report is to be read in conjunction with the 30 June 2016 Annual Report and any public announcements issued 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;
- 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 February 2017. The Directors have the power to amend and reissue the financial report.

Although the Trust Group has a net current deficiency of \$623.4 million (current liabilities exceed current assets) at reporting date, the Trust Group has sufficient current undrawn borrowing facilities (of \$1,385.0 million, refer to Note 3(a)) and generates sufficient operating cashflows to meet its current obligations as they fall due. Accordingly, this financial report has been prepared on a going concern basis.

## The impact of new and amended standards

There are no new and amended standards that became effective for the Trust Group on 1 July 2016 that had a material impact.

## Critical accounting estimates and judgements

The preparation of financial statements requires the Trust Group to make judgements, estimates and assumptions. These are based on historical experience and other factors considered to be reasonable under the circumstances, but which are inherently uncertain, the result of which form the basis of the carrying value of those assets and liabilities. Consequently, future actual results could differ from these estimates. There are no new key judgements, estimates and assumptions significant to the Trust Group's financial statements not already noted in the 30 June 2016 Annual Report.

## 1. Segment information

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

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

## 2. Investment properties

The Trust Group's investment properties represent freehold and leasehold interests in land and buildings held to derive rental income. They are initially measured at cost, including related transaction costs. Subsequently, at each reporting period, they are carried at their fair values based on the market value determined by independent (external) valuers or internal valuations. These valuations include the cost of capital works in progress on development projects. Further detail on the Trust Group's valuation process and valuation methods is provided in the 30 June 2016 Annual Report.

### (a) Summary of portfolio

Shopping centre type	31-Dec-16			30-Jun-16		
	Number of properties	Value \$m	Weighted average cap rate %	Number of properties	Value \$m	Weighted average cap rate %
Super Regional	1	2,625.0	4.25	1	2,215.0	4.75
Major Regional	7	3,178.7	5.79	7	3,144.2	5.79
City Centre	4	1,692.5	4.98	4	1,849.5	5.06
Regional	10	2,178.1	6.30	10	2,105.4	6.33
Outlet Centre	5	1,160.4	6.35	5	1,084.8	6.49
Sub Regional	32	3,253.9	6.54	34	3,272.5	6.75
Neighbourhood and other	15	704.9	6.60	19	747.3	6.86
Planning and holding costs <sup>1</sup>	-	27.3	-	-	25.8	-
<b>Total</b>	<b>74</b>	<b>14,820.8</b>	<b>5.75</b>	<b>80</b>	<b>14,444.5</b>	<b>5.94</b>
Add: Finance lease assets <sup>2</sup>		216.2			214.2	
Less: Properties held for sale (current asset) <sup>3</sup>		-			(232.1)	
Less: Property holdings by Vicinity Limited		(5.1)			(5.1)	
<b>Total investment properties</b>		<b>15,031.9</b>			<b>14,421.5</b>	

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. Disclosures relating to finance leases can be found in Note 18(b) of the 30 June 2016 Annual Report.
3. At 30 June 2016, the value represents a 25% freehold interest in The Myer Centre Brisbane, a 50% freehold interest in Mornington Central and a 100% freehold interest in Bowes Street. These sales settled prior to 31 December 2016.

### (b) Movements for the period

	31-Dec-16 \$m	31-Dec-15 \$m
Opening balance at 30 June	14,444.5	14,104.3
Acquisitions including associated stamp duty and transaction costs <sup>1</sup>	2.1	320.0
Capital expenditure <sup>2</sup>	213.2	205.0
Capitalised interest <sup>3</sup>	4.8	5.0
Disposals <sup>4</sup>	(394.3)	(218.1)
Property revaluation increment	569.5	428.3
Stamp duty and transaction costs written off on acquisitions	(2.1)	(17.0)
Amortisation of incentives	(18.5)	(21.1)
Straight-lining of rent adjustment	1.6	4.6
<b>Closing balance at 31 December</b>	<b>14,820.8</b>	<b>14,811.0</b>

1. Excludes \$38.3 million deferred consideration paid for the acquisition of the remaining 50% of Bentons Square in July 2016, as this asset was previously accounted for in investment properties on a 100% ownership basis based on the terms of the agreement.
2. Includes development costs, maintenance capital expenditure, lease incentives and fit out costs.
3. Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate of 4.3% (December 2015: 3.9%).
4. Investment properties disposed during the period were 100% interests in Bowes Street, Hilton Plaza, Monier Village, Maitland Hunter Mall, Tweed Mall and Albany Brooks Gardens, a 50% interest in Mornington Central and a 25% interest in The Myer Centre Brisbane.

## 2. Investment properties (continued)

### (c) Portfolio valuation

#### Key inputs and sensitivities

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

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

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

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

Unobservable inputs	31-Dec-16		30-Jun-16		
	Range of inputs	Weighted average inputs	Range of inputs	Weighted average inputs	Sensitivity
Capitalisation rate <sup>1</sup>	4.25% - 8.50%	5.75%	4.75% - 8.50%	5.94%	The higher the discount rate, terminal yield, capitalisation rate and downtime for tenants vacating, the lower the fair value.
Discount rate <sup>2</sup>	6.75% - 8.75%	7.74%	7.00% - 9.25%	7.95%	
Terminal yield <sup>3</sup>	4.50% - 8.75%	5.99%	5.00% - 8.75%	6.18%	
Expected downtime (for tenants vacating)	2 months to 9 months	5 months	2 months to 12 months	4 months	
Rental growth rate	2.30% - 4.40%	3.58%	2.70% - 4.50%	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 total rate of return used to convert a forecast cashflow of an asset into a present value. It should reflect the required rate of return of the property given its risk profile relative to competing uses of capital. The rate is determined with regards to comparable market transactions.
3. The terminal yield is the capitalisation rate used to convert forecast annual income into a forecast asset value at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to comparable market transactions and the expected risk of the asset at the end of the cashflow 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) Investments accounted for using the equity method

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

	Ownership		Carrying value	
	31-Dec-16 %	30-Jun-16 %	31-Dec-16 \$m	30-Jun-16 \$m
Victoria Gardens Retail Trust (Joint Venture)	50.0	50.0	81.0	76.3
Other associates and joint ventures	-	-	-	1.5
<b>Closing Balance</b>			<b>81.0</b>	<b>77.8</b>

### 3. Interest bearing liabilities and derivatives

During the period no new financing arrangements have been entered into by the Trust Group. Net repayments to existing facilities have been made with the proceeds from asset sales, partially offset by funds drawn for capital expenditure.

The current US\$ Private Placement Notes (USPPs) expired on 7 February 2017 (represented as current liabilities below) and were repaid through the use of existing available bank debt facilities, as detailed at Note 3(a).

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

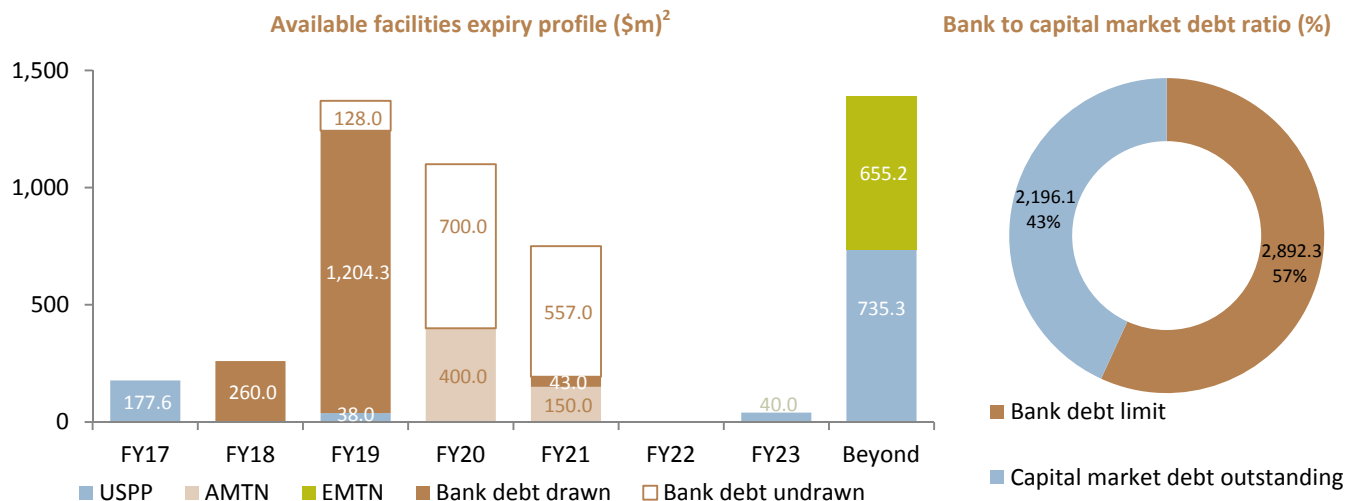
	31-Dec-16 \$m	30-Jun-16 \$m
<b>Current liabilities</b>		
<b>Unsecured</b>		
USPPs <sup>1</sup>	194.4	193.1
<b>Total current liabilities</b>	<b>194.4</b>	<b>193.1</b>
<b>Non-current liabilities</b>		
<b>Secured</b>		
Related party borrowings <sup>2</sup>	320.3	323.2
<b>Unsecured</b>		
Bank debt	1,507.3	1,696.3
A\$ Medium Term Notes (AMTNs)	250.0	250.0
GBP European Medium Term Notes (EMTNs)	589.1	619.9
USPPs	898.7	877.6
Deferred debt costs <sup>3</sup>	(16.0)	(17.9)
<b>Total non-current liabilities</b>	<b>3,549.4</b>	<b>3,749.1</b>
<b>Total interest bearing liabilities</b>	<b>3,743.8</b>	<b>3,942.2</b>

1. The carrying amount of the current USPPs includes \$16.8 million of fair value and foreign exchange adjustments (30 June 2016: \$15.5 million).
2. The Trust Group has entered into a 'back-to-back' related party loan agreement with Vicinity Centres Finance Pty Ltd (VCFPL), a subsidiary of Vicinity Limited. The related party loan agreement between the Trust Group and VCFPL is secured and on the same terms and conditions as VCFPL's AMTN's.
3. Deferred debt costs comprise the unamortised value of borrowing costs on establishment or refinance of debt facilities. These costs are deferred on the Balance Sheet and amortised to borrowing costs in the Statement of Comprehensive Income

### 3. Interest bearing liabilities and derivatives (continued)

#### (a) Financing facilities

The chart below outlines the maturity of the Trust Group's total available facilities at 31 December 2016 by type, excluding fair value adjustments<sup>1</sup>, and the bank to capital markets debt ratio. Of the \$5,088.4 million total available facilities (30 June 2016: \$5,088.4 million), \$1,385.0 million remains undrawn at 31 December 2016 (30 June 2016: \$1,196.0 million).



- The carrying amount of the USPPs, EMTNs and secured AMTNs in the Balance Sheet includes net adjustments for fair value items and foreign exchange translation of \$56.4 million (30 June 2016: \$67.7 million). These adjustments are excluded from the calculation of total facilities available and amounts drawn. Additionally, deferred debt costs of \$16.0 million (30 June 2016: \$17.9 million) are not reflected in the amount drawn.
- Total bank debt facilities are reduced by bank guarantees of \$17.7 million drawn against bank debt facilities (30 June 2016: \$17.7 million).

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

	31-Dec-16 \$m	31-Dec-15 \$m
<b>Interest expense</b>	<b>84.6</b>	<b>88.5</b>
Amortisation of borrowing costs	2.3	3.2
Amortisation of fair value adjustments relating to discontinuation of hedge accounting <sup>1</sup>	(5.7)	-
Amortisation of fair value adjustment on secured A\$ MTNs acquired on Merger	(2.9)	(2.9)
Finance lease interest expense	1.9	-
Less: Capitalised borrowing costs	(4.8)	(5.0)
<b>Total borrowing costs</b>	<b>75.4</b>	<b>83.8</b>

- On 1 May 2016 the Trust Group elected to discontinue hedge accounting for its existing USPPs and Cross Currency Swap derivatives. AASB 139 *Financial Instruments Recognition and Measurement* required that upon discontinuation, the historical hedge accounting adjustment applied to the carrying value of the USPPs relating to movements in interest rates since the USPPs were entered into be recognised as part of the carrying value of the USPP. This adjustment is then amortised to zero over the remaining life of the USPPs using the effective interest rate method. This amortisation is included in borrowing costs in the Statement of Comprehensive Income.

### 3. Interest bearing liabilities and derivatives (continued)

#### (c) Defaults and covenants

At 31 December 2016, the Trust Group had no defaults on debt obligations or breaches of lending covenants (June 2016: None).

#### (d) Derivative financial instruments

The Trust Group holds interest rate swaps and cross currency swaps to hedge against the interest rate risk and foreign currency risk of the Trust Group's borrowings. The fair value of these derivatives are estimated using valuation techniques, including referencing to the current fair value of other instruments that are substantially the same or calculation of discounted cash flows. These valuation techniques use observable Level 2 inputs, mainly interest rates and interest rate curves as well as foreign currency rates and foreign currency curves.

As at 31 December 2016 the carrying value and notional principal amounts of these derivative financial instruments are:

	Carrying Amount		Notional Principal Value	
	31-Dec-16 \$m	30-Jun-16 \$m	31-Dec-16 \$m	30-Jun-16 \$m
Cross currency swaps (pay A\$ floating receive US\$ fixed) – Assets	16.7	15.6	177.6	177.6
<b>Total current assets</b>	<b>16.7</b>	<b>15.6</b>	<b>n/a</b>	<b>n/a</b>
Cross currency swaps (pay A\$ floating receive US\$ fixed) – Assets	90.9	112.2	340.6	435.0
<b>Total non-current assets</b>	<b>90.9</b>	<b>112.2</b>	<b>n/a</b>	<b>n/a</b>
Interest rate swaps (floating to fixed) – Liabilities	2.4	-	887.0	-
<b>Total current liabilities</b>	<b>2.4</b>	<b>-</b>	<b>n/a</b>	<b>n/a</b>
Cross currency swaps (pay A\$ floating receive US\$ fixed) - Liabilities	17.0	1.0	357.7	263.3
Cross currency swaps (pay A\$ floating receive GBP fixed) - Liabilities	56.0	14.8	655.2	655.2
Interest rate swaps (floating to fixed) – Liabilities	49.9	163.9	1,850.0	2,870.1
<b>Total non-current liabilities</b>	<b>122.9</b>	<b>179.7</b>	<b>n/a</b>	<b>n/a</b>

### 4. Events occurring after the reporting date

#### Acquisition of remaining interest in DFO South Wharf

As announced to the Australian Securities Exchange in February 2017, the Group has entered into an agreement to purchase the remaining 25% of DFO South Wharf for \$141.3 million.

#### Credit rating upgrade

On 24 January 2017 Standard & Poor's upgraded the Group's credit rating to 'A' with a stable outlook.

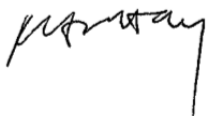
No matters other than those identified above have arisen since the end of the period which have significantly affected or may significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial periods.

## 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 6 to 15 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 2016 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.



**Peter Hay**  
Chairman

Melbourne  
15 February 2017



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 2016, 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 Vicinity Centres 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 2016 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.

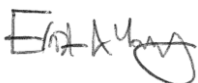
### Independence

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.

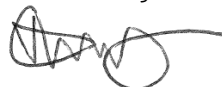
### Conclusion

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 2016 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  
15 February 2017