Vicinity Centres Trust

Financial report for the half year ended
31 December 2020

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

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 Trust Group) for the half year ended 31 December 2020.

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 half year 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 2020 and up to the date of this report unless otherwise stated:

(i) Chairman

Trevor Gerber (Independent)

(ii) Non-executive Directors

Clive Appleton

David Thurin AM

Janette Kendall (Independent)

Karen Penrose (Independent)

Peter Kahan (Independent)

Tim Hammon (Independent)

(iii) Executive Director

Grant Kelley (CEO and Managing Director)

Company Secretaries

Carolyn Reynolds

Rohan Abeyewardene

Principal activities

The principal activities of the Trust Group during the period continued to be investment in a portfolio of retail investment properties.

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

Distributions

On 15 December 2020 the Directors declared a distribution for the half year ended 31 December 2020 of 3.4 cents per VCX stapled security, payable wholly by the Trust. This equates to a total half year distribution payable to securityholders of $154.8 million. The half year distribution is expected to be paid on 2 March 2021.

Significant changes in state of affairs

COVID-19 pandemic

While there was an overall improvement in retail trading conditions by 31 December 2020 (as compared to 30 June 2020), the COVID-19 pandemic continued to unfavourably impact the Trust Group's retail property portfolio operations and financial results during the six-month period. The Trust Group continued to provide rental assistance to tenants and property valuations decreased as valuation metrics softened further. Key factors contributing to these items included:

- The extended lockdowns and restrictions in place in Victoria (~52% of the Trust Group's portfolio by value) during the period.
- City (CBD) assets continuing to experience reduced foot traffic as many CBD based office workers continue to work from home and international borders remain closed.
- The extension of the Small to Medium Enterprise (SME) Commercial Code of Conduct (SME Code) in various States beyond its originally anticipated end date of 30 September 2020. The SME Code contains principles for landlords and certain SME tenants affected by COVID-19 to negotiate rent assistance in the form of waivers and deferrals. Many tenants have continued to withhold contractual lease payments owing to the Trust Group until rental assistance negotiations are finalised.
- Ongoing uncertainty within the community due to lockdown and border restrictions in response to COVID-19 outbreaks.

The duration and extent of the pandemics' impacts' on the economy, consumers and investment markets are unknown. As a result:

- There is significant uncertainty as to impact of the pandemic on the Trust Group's financial position and performance in future periods.
- A number of significant judgements, estimates, and assumptions have been made in determining the carrying value of certain assets and liabilities at 31 December 2020. Refer to the 'About this Report' section of this report for further discussion.

Further information on the impact of the pandemic and the Vicinity Centres Group's response can be found in the Review of results and operations in the Vicinity Centres Group 31 December 2020 half year financial report available at vicinity.com.au.

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 half year financial report which is available at vicinity.com.au. The following sections relate to the results and operations of the Trust only and therefore do not include items and amounts relating to Vicinity Limited.

(a) Financial performance

The statutory net loss after tax of the Trust Group for the half year ended 31 December 2020 was $384.1 million, a decrease of $603.6 million on the prior period (31 December 2019: net profit of $219.5 million). This result mainly comprised:

- a revaluation decrement on directly owned properties of $508.6 million (31 December 2019: decrement of $53.2 million);
- net profits[1] contributed from investment properties of $311.0 million (31 December 2019: $395.4 million);
- net losses from equity accounted investments of $31.6 million, driven by revaluation decrements recorded on investment properties within Joint Ventures (31 December 2019: loss of $1.9 million); and
- borrowing costs of $67.7 million (31 December 2019: $102.8 million).

Cash flows from operating activities for the period were $293.3 million (31 December 2019: $350.8 million).

(b) Financial position

At 31 December 2020 the Trust Group's net assets were $10,186.8 million, down $508.5 million from $10,695.3 million at 30 June 2020. This decrease was largely due to the aforementioned property revaluation decrements on directly owned investment properties and equity accounted investments.

(c) Capital management

No significant financing activities occurred during the six months to 31 December 2020. Net repayments of $428.0 million were made from maturing term deposits, operational cash flows and the proceeds from the Security Purchase Plan (SPP), partly offset by capital expenditure.

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[1] Property ownership revenue and income less direct property expenses and allowances for expected credit losses.

Events occurring after the end of the reporting period

COVID-19 pandemic

In the period between 31 December 2020 and the date of this report short term localised lockdowns and changing restriction levels have been observed across several States in response to COVID-19 cases. These restrictions impacted foot traffic at shopping centres within the Trust Group's portfolio. The duration and extent of such restrictions and the financial, social and public health impacts of the COVID-19 pandemic remain uncertain and therefore the Trust Group cannot quantify the impact that COVID-19 may have on future periods.

Disclosures have been included within the half year financial report on the impact that this uncertainty has had on the reported amounts of relevant revenues, expenses, assets and liabilities for the half year ended 31 December 2020 and the potential impacts that this uncertainty may have on revenues, expenses, assets and liabilities in future periods.

No other matters have arisen since the end of the period 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.

Auditor's independence declaration

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.

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 accordance with a resolution of Directors.

Trevor Gerber
Chairman
17 February 2021

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

As lead auditor for the review of the financial report of Vicinity Centres Trust for the half year ended 31 December 2020, 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

Ernst & Young

Alison Parker
Partner
17 February 2021

Statement of Comprehensive Income

for the half year ended 31 December 2020

	Note	31-Dec-20 $m	31-Dec-19 $m
Revenue and income			
Property ownership revenue and income		549.1	590.0
Interest and other income		7.8	12.9
Total revenue and income	2	**556.9**	**602.9**
Share of net loss of equity accounted investments	3(e)	(31.6)	(1.9)
Property revaluation decrement for directly owned properties	3(b)	(508.6)	(53.2)
Direct property expenses		(161.8)	(192.7)
Allowance for expected credit losses	6(b)	(76.3)	(1.9)
Borrowing costs	4(c)	(67.7)	(102.8)
Responsible entity fees		(24.2)	(28.7)
Other expenses from ordinary activities		(1.3)	(2.7)
Net foreign exchange movement on interest bearing liabilities		118.2	(14.7)
Net mark-to-market movement on derivatives		(187.7)	15.2
Net (Loss)/Profit before tax for the half year		**(384.1)**	**219.5**
Income tax expense		-	-
Net (loss)/profit for the half year		**(384.1)**	**219.5**
Other comprehensive income		-	-
Net (loss)/profit and total comprehensive income for the half year		**(384.1)**	**219.5**
Earnings per unit attributable to unitholders of the Trust Group:			
Basic earnings per unit (cents)		(8.44)	5.83
Diluted earnings per unit (cents)		(8.44)	5.82

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

Balance Sheet

as at 31 December 2020

	Note	31-Dec-20 $m	30-Jun-20 $m
Current assets			
Cash and cash equivalents		60.1	218.1
Trade receivables and other assets	6	111.6	121.4
Total current assets		**171.7**	**339.5**
Non-current assets			
Investment properties	3(a)	13,232.6	13,710.1
Investments accounted for using the equity method	3(e)	495.4	527.0
Derivative financial instruments		113.0	268.7
Other assets	6	449.7	462.9
Total non-current assets		**14,290.7**	**14,968.7**
Total assets		**14,462.4**	**15,308.2**
Current liabilities			
Interest bearing liabilities	4(a)	150.9	151.8
Distribution payable		154.8	-
Payables		157.9	140.5
Lease liabilities		17.8	17.5
Provisions		28.1	25.7
Total current liabilities		**509.5**	**335.5**
Non-current liabilities			
Interest bearing liabilities	4(a)	3,233.7	3,778.0
Lease liabilities		248.2	247.2
Derivative financial instruments		284.2	252.2
Total non-current liabilities		**3,766.1**	**4,277.4**
Total liabilities		**4,275.6**	**4,612.9**
Net assets		**10,186.8**	**10,695.3**
Equity			
Contributed equity	5	8,560.8	8,530.4
Retained profits		1,626.0	2,164.9
Total equity		**10,186.8**	**10,695.3**

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

Statement of Changes in Equity

for the half year ended 31 December 2020

	Attributable to unitholders of the Trust		
	Contributed equity $m	Retained profits $m	Total $m
As at 1 July 2019	**7,533.8**	**3,868.1**	**11,401.9**
Net profit for the half year	-	219.5	219.5
Total comprehensive income for the half year	**-**	**219.5**	**219.5**
Transactions with unitholders in their capacity as unitholders:			
On-market unit buy-back	(35.5)	-	(35.5)
Distributions declared	-	(289.3)	(289.3)
Total equity as at 31 December 2019	**7,498.3**	**3,798.3**	**11,296.6**
As at 1 July 2020	**8,530.4**	**2,164.9**	**10,695.3**
Net loss for the half year	-	(384.1)	(384.1)
Total comprehensive loss for the half year	**-**	**(384.1)**	**(384.1)**
Transactions with unitholders in their capacity as unitholders:			
Units issued	30.7	-	30.7
Unit issue costs (net of tax)	(0.3)	-	(0.3)
Distributions declared	-	(154.8)	(154.8)
Total equity as at 31 December 2020	**8,560.8**	**1,626.0**	**10,186.8**

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 2020

	Note	31-Dec-20 $m	31-Dec-19 $m
Cash flows from operating activities			
Receipts in the course of operations		568.5	686.4
Payments in the course of operations		(235.9)	(251.8)
Distributions and dividends received from equity accounted and managed investments		10.7	6.4
Net operating cash flows retained by equity accounted entities		(0.2)	8.9
Interest and other revenue received		12.2	12.1
Interest paid		(62.2)	(102.3)
Net cash inflows from operating activities – proportionate[1]		293.1	359.7
Less: net operating cash flows retained by equity accounted entities		0.2	(8.9)
Net cash inflows from operating activities		**293.3**	**350.8**
Cash flows from investing activities			
Payments for capital expenditure on investment properties		(69.3)	(195.1)
Payments for acquisition of investment property		(1.1)	(3.4)
Proceeds from disposal of investment properties		2.8	224.9
Net cash (outflows)/inflows from investing activities		**(67.6)**	**26.4**
Cash flows from financing activities			
Proceeds from issue of units		30.7	-
Transaction costs on issue of units		(0.3)	-
Proceeds from borrowings		150.0	1,504.9
Repayment of borrowings		(578.0)	(1,327.5)
Repayment of related party loan		-	(150.0)
Proceeds received from Vicinity Limited		72.9	16.5
Funds advanced to Vicinity Limited		(58.7)	(59.3)
On-market unit buy-back		-	(34.8)
Distributions paid to external unitholders		-	(299.9)
Debt establishment costs paid		(0.3)	(6.9)
Net cash outflows from financing activities		**(383.7)**	**(357.0)**
Net (decrease)/increase in cash and cash equivalents held		**(158.0)**	**20.2**
Cash and cash equivalents at the beginning of the half year		**218.1**	**27.2**
Cash and cash equivalents at the end of the half year		**60.1**	**47.4**

1. Proportionate cash flows from operating activities includes total operating cash flows from consolidated and equity accounted entities.

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

About This Report

Reporting entity

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 financial report of Vicinity Centres available at vicinity.com.au.

Basis of preparation

The condensed consolidated financial report for the half year ended 31 December 2020 (the Financial Report):

- has been prepared in accordance with the *Corporations Act 2001* (Cth), Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The accounting policies adopted are consistent with those of the previous financial year except for the impact of the new and amended accounting standards described below;
- 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 2020 Annual Report and any public announcements issued during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth) and the Listing Rules of the ASX;
- 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 of the Responsible Entity on 17 February 2021. The Directors have the power to amend and reissue the Financial Report.

COVID-19 pandemic

While there was an overall improvement in retail trading conditions by 31 December 2020 (as compared to 30 June 2020), the COVID-19 pandemic continued to unfavourably impact the Trust Group's retail property portfolio operations and financial results during the six-month period. Further information on the impacts of COVID-19 had on the Trust Group's operations and results can be found in the Directors Report. Discussion of the impact COVID-19 has had on significant judgments and estimates made within this financial report has been included within relevant notes to these financial statements.

Going concern

Although the Trust Group has a net current deficiency of $337.8 million (current liabilities exceed current assets) at reporting date, the Financial Report has been prepared on a going concern basis as the Trust Group has sufficient current undrawn borrowing facilities (of $2,405.0 million, refer to Note 4(b)) and generates sufficient operating cash flows to meet its current obligations as they fall due.

Additionally, the Trust Group has assessed scenarios which consider varying levels of unfavourable impacts of the COVID-19 pandemic ('COVID-19' or the 'pandemic') on items such as cash flows and compliance with key debt covenants, including gearing and interest cover ratios. Based on these scenarios, the Trust Group is expected to be able to pay its debts as and when they fall due for a period of 12 months from the date of these financial statements.

Impact of new and amended accounting standards

New and amended standards that became effective as of 1 July 2020 did not have a material impact on the financial statements of the Trust Group as they are either not relevant to the Trust Group's activities or require accounting which is consistent with the Trust Group's current accounting policies.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the Trust Group to make judgements in the application of accounting policies and estimates when developing assumptions that affect the reported amounts of certain revenues, expenses, assets and liabilities. These judgements and estimates are made considering historical experience and other reasonable and relevant factors but are inherently uncertain. Due to this inherent uncertainty, actual results may differ from these judgements and estimates.

As the extent of the impacts of the COVID-19 pandemic remain uncertain, the level of judgement and estimation applied in the preparation of the 31 December 2020 financial report remained elevated. This elevated level of judgement and estimation was particularly relevant in the areas of valuation of investment properties, revenue and income and recoverability of tenant debtors. Further discussion of changes since 30 June 2020 in the judgements and estimates made by the Trust Group have been included within the relevant notes to the financial statements.

Updates on the following key judgements and estimates are contained in this half year financial report:

Area of judgement or estimation	**Note**
Valuation of investment properties	3
Revenue and income (impact of COVID-19 rental assistance)	2
Recoverability of tenant debtors	6

There was no significant change in judgements and estimates applied in the valuation of derivative financial instruments as compared to those disclosed within the 30 June 2020 financial report.

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.

Management does not report the results of the Trust or segments of the Trust to the Chief Operating Decision Makers (which for the Vicinity Centres Group are the CEO and Managing Director, Chief Operating Officer (COO) and the Chief Financial Officer (CFO)). Rather management reports segment results for the stapled Vicinity Centres Group. Refer to Note 1 of the Vicinity Centres Group report for the half year ended 31 December 2020 for segment information relating to the Vicinity Centres Group.

2. Revenue and income

(a) COVID-19 rental assistance

The Trust Group is providing rental assistance to many tenants of the Trust Group's investment properties as a result of the impact of the COVID-19 pandemic on retail trade and the introduction of the SME Code. Rental assistance is taking the form of rental waivers, payment deferrals and other changes to existing lease payment structures or lease terms. The impact of rental assistance agreements on the financial statements is discussed below.

Rental assistance agreed

Rental assistance is agreed once both the Trust Group and the tenant have executed the legal agreement outlining the terms of the assistance. As providing rental assistance during the pandemic was not contemplated within the Trust Group's pre-existing lease arrangements, they are treated as modifications of the pre-existing leases (lease modifications). This treatment applies to all rental assistance agreements, including those reached applying the good faith principles of the SME Code (which promotes a proportionate sharing of the unfavourable impacts of COVID-19 on a tenant's turnover between the landlord and the tenant).

Lease modifications have the following effects on the financial statements:

- Waivers of lease receivables recognised as lease revenue prior to the date of an agreement being reached are written off through profit and loss, except to the extent of a pre-existing allowance for expected credit losses relating to outstanding lease receivables. For the period ending 31 December 2020 $65.1 million of lease receivables were waived (six months to 31 December 2019: $nil), of which $40.6 million related to lease receivable recognised in prior financial periods.
- Lease rental income due over the remaining lease term, which incorporates any future reductions (waivers) in fixed lease payments as compared to the original lease agreement is recognised on a straight-line basis. During the period agreements to reduce future lease payments totalled approximately $19.1 million (six months to 31 December 2019: $nil) of which approximately $13.4 million related to the period ending 31 December 2020. Additional straight line revenue of approximately $10.4 million was recognised during the period in relation to these reductions.
- Rent for which payment is deferred to a later date (rent is normally payable monthly in advance) continues to be recognised as income with a corresponding receivable in the period to which the occupancy relates. For the period ending 31 December 2020 rental payments of approximately $7.1 million were deferred until future reporting periods (six months to 31 December 2019: $nil).

As at 31 December 2020, approximately 3,674 agreements for rental assistance had been executed.

Rental assistance under negotiation

Until rental assistance is agreed lease rental income and lease receivables continue to be recognised in accordance with the terms of the original lease agreement. At the end of the reporting period, an estimate of the lease receivables expected to be waived once an agreement is reached is included within the allowance for expected credit losses. The Trust Group estimates approximately 3,981 agreements for rental assistance are still to be completed. Some tenants may require more than one rental assistance agreement depending on the impacts of COVID-19 on their operations.

Further information on the lease receivables waived and expected credit losses recognised during the period (relating to both rental assistance agreed and under negotiation) at 31 December 2020 can be found in Note 6.

2. Revenue and income (continued)

(b) Property ownership revenue and income

A summary of the Trust Group's total revenue and income included within the Statement of Comprehensive Income by nature is shown below:

For the six months to:	31-Dec-20 $m	31-Dec-19 $m
Recovery of property outgoings[1]	83.8	102.3
Other property-related revenue[1]	33.6	50.8
Total revenue from contracts with customers	**117.4**	**153.1**
Lease rental income[1]	431.7	436.9
Interest and other income	7.8	12.9
Total income	**439.5**	**449.8**
Total revenue and income	**556.9**	**602.9**

1. Included within 'Property ownership revenue and income' in the Statement of Comprehensive Income.

3. Investment properties

The Trust Group's investment properties represent freehold and leasehold interests in land and buildings held either to derive rental income or for capital appreciation, or both. 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, being the price that would be received to sell an investment property in an orderly, arms length transaction between market participants at the reporting date. Fair values for investment properties are determined by independent (external) valuers or internal valuations. These valuations include the cost of capital works in progress on development projects.

Details of the Trust Group's valuation process and valuation methods are provided within the 30 June 2020 Annual Report. An update on changes to the valuation process and valuation considerations, including the impact of continued material valuation uncertainty is provided in Note 3(c).

(a) Portfolio summary

Shopping centre type	31-Dec-20			30-Jun-20		
	Number of properties	Value $m	Weighted average cap rate %	Number of properties	Value $m	Weighted average cap rate %
Super Regional	1	3,062.0	3.88	1	3,119.2	3.88
Major Regional	7	2,054.5	5.92	7	2,126.6	5.92
City Centre	7	2,032.6	4.95	7	2,218.0	4.81
Regional	8	1,423.8	6.71	8	1,484.7	6.70
Outlet Centre	7	1,716.5	5.93	7	1,760.2	5.94
Sub Regional	24	2,526.7	6.55	24	2,588.7	6.55
Neighbourhood	4	196.3	6.40	4	195.2	6.52
Planning and holding costs[1]	-	27.9	-	-	29.3	-
Less: Property holdings by Vicinity Limited[2]	-	(73.8)	-	-	(76.5)	-
Total	**58**	**12,966.5**	**5.5**	**58**	**13,445.4**	**5.48**
Add: Investment property leaseholds		266.1			264.7	
Total investment properties		**13,232.6**			**13,710.1**	

1. Planning and holding costs relating to planned major development projects are capitalised and carried within the overall investment property balance. The status of each project is reviewed each period to determine if continued capitalisation of these costs remains appropriate.
2. Certain equipment which forms part of the individual fair values of the Trust Group's investment properties is held by Vicinity Limited.

3. Investment properties (continued)

(b) Movements for the period

The following investment property transactions occurred during the period:

- Galleria Water Basin land swap (July 2020), the Trust Group received land with a fair value of $13.0 million[1] and in return provided land with a fair value of $11.9 million[1] and cash of $1.1 million; and
- Sale of other ancillary land (October 2020) for $3.0 million[1].

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

For the six months to:	31-Dec-20 $m	31-Dec-19 $m
Opening balance at 1 July	**13,445.4**	**15,086.4**
Acquisitions including associated stamp duty and transaction costs	13.0	-
Capital expenditure[2]	60.5	182.5
Capitalised borrowing costs[3]	0.1	1.7
Disposals	(14.7)	(224.9)
Property revaluation decrement for directly owned properties[5]	(510.0)	(53.2)
Amortisation of incentives and leasing costs[4]	(36.6)	(34.3)
Straight-lining of rent adjustment[4]	8.8	4.8
Closing balance at 31 December	**12,966.5**	**14,963.0**

1. Amounts exclude transaction costs.
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 2.9% (31 December 2019: 4.3%).
4. For leases where Vicinity is the lessor in the lease arrangement.
5. The property revaluation decrement of $510.0 million is before the addition of investment property leaseholds. The $508.6 million revaluation decrement presented within the Statement of Comprehensive Income includes a $1.4 million revaluation increment of investment property leaseholds held at fair value.

(c) Portfolio valuation

Changes to valuation process

At 31 December 2020, the Trust Group reverted to a combination of internal and independent valuations. This resulted in 12 of 58 investment properties being valued internally (30 June 2020: all independent valuations). Internal valuations were undertaken for properties where key metrics such as foot traffic, sales and rental collections had stabilised at or near pre COVID-19 levels. Additionally, consistent with periods prior to 30 June 2020:

- Internal valuations were reviewed by the director of an independent valuation firm to assess the assumptions adopted and the reasonableness of the outcomes.
- An independent valuation was obtained where it was likely that the outcome of an internal valuation would lead to the carrying value movement being greater than 10%.

There were no other changes to the valuation process from that disclosed within the 30 June 2020 Annual Report.

Impact of the COVID-19 pandemic – valuation uncertainty

While retail trading conditions improved for most centres within the portfolio over the period, there continues to be significant estimation uncertainty in determining key inputs into the fair value of the Trust Group's investment properties. This resulted in independent valuers continuing to report on the basis of material valuation uncertainty. The factors causing this material valuation uncertainty include those identified below. Further discussion on these factors can be found within Note 4(c) to the 30 June 2020 Annual Report:

- Lack of property transaction market evidence;
- Impact of actual and potential future shutdowns and restrictions on retail property performance; and
- Uncertain government policy settings.

Material valuation uncertainty clauses included within the independent valuations were consistent with the guidelines issued by the Australian Property Institute and highlight that while valuations can still be relied upon at 31 December 2020, due to the impacts of COVID-19 there is a potential for significant and unexpected movements in value over a relatively short period of time post the valuation being completed.

3. Investment properties (continued)

(c) Portfolio valuation (continued)

Key assumptions and inputs

Key unobservable inputs used by the Trust Group in determining the fair value of its investment properties are summarised below. Consistent with 30 June 2020, valuations at 31 December 2020 also continued to incorporate specific unobservable adjustments relating to COVID-19. These adjustments reduced investment property fair values and comprised (where appropriate):

- Allowances for short-term rental waivers ranging from 0-24 months to be provided to tenants impacted by the COVID-19 outbreak (30 June 2020: 0-12 months).
- Additional capital and stabilisation allowances for replacement of existing tenants that do not renew lease agreements or take longer to recover.
- Softer capitalisation rate and/or market rent assumptions for certain CBD centres which have been significantly impacted by the reduction in tourism and CBD visitation.

	31-Dec-20		30-Jun-20		
Unobservable inputs	**Range of inputs**	**Weighted average inputs**	**Range of inputs**	**Weighted average inputs**	**Sensitivity**
Capitalisation rate[1]	3.88% - 8.00%	5.50%	3.88% - 8.00%	5.48%	The higher the capitalisation rate, discount rate, terminal yield, and expected downtime due to tenants vacating, the lower the fair value.
Discount rate[2]	6.00% - 9.00%	6.80%	6.00% - 9.00%	6.83%	
Terminal yield[3]	4.13% - 8.00%	5.70%	4.13% - 8.00%	5.68%	
Expected downtime (for tenants vacating)	3 months to 15 months	7 months	3 months to 15 months	7 months	
Market rents and rental growth rate	2.13% – 3.12%	2.77%	2.00% - 3.17%	2.76%	The higher the assumed market rent and 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 the forecast cash flow of an asset into present value terms. 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 inherent in the cash flows at the end of the cash flow period. Leasehold properties with tenure less than 20 years (at the end of the 10-year investment horizon) have been excluded from this sensitivity for comparative reasons given the terminal value calculation can differ to take into account the finite term remaining on the leasehold at that time.

All the above key assumptions have been taken from the latest external valuation reports and internal valuation assessments (where applicable in the prior year). For all investment properties, the current use equates to the highest and best use.

3. Investment properties (continued)

(c) Portfolio valuation (continued)

Sensitivity analysis

The following sensitivities illustrate the impact of changes in key unobservable inputs (in isolation) on the fair value of the Trust Group's investment properties at 31 December 2020. Specific key unobservable inputs may impact only the capitalisation method, the DCF method or both methods.

DCF method

31 December 2020 ($m)	Carrying value	Discount rate -0.25%	Discount rate +0.25%	10-year rental growth rate -0.25%	10-year rental growth rate +0.25%
Actual valuation[1] ($m)	13,012.4	-	-	-	-
Impact on actual valuation ($m)	-	+248.5	(243.2)	(161.9)	+164.3
Resulting valuation ($m)	-	13,260.9	12,769.2	12,850.5	13,176.7

Capitalisation of net income method

31 December 2020 ($m)	Carrying value	Capitalisation rate -0.25%	Capitalisation rate +0.25%
Actual valuation[1] ($m)	13,012.4	-	-
Impact on actual valuation ($m)	-	+671.5	(610.0)
Resulting valuation ($m)	-	13,683.9	12,402.4

1. Excludes planning and holding costs and investment property leaseholds and includes property holdings by Vicinity Limited.

(d) List of investment properties held

The tables below summarise the independent (external) valuation and carrying value for each investment property.

i. Super Regional

			Carrying value	
	Ownership interest %	31-Dec-20 Valuation type	31-Dec-20 $m	30-Jun-20 $m
Chadstone	50	Independent	3,062.0	3,119.2
Total Super Regional			**3,062.0**	**3,119.2**

ii. Major Regional

			Carrying value	
	Ownership interest %	31-Dec-20 Valuation type	31-Dec-20 $m	30-Jun-20 $m
Bankstown Central	50	Internal	272.5	275.0
Bayside	100	Independent	440.0	459.8
Galleria	50	Independent	242.5	250.0
Mandurah Forum	50	Internal	215.0	227.5
Northland	50	Independent	412.0	422.1
Roselands	50	Independent	141.5	142.2
The Glen	50	Independent	331.0	350.0
Total Major Regional			**2,054.5**	**2,126.6**

3. Investment properties (continued)

(d) List of investment properties held (continued)

iii. City Centre

	Ownership interest %	31-Dec-20 Valuation type	Carrying value 31-Dec-20 $m	Carrying value 30-Jun-20 $m
Emporium Melbourne	50	Independent	542.5	640.0
Myer Bourke Street	33	Independent	142.3	149.0
Queen Victoria Building[1]	50	Independent	274.0	300.0
QueensPlaza	100	Independent	680.0	700.0
The Galeries	50	Independent	152.5	164.0
The Myer Centre Brisbane	25	Independent	126.3	140.0
The Strand Arcade	50	Independent	115.0	125.0
Total City Centre			**2,032.6**	**2,218.0**

Refer to footnotes at the end of Note 3(d).

iv. Regional

	Ownership interest %	31-Dec-20 Valuation type	Carrying value 31-Dec-20 $m	Carrying value 30-Jun-20 $m
Broadmeadows Central	100	Independent	250.0	269.7
Colonnades	50	Independent	113.2	113.2
Cranbourne Park	50	Independent	125.0	130.0
Eastlands	100	Independent	156.8	156.8
Elizabeth City Centre	100	Independent	290.0	300.0
Grand Plaza	50	Independent	178.0	185.0
Rockingham Centre	50	Internal	205.0	217.5
Runaway Bay Centre	50	Internal	105.8	112.5
Total Regional			**1,423.8**	**1,484.7**

v. Outlet Centre

	Ownership interest %	31-Dec-20 Valuation type	Carrying value 31-Dec-20 $m	Carrying value 30-Jun-20 $m
DFO Brisbane[2]	100	Internal	62.5	62.5
DFO Essendon[3]	100	Independent	162.0	167.3
DFO Homebush	100	Independent	610.0	590.0
DFO Moorabbin[4]	100	Independent	105.0	111.9
DFO Perth[5]	50	Independent	105.0	105.0
DFO South Wharf[6]	100	Independent	612.0	663.0
DFO Uni Hill[9]	50	Independent	60.0	60.5
Total Outlet Centre			**1,716.5**	**1,760.2**

Refer to footnotes at the end of Note 3(d).

3. Investment properties (continued)

(d) List of investment properties held (continued)

vi. Sub Regional

	Ownership interest %	31-Dec-20 Valuation type	Carrying value 31-Dec-20 $m	Carrying value 30-Jun-20 $m
Altona Gate Shopping Centre	100	Independent	103.0	100.0
Armidale Central	100	Internal	35.0	36.0
Box Hill Central (North Precinct)	100	Independent	125.0	127.5
Box Hill Central (South Precinct)[7]	100	Independent	210.0	219.5
Buranda Village	100	Independent	38.0	38.0
Carlingford Court	50	Independent	99.0	105.0
Castle Plaza	100	Independent	142.0	151.4
Ellenbrook Central	100	Independent	247.1	242.0
Gympie Central	100	Internal	70.0	72.5
Halls Head Central	50	Independent	39.0	40.0
Karratha City	50	Internal	39.0	40.0
Kurralta Central	100	Independent	42.9	42.0
Lake Haven Centre	100	Independent	274.0	283.9
Livingston Marketplace	100	Independent	79.5	83.0
Maddington Central	100	Independent	90.0	93.0
Mornington Central	50	Independent	35.0	36.0
Nepean Village	100	Independent	200.0	204.0
Northgate	100	Internal	83.0	85.0
Roxburgh Village	100	Independent	93.0	95.7
Sunshine Marketplace	50	Independent	59.5	60.1
Taigum Square	100	Internal	83.0	85.0
Warriewood Square	50	Internal	134.0	137.5
Warwick Grove	100	Independent	145.4	150.0
Whitsunday Plaza	100	Independent	60.3	61.6
Total Sub Regional			**2,526.7**	**2,588.7**

Refer to footnotes at the end of Note 3(d).

3. Investment properties (continued)

(d) List of investment properties held (continued)

vii. Neighbourhood

	Ownership interest %	31-Dec-20 Valuation type	Carrying value 31-Dec-20 $m	Carrying value 30-Jun-20 $m
Dianella Plaza	100	Independent	60.8	63.0
Milton Village	100	Independent	35.0	34.3
Oakleigh Central	100	Independent	76.0	72.6
Victoria Park Central	100	Internal	24.5	25.3
Total Neighbourhood			**196.3**	**195.2**

1. The title to this property is leasehold and expires in 2083.
2. The right to operate the DFO Brisbane business expires in 2046.
3. The title to this property is leasehold and expires in 2048.
4. The title to this property is leasehold with an option to extend the ground lease to 2034 at the Trust Group's discretion.
5. The title to this property is leasehold and expires in 2047.
6. The title to this property is leasehold and expires in 2108.
7. The title to this property is leasehold with options to extend the ground lease to 2134 at the Trust Group's discretion.

(e) 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.

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

	Ownership 31-Dec-20 %	Ownership 30-Jun-20 %	Carrying value 31-Dec-20 $m	Carrying value 30-Jun-20 $m
Chatswood Chase Sydney (Joint Venture)[1]	51.0	51.0	427.3	454.5
Victoria Gardens Retail Trust (Joint Venture)	50.0	50.0	68.1	72.5
Closing balance			**495.4**	**527.0**

1. Investment in joint venture held through CC Commercial Trust. The Trust Group and its joint venture partner each have equal voting rights over the relevant activities of the joint venture.

The decline in the carrying value of the Trust Group's equity accounted investments during the period was driven by property revaluation decrements recorded on the underlying investment properties held.

The assets of investment property joint ventures substantially consist of investment properties held at fair value. As such the value of equity accounted investments recognised by the Trust Group is subject to the same significant estimation and valuation uncertainties as the Trust Group's investment properties.

Capital structure and financial risk management

4. Interest bearing liabilities

No significant financing activities occurred during the six months to 31 December 2020. Net repayments of $428.0 million were made from maturing term deposits, operational cash flows and the proceeds from the Security Purchase Plan (SPP), partly offset by capital expenditure.

(a) Summary of facilities

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

	31-Dec-20 $m	30-Jun-20 $m
Current liabilities		
Secured		
Related party borrowings[1]	150.9	151.9
Deferred debt costs[2]	-	(0.1)
Total current liabilities	**150.9**	**151.8**
Non-current liabilities		
Unsecured		
Bank debt	70.0	498.0
AMTNs[3]	857.1	856.8
GBP European Medium Term Notes (GBMTNs)	619.1	625.6
HKD European Medium Term Notes (HKMTNs)	107.3	119.6
US Private Placement notes (USPPs)	805.3	885.2
EUR European Medium Term Notes (EUMTNs)	789.8	809.5
Deferred debt costs[2]	(14.9)	(16.7)
Total non-current liabilities	**3,233.7**	**3,778.0**
Total interest bearing liabilities	**3,384.6**	**3,929.8**

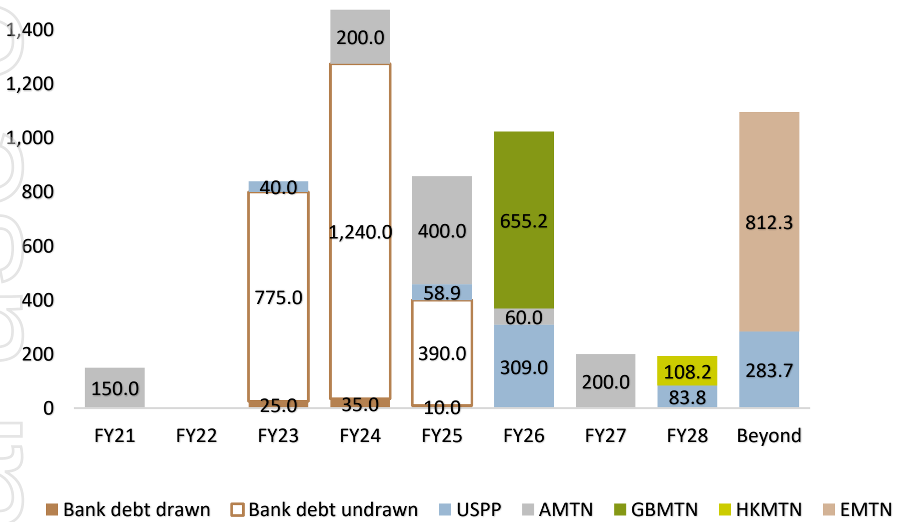
1. The Trust Group has entered into a 'back-to-back' related party loan agreement with Vicinity Centres Finance Pty Ltd (VCFPL), a subsidiary of Vicinity Limited. The related party loan agreement between the Trust Group and VCFPL was secured and on the same terms and conditions as VCFPL's AMTNs over certain of the Trust Group's investment properties with a carrying value of $3,066.1 million (30 June 2020: $3,148.2 million).
2. Deferred debt costs comprise the unamortised value of borrowing costs paid 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. Non-current unsecured AMTNs include AUD $60.0 million issued under the Trust Group's EMTN programme.

4. Interest bearing liabilities (continued)

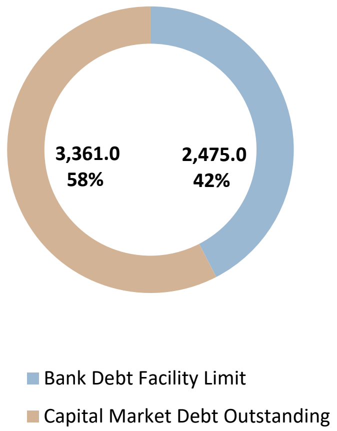
(b) Facility maturity and availability

The charts below outline the maturity of the Trust Group's total available facilities at 31 December 2020 by type and the bank to capital markets debt ratio. Of the $5,836.0 million total available facilities (30 June 2020: $5,836.0 million), $2,405.0 million remains undrawn at 31 December 2020 (30 June 2020: $1,977.0 million).

Available facilities expiry profile ($m)[1]



Bank to capital market debt ratio ($m, %)



1. The carrying amount of the USPPs, GBMTNs, HKMTNs, EUMTNs and AMTNs in the Balance Sheet is net of adjustments for fair value items and foreign exchange translation of $31.5 million (30 June 2020: $87.6 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 $14.9 million (30 June 2020: $16.8 million) are not reflected in the amount drawn. Secured related party borrowings are included within the total value of the AMTNs in this chart.

(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. Borrowing costs also include finance charges on lease liabilities.

For the six months to:	**31-Dec-20 $m**	**31-Dec-19 $m**
Interest and other costs on interest bearing liabilities and derivatives	56.3	97.0
Amortisation of deferred debt costs	2.2	3.0
Amortisation of fair value adjustments relating to discontinuation of hedge accounting	(0.6)	(0.6)
Amortisation of AMTN, GBMTN and EUMTN fair value adjustment	(0.2)	(1.8)
Interest charge on lease liabilities	10.1	8.0
Capitalised borrowing costs	(0.1)	(2.8)
Total borrowing costs	**67.7**	**102.8**

4. Interest bearing liabilities (continued)

(d) Capital risk management

Approach and consideration of COVID-19

The Trust Group seeks to maintain a strong and conservative capital structure with appropriate liquidity, low gearing and a diversified debt profile (by source and tenor). The Trust Group has long-term credit ratings of 'A2/negative' from Moody's Investors Service and 'A/stable' from Standard & Poor's.

While uncertainty remains as to the full impact of the COVID-19 pandemic on retail property, the Trust Group considers it has sufficient capital and liquidity at 31 December 2020 to manage the varying levels of unfavourable impacts considered by the Trust Group. As at 31 December 2020, the Trust Group had $60.1 million of cash on hand and $2,405.0 million of available undrawn facilities, with $150.0 million of debt maturities in the 2021 financial year and no maturities in the 2022 financial year.

Key capital metrics

Key metrics monitored are gearing ratio and interest cover ratio. These metrics are shown below:

Gearing

The gearing ratio is calculated in the table below as:

- drawn debt, net of cash; divided by
- total tangible assets excluding cash, investment property leaseholds and derivative financial assets.

	31-Dec-20 $m	30-Jun-20 $m
Total interest bearing liabilities (Note 4(a))	**3,384.6**	**3,929.8**
Add: deferred debt costs	14.9	16.8
Add: fair value and foreign exchange adjustments to GBMTNs	36.1	29.6
Less: fair value and foreign exchange adjustments to USPPs	(30.0)	(109.9)
Less: fair value adjustments to AMTNs	2.0	1.3
Less: foreign exchange adjustments to HKMTNs	0.9	(11.4)
Less: fair value and foreign exchange adjustments to EUMTNs	22.5	2.8
Total drawn debt	**3,431.0**	**3,859.0**
Drawn debt net of cash	3,370.9	3,640.9
Total tangible assets excluding cash, investment property leaseholds and derivative financial assets	14,023.2	14,556.7
Gearing ratio (target range of 25.0% to 35.0%)	**24.0%**	**25.0%**

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 31 December 2020 the interest cover ratio including one-off or non-recurring items was 4.3 times (31 December 2019: 4.4 times, 30 June 2020: 3.9 times). Excluding amounts which the Vicinity Centre Group considers one-off or non-recurring, which principally comprised allowances for expected credit losses arising as a result of the impacts of COVID-19, the interest cover ratio was 6.3 times.

4. Interest bearing liabilities (continued)

(e) Fair value of interest bearing liabilities

As at 31 December 2020, the Trust Group's interest bearing liabilities had a fair value of $3,584.6 million (30 June 2020: $3,993.1million).

The carrying amount of these interest bearing liabilities was $3,384.6 million (30 June 2020: $3,929.8 million). The difference between the carrying amount and the fair value of interest bearing liabilities is due to:

- deferred debt costs included in the carrying value which are not included in the fair value; and
- movements in market discount rates on fixed rate interest bearing liabilities since initial recognition. As fair value is calculated by discounting the contractual cash flows using prevailing market discount rates (with similar terms, maturity and credit quality) any movements in these discount rates since initial recognition will give rise to differences between fair value and the carrying value (which is at amortised cost).

Had the fixed rate interest bearing liabilities 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.

(f) Defaults and covenants

At 31 December 2020, the Trust Group had no defaults on debt obligations or breaches of lending covenants (30 June 2020: Nil).

5. Contributed equity

An ordinary stapled security of the Vicinity Centres Group 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. During the period 22.6 million new units were issued under the retail security holder Security Purchase Plan.

	31-Dec-20 Number (m)	30-Jun-20 Number (m)	31-Dec-20 $m	30-Jun-20 $m
Total units on issue at the beginning of the year	**4,529.6**	3,771.8	**8,530.4**	7,533.8
Unit issued (net of equity raising costs)	**22.6**	810.8	**30.4**	1,110.3
On-market security buy-back	**-**	(53.0)	**-**	(113.7)
Total units on issue at the end of the year	**4,552.2**	4,529.6	**8,560.8**	8,530.4

The following weighted average number of securities are used in the denominator in calculating earnings per security for the Trust Group

For the six months to:	31-Dec-20 Number (m)	31-Dec-19 Number (m)
Weighted average number of securities used as the denominator in calculating basic earnings per security	**4,550.8**	3,763.6
Adjustment for potential dilution from performance rights granted	**8.5**	6.1
Weighted average number of securities and potential securities used as the denominator in calculating the diluted earnings per security	**4,559.3**	3,769.7

Working capital

6. Trade receivables and other assets

(a) Summary

Trade receivables largely comprise amounts due from tenants of the Trust Group's investment properties under lease agreements and amounts receivable from strategic partners under property management agreements. Trade receivables are initially recognised at the transaction price or fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for expected credit losses. At 31 December 2020, the carrying value of trade receivables and other financial assets approximated their fair value.

	31-Dec-20 $m	30-Jun-20 $m
Current		
Trade debtors	204.7	199.5
Deferred rent[1]	4.3	1.0
Accrued income	9.2	12.9
Receivables from strategic partners	0.3	-
Less: estimated rent waivers	(93.0)	(100.4)
Less: allowance for expected credit losses	(83.5)	(69.2)
Total current trade receivables[2]	**42.0**	**43.8**
Current other assets		
Distributions receivable from joint ventures and associates	22.3	32.7
Prepayments	11.8	7.8
Land tax levies	22.1	19.7
Tenant security deposits held	0.4	0.6
Related party interest receivable	2.0	4.8
Other	11.0	12.0
Total current other assets	**69.6**	**77.6**
Total current trade receivables and other assets	**111.6**	**121.4**
Non-current other assets		
Deferred rent[1]	3.8	-
Less: allowance for expected credit losses	(2.8)	-
Loan to Vicinity Limited	442.3	456.5
Investment in unlisted fund at fair value	5.8	5.7
Investment in related party (Vicinity Enhanced Retail Fund) at fair value	1.5	0.7
Other	(0.9)	-
Total non-current other assets	**449.7**	**462.9**

1. Under certain COVID-19 rent assistance agreements rents are deferred to be repaid at a later date.
2. Includes receivables relating to lease rental income, property outgoings recovery revenue and other property-related revenue. Refer to Note 2 for an analysis of the Trust Group's revenue and income.

Impact of the COVID-19 pandemic

As a result of the impact of the COVID-19 pandemic on retail trade and the introduction of the SME Code, the Trust Group is continuing to provide rental assistance to tenants in the form of rent waivers, deferrals or other lease changes. Negotiations for rental assistance remain in progress with many SME and non-SME tenants across the portfolio. Many tenants have continued to withhold contractual lease payments due to the Trust Group until these negotiations (and the amount of rental waivers provided by the Trust Group) are finalised. Accordingly, the Trust Group has included an estimate of the rental waivers for agreements not yet completed (estimated waiver amount) within the allowance for expected credit losses (ECLs).

There continues to be significant estimation uncertainty in determining the estimated waiver amount. This is driven by the uncertain trading and economic environment and the uncertain outcome of rental assistance negotiations, particularly those that may end up being linked to tenant sales performance over the rent assistance period.

6. Trade receivables and other assets (continued)

(b) Allowance for expected credit losses

The allowance for ECLs represents the difference between cash flows contractually receivable by the Trust Group and the cash flows the Trust Group expects to receive. For trade receivables, contract assets and lease receivables, the Trust Group applies the simplified approach in calculating ECLs. Therefore, the Trust Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The recognition of an ECL however does not mean that the Group has ceased collection activities in relation to the amounts owed.

The approach taken to determine the lifetime ECLs at 31 December 2020 is outlined below.

Approach

The following approach was adopted to determine the allowance for ECLs at 31 December 2020. The approach was adjusted as compared to that adopted at 30 June 2020 to incorporate rental collection and tenant performance information in a COVID impacted operating environment. This information was not available at 30 June 2020.

While the inputs and information used in development of the allowance for ECLs are considered reasonable and supportable, the calculation of these amounts in the current environment is subject to significant uncertainty. Factors causing this uncertainty include the unknown economic impacts of the pandemic, the possibility of future lockdowns or government mandated closures and the uncertain outcome of rental assistance negotiations with tenants (as discussed in Note 6(a)). In the event that the impacts of COVID-19 are longer lasting or more severe than anticipated, this may result in a further increase in the allowance for ECLs or amount of debt written off in future periods (and vice-versa).

Pre COVID-19 trade debtors

An ECL of $8.9 million was recognised for the full value of debt outstanding relating to months prior to the outbreak of COVID-19 (which the Trust Group has assessed as months prior to 1 March 2020) (30 June 2020: $18.9 million). Given this debt is well overdue and largely relates to tenants experiencing trading difficulties prior to the outbreak of COVID-19 its collection is viewed as highly unlikely.

COVID-19 impacted trade debtors

ECLs on debt relating to months subsequent to the outbreak of COVID-19 (period post 1 March 2020) were determined based on the total debt outstanding for each tenant. Assessing ECLs based on total debt outstanding, not the age of the outstanding debt, was considered more reflective of the overall credit risk within the portfolio given ongoing rent assistance negotiations. The ECL of $145.9 million relating to these debtors contained the following components:

- $93.0 million for the estimated waiver amount from ongoing rental relief negotiations of (30 June 2020: $100.4 million);
- $49.2 million additional allowances for the difference between cash flows contractually receivable by the Trust Group (after deducting likely waivers) and the cash flows the Trust Group expects to receive (30 June 2020: $26.9 million). The estimate of cash flows remaining to be collected by the Trust Group used as the input into this calculation was determined by:
  - Calculating the actual average cash collection rates observed across the managed portfolio for tenants where rental assistance negotiations had been fully completed and processed or where rental assistance was not required. These collection rates were determined across billings from the start of the COVID impacted period to those in excess of 90 days overdue at 31 December 2020 (i.e. billings relating to the period 1 April to 30 September 2020).
  - Actual average cash collection rates were calculated and applied separately for SME, Major Chain and National Chain tenants and for similar centres.
  - Applying these observed cash collection rates to the outstanding debt balance, after deducting likely waivers, for tenants where rent assistance negotiations remains ongoing and debt is less than 90 days overdue to ascertain an estimate of the remaining cash collection outcomes.
- A further risk adjustment of $3.7 million. This was recognised to reflect the significant uncertainties as to the outcome of rent assistance negotiations and cash collections post 31 December 2020 given the possibility of future lockdowns or Government mandated closures, Government stimulus ceasing and lower post-Christmas trade.

Amounts deferred

A $24.5 million allowance was recognised for ECLs on rentals deferred or expected to be deferred (30 June 2020: $23.4 million). On average this represents 74% of the total rentals earned prior to 31 December 2020 for which payment is expected to be deferred.

6. Trade receivables and other assets (continued)

(b) Allowance for expected credit losses (continued)

Movements in the allowance for ECLs

The movement in the allowance for ECLs in respect of trade receivables during the year was as follows:

	31-Dec-20 $m	31-Dec-19 $m
Opening balance at 1 July	**(169.6)**	**(7.3)**
Amounts written off as uncollectible	1.5	1.3
Rental waivers granted	65.1	-
Net remeasurement of prior period allowances[1]	54.2	-
Loss allowance on receivables originated during the current period	(130.5)	(1.9)
Closing balance at the end of period	**(179.3)**	**(7.9)**

1. The opening allowance for expected credit losses at 1 July 2020 has reduced by $54.2 million due to an improvement in retail trading conditions and better than anticipated rent waiver negotiations and cash collections relative to assumptions adopted at 30 June 2020. As discussed above and within the 30 June 2020 Annual Report, there is significant uncertainty in determining the allowance for expected credit losses driven by the uncertain impacts of the COVID-19 pandemic.

Sensitivities

As outlined above, key inputs into the determination of the allowance for ECLs was the likely outcome of rental waivers arising from rental relief negotiations and average cash collection percentages observed. The allowance for ECLs has the following sensitivity to changes in these inputs:

- **Rental waivers**: changing the average estimated for rental waivers by +/- 100bps would result in an $0.4 million increase/decrease in the allowance for ECLs.
- **Average cash collections**: changing the average cash collection percentage used as an input to the calculation of ECLs for each tenant and centre type assessed by +/- 100bps would result in an $3.0 million decrease/increase in the allowance for ECLs.

Other disclosures

7. Operating cash flow reconciliation

The reconciliation of net (loss)/profit after tax for the half year to net cash provided by operating activities is provided below.

For the 6 months to:	31-Dec-20 $m	31-Dec-19 $m
Net (loss)/profit after tax for the half year	**(384.1)**	**219.5**
Exclude non-cash items and cash flows under investing and financing activities:		
Amortisation of incentives and leasing costs	36.6	34.3
Straight-lining of rent adjustment	(8.8)	(4.8)
Property revaluation decrement for directly owned properties	508.6	53.2
Share of net loss of equity accounted investments	31.6	1.9
Amortisation of non-cash items included in interest expense	2.7	0.5
Net foreign exchange movement on interest bearing liabilities	(118.2)	14.7
Net mark-to-market movement on derivatives	187.7	(15.2)
Other non-cash items	(0.2)	0.6
Movements in working capital:		
Increase in payables, provisions and other liabilities	28.4	45.0
Decrease in receivables and other assets	9.0	1.1
Net cash inflow from operating activities	**293.3**	**350.8**

8. Events occurring after the reporting date

COVID-19 pandemic

In the period between 31 December 2020 and the date of this report short term localised lockdowns and changing restriction levels have been observed across several States in response to COVID-19 cases. These restrictions impacted foot traffic at shopping centres within the Trust Group's portfolio. The duration and extent of such restrictions and the financial, social and public health impacts of the COVID-19 pandemic remain uncertain and therefore the Trust Group cannot quantify the impact that COVID-19 may have on future periods.

Disclosures have been included within the half year financial report on the impact that this uncertainty has had on the reported amounts of relevant revenues, expenses, assets and liabilities for the half year ended 31 December 2020 and the potential impacts that this uncertainty may have on revenues, expenses, assets and liabilities in future periods.

No other matters have arisen since the end of the period 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.

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 Trust Group) set out on pages 7 to 28 are in accordance with the *Corporations Act 2001* (Cth), including:

   i. complying with Australian Accounting Standards, the *Corporations Regulations 2001* (Cth) and other mandatory professional reporting requirements; and

   ii. giving a true and fair view of the Trust Group's financial position as at 31 December 2020 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 Trust Group will be able to pay its debts as and when they become due and payable.

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

Trevor Gerber
Chairman
17 February 2021

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Vicinity Centres Trust (the "Trust") and the entities it controlled (collectively the "Group"), which comprises the consolidated balance sheet as at 31 December 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2020 and of its consolidated financial 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*.

Emphasis of matter – Investment Property Valuation

We draw attention to Note 3 of the half-year financial report which describes the impact of the COVID-19 pandemic on the determination of fair value of investment properties and how this has been considered by the Directors in the preparation of the financial report. Due to the heightened degree of valuation uncertainty, property values may change significantly and unexpectedly over a relatively short period of time. Our opinion is not modified in respect of this matter.

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 control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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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, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial 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 the Group, 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*.

Ernst & Young

Alison Parker	Michael Collins
Partner	Partner

Melbourne
17 February 2021