Vicinity Centres Trust

Financial Report for the year ended 30 June 2021

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 (RE) of Vicinity Centres Trust (the Trust or VCT), present the financial report of Vicinity Centres Trust and its controlled entities (VCT Group or the Trust Group) for the year ended 30 June 2021.

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

Refer to Vicinity Centres 30 June 2021 Group financial statements available at vicinity.com.au for further information on the background and experience of the Directors.

Company Secretaries

Carolyn Reynolds

Rohan Abeyewardene

Refer to Vicinity Centres 30 June 2021 Group financial statements available at vicinity.com.au for further information on the background and experience of the Company Secretaries.

Principal activities

The principal activity of the Trust Group during the year 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.

Significant changes in state of affairs

Completion of Security Purchase Plan (SPP)

The Vicinity Centre Group completed the SPP on 6 July 2020 with subscriptions totalling $32.6 million and accordingly on 13 July 2020, 22.6 million new Vicinity stapled securities were issued at a price of $1.44. These securities began trading alongside existing Vicinity securities on 14 July 2020.

COVID-19 pandemic

While economic activity increased particularly in the second half of the year relative to prior financial year, the COVID-19 pandemic ('COVID-19' or 'the pandemic') continued to unfavourably impact the Trust Group's operations and financial results for the year. As a result:

- The Trust Group continued to provide rental assistance in the form of waivers, deferrals or other temporary modifications changes to the underlying lease agreements to tenants in accordance with the principles of the Federal Government's SME Commercial Code of Conduct and Leasing Principles During COVID-19 Small to Medium Commercial Code of Conduct (SME Code). In addition, the Trust Group provided targeted rental assistance to non-SME tenants impacted by the pandemic. The SME Code expired on 31 March 2021. Following the SME Code's expiry, the Trust Group continued to provide rental assistance to retail tenants in categories and locations that continue to experience financial hardship and distress;
- Central business districts (CBD) assets continue to experience headwinds as foot traffic has yet to return to pre-pandemic levels, impacted by the ongoing closure of Australia's international border, intermittent snap lockdowns and a protracted return of office workers to CBD locations; and
- Valuation metrics have stabilised across the portfolio relative to 30 June 2020. Additional valuation considerations including the snap lockdowns across a number of Australia states and the commencement of an extended lockdown in New South Wales is discussed further in the 'Events occurring after the end of the reporting period' section below.

COVID-19 is expected to continue to impact the Trust Group's operations. However, the duration and extent of the pandemic and its impacts on the economy, consumers and investment markets remain uncertain. As a result, certain significant judgements, estimates and assumptions have been made in determining the carrying value of certain assets and liabilities at 30 June 2021. These are further discussed in the 'About this Report' section of the financial report.

Further information on the impact of the pandemic and the Vicinity Centres Group's response can be found in the Operating and Financial Review section in the Vicinity Centres Group 30 June 2021 Annual 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 annual financial report which is available at vicinity.com.au. The following sections relate to the results and operations of the Trust Group 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 year ended 30 June 2021 was $256.8 million, an improvement of $1,157.1 million on the prior year (30 June 2020: net loss after tax of $1,413.9 million). This result mainly comprised:

- a revaluation decrement on directly owned properties of $634.0 million (30 June 2020: decrement of $1,715.3 million);
- net profits[1] contributed from investment properties of $655.3 million (30 June 2020: $604.7 million);
- losses from equity accounted investments of $34.1 million, driven by revaluation decrements recorded on investment properties within Joint Ventures (30 June 2020: loss of $124.7 million);
- borrowing costs of $163.2 million (30 June 2020: $187.6 million);
- net mark-to-market loss on derivatives of $119.9 million (30 June 2020: Gain of $59.8 million); and
- net foreign exchange gain on interest bearing liabilities of $77.5 million (30 June 2020: Loss of $13.1 million); and

Cash flows from operating activities for the year were $599.9 million (30 June 2020: $479.7 million).

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

Review of results and operations (continued)

(b) Financial position

At 30 June 2021 the Trust Group's net assets were $10,013.7 million, down $681.6 million from $10,695.3 million at 30 June 2020. This decrease was largely due to the above mentioned property revaluation decrements on directly owned investment properties and equity accounted investments.

(c) Capital management

During the year, the following financing activities have occurred:

- Net repayments of $422.0 million were made throughout the year with the proceeds from maturing term deposits and operational cash flows, partly offset by capital expenditure.
- Settled the back to back related party loan of $150.0 million with Vicinity Centres Finance Pty Ltd, a wholly owned subsidiary of Vicinity Limited, in full on 27 May 2021. Subsequently on 3 August 2021, the charge on the Trust Group's investment properties has been discharged by the lenders.

Distributions

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

	Total, $m	Cents per unit
Interim – 31 December 2020	154.8	3.40
Final – 30 June 2021	300.4	6.60
Total – year ended 30 June 2021	**455.2**	**10.00**

The final distribution of 6.6 cents per unit will be paid on 31 August 2021, comprising:

- 4.1 cents in respect of underlying operations for the six months to 30 June 2021; and
- 2.5 cents attributable to several one-off items recognised in the twelve months ended 30 June 2021

Director-related information

Meetings of Directors of the RE held during the year[2]

	Board		Special Purpose Board[1]		Audit Committee		Remuneration and Human Resources Committee		Risk and Compliance Committee		Nominations Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Trevor Gerber	6	6	8	8	5	5	6	6	-	-	1	1
Clive Appleton	6	6	8	8	-	-	-	-	-	-	-	-
David Thurin AM	6	6	8	8	-	-	-	-	-	-	-	-
Grant Kelley	6	6	8	8	-	-	-	-	-	-	-	-
Janette Kendall	6	6	8	8	-	-	6	6	5	5	-	-
Karen Penrose	6	6	8	8	5	5	-	-	5	5	-	-
Peter Kahan	6	6	8	8	5	5	6	6	-	-	1	1
Tim Hammon	6	6	8	8	-	-	6	6	5	5	1	1

1. Special purpose Board meetings were scheduled and convened at short notice to consider a range of special purpose matters.
2. All Directors have a standing invitation to attend Committee meetings and regularly attend meetings of Committees of which they are not members. Such attendance is not reflected in the above table.

Director-related information (continued)

Remuneration and unitholdings of Directors

The Directors of the RE receive remuneration in their capacity as Directors of the RE. These amounts are paid directly by Vicinity Limited, the parent entity of the Vicinity Centres Group. The Trust pays the RE a fee to cover the management of the Trust Group, as disclosed in Note 13 to these financial statements. Amounts paid to and details of stapled securities held by Directors (and Key Management Personnel), can be found in the Remuneration Report within the Vicinity Centres Group 30 June 2021 Annual Report available at vicinity.com.au.

Indemnification and insurance of Directors and Officers

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

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

Directors' information

Information on the qualifications, experience and responsibilities of Directors are presented in the Directors' report in the Vicinity Centres Group 30 June 2021 Annual Report available at vicinity.com.au.

Auditor-related information

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

Indemnification of the auditor

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

Non-audit services

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

Details of the amounts paid or payable to EY for audit and assurance and non-audit services provided to the Vicinity Centres Group during the year are set out in Note 15 to the financial statements.

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

- The non-audit services and the ratio of non-audit to audit services provide by EY are reviewed by the Audit Committee in accordance with the External Audit Policy to ensure that, in the Audit Committee's opinion, they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing economic risks and rewards.

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.

Environmental regulation

The Trust Group is subject to the reporting obligations under the *National Greenhouse and Energy Reporting (NGER) Act 2007* (Cth). This requires the Trust Group to report annual greenhouse gas emissions, energy use and production for all assets under management for years ending 30 June. The Trust Group met this obligation by submitting its NGER report to the Department of the Environment and Energy for the year ended 30 June 2020 by 31 October 2020. The 2021 NGER report will be submitted by the 31 October 2021 submission date.

Options over unissued securities

There were 9,070,491 and 6,579,927 unissued ordinary securities of the Vicinity Centres Group under option in the form of performance and restricted rights as at 30 June 2021 and at the date of this report respectively. Refer to Remuneration Report on the Vicinity Centres Group 30 June 2021 Annual Report available at vicinity.com.au for further details.

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

Events occurring after the end of the reporting period

Snap lockdowns including New South Wales

In the period between 30 June 2021 and the date of this report, snap lockdowns, interstate border closures and changing restriction levels continue to be observed across several states in response to COVID-19 outbreaks. In particular, the recent outbreak of the Delta strain continues to impact New South Wales with the State government imposing tightened restrictions on movement and further extending the period of lockdown to contain the outbreak. These restrictions and any future further restrictions are likely to unfavourably impact the Trust Group's rental collections and financial performance in FY22.

In addition, as disclosed in Note 4(c) to the financial statements, the Trust Group considered the impact of these snap lockdowns and changing restriction levels up to 30 June 2021 in determining investment property fair values at 30 June 2021.

Commercial Tenancy Relief for Businesses in Victoria and New South Wales

The Victoria and New South Wales state governments announced the reintroduction of the Commercial Tenancy Relief Scheme and the amendment of the Retail and Other Commercial Leases (COVID-19) Regulation 2021 (collectively the Schemes), on 28 July 2021 and 13 August 2021 respectively. Landlords will be required to provide proportional rent relief to eligible businesses in accordance with the Schemes. While the Schemes are in effect, landlords will not be able to lock out, evict tenants, or terminate leases due to non-payment during the COVID-19 pandemic period, without a determination from the relevant authorities. Vicinity will act in good faith and in accordance with the principles of the Schemes where applicable.

COVID-19 pandemic

The duration, frequency 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. The financial report includes disclosures on the potential impact of the uncertainty on the reported amounts of relevant revenues, expenses, assets and liabilities for the year ended 30 June 2021 and future periods where relevant.

Transfer of Box Hill North property

On 31 July 2021, the Trust Group successfully completed the transfer of the leasehold interest of the Box Hill North property to Vicinity Box Hill North Pty Ltd, a subsidiary of Vicinity Limited at a fair value of $128.0 million.

Other than the matters described above, no other matters have arisen since the end of the reporting 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.

Rounding of amounts

The Trust Group 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
18 August 2021

Building a better working world

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

As lead auditor for the audit of the financial report of Vicinity Centres Trust for the financial year ended 30 June 2021, I declare to the best of my knowledge and belief, there have been:

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

b) No contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst + Young

Ernst & Young

Alison Parker
Partner
18 August 2021

Statement of Comprehensive Income

for the year ended 30 June 2021

	Note	30-Jun-21 $m	30-Jun-20 $m
Revenue and income			
Property ownership revenue and income		1,096.2	1,129.8
Interest and other income		14.9	24.1
Total revenue and income	2(c)	**1,111.1**	**1,153.9**
Share of net loss of equity accounted investments	5(b)	(34.1)	(124.7)
Property revaluation decrement for directly owned properties	4(b)	(634.0)	(1,715.3)
Direct property expenses		(352.9)	(356.6)
Allowance for expected credit losses	10(b)	(88.0)	(168.5)
Borrowing costs	7(c)	(163.2)	(187.6)
Responsible entity fees	13	(48.4)	(54.0)
Other expenses from ordinary activities		(4.9)	(4.1)
Net foreign exchange movement on interest bearing liabilities		77.5	(13.1)
Net mark-to-market movement on derivatives		(119.9)	59.8
Stamp duty written off on acquisition of investment property	4(b)	-	(3.7)
Net loss before tax for the year		**(256.8)**	**(1,413.9)**
Income tax expense	3	-	-
Net loss for the year		**(256.8)**	**(1,413.9)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(256.8)**	**(1,413.9)**
Earnings per unit attributable to unitholders of the Trust Group:			
Basic earnings per unit (cents)	6	(5.64)	(37.13)
Diluted earnings per unit (cents)	6	(5.64)	(37.13)

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

Balance Sheet

as at 30 June 2021

	Note	30-Jun-21 $m	30-Jun-20 $m
Current assets			
Cash and cash equivalents		36.2	218.1
Trade receivables and other assets	10(a)	103.1	121.4
Non-current assets classified as held for sale	4(a)	128.0	-
Total current assets		**267.3**	**339.5**
Non-current assets			
Investment properties	4(a)	13,070.2	13,710.1
Equity accounted investments	5(a)	479.3	527.0
Derivative financial instruments	7(e)	110.4	268.7
Other assets	10(a)	414.8	462.9
Total non-current assets		**14,074.7**	**14,968.7**
Total assets		**14,342.0**	**15,308.2**
Current liabilities			
Interest bearing liabilities	7(a)	-	151.8
Distribution payable		300.4	-
Payables and other financial liabilities	11	162.5	140.5
Lease liabilities	19(a)	23.1	17.5
Provisions	12	26.5	25.7
Total current liabilities		**512.5**	**335.5**
Non-current liabilities			
Interest bearing liabilities	7(a)	3,281.9	3,778.0
Lease liabilities	19(a)	320.1	247.2
Derivative financial instruments	7(e)	213.8	252.2
Total non-current liabilities		**3,815.8**	**4,277.4**
Total liabilities		**4,328.3**	**4,612.9**
Net assets		**10,013.7**	**10,695.3**
Equity			
Contributed equity	9	8,560.8	8,530.4
Retained profits		1,452.9	2,164.9
Total equity		**10,013.7**	**10,695.3**

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

Statement of Changes in Equity

for the year ended 30 June 2021

	Note	Contributed equity $m	Retained profits $m	Total $m
		Attributable to unitholders of the Trust		
As at 1 July 2019		**7,533.8**	**3,868.1**	**11,401.9**
Net loss for the year		-	(1,413.9)	(1,413.9)
Total comprehensive loss for the year		**-**	**(1,413.9)**	**(1,413.9)**
Transactions with unitholders in their capacity as unitholders:				
Units issued	9	1,130.4	-	1,130.4
Units issue costs (net of tax)		(20.1)	-	(20.1)
On-market unit buy-back	9	(113.7)	-	(113.7)
Distributions declared		-	(289.3)	(289.3)
Total equity as at 30 June 2020		**8,530.4**	**2,164.9**	**10,695.3**
As at 1 July 2020		**8,530.4**	**2,164.9**	**10,695.3**
Net loss for the year		-	(256.8)	(256.8)
Total comprehensive loss for the year		**-**	**(256.8)**	**(256.8)**
Transactions with unitholders in their capacity as unitholders:				
Units issued	9	30.7	-	30.7
Units issue costs (net of tax)		(0.3)	-	(0.3)
Distributions declared		-	(455.2)	(455.2)
Total equity as at 30 June 2021		**8,560.8**	**1,452.9**	**10,013.7**

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

Cash Flow Statement

for the year ended 30 June 2021

	Note	30-Jun-21 $m	30-Jun-20 $m
Cash flows from operating activities			
Receipts in the course of operations		1,217.6	1,122.8
Payments in the course of operations		(497.3)	(485.2)
Distributions and dividends received from equity accounted and managed investments		19.0	7.4
Net operating cash flows retained by equity accounted entities		5.4	13.9
Interest and other revenue received		15.4	23.0
Interest paid		(154.8)	(188.3)
Net cash inflows from operating activities – proportionate[1]		605.3	493.6
Less: net operating cash flows retained by equity accounted entities		(5.4)	(13.9)
Net cash inflows from operating activities	14	**599.9**	**479.7**
Cash flows from investing activities			
Payments for capital expenditure on investment properties		(162.6)	(315.2)
Proceeds from disposal of investment properties	4(b)	37.2	228.2
Deposit received for conditional disposal of investment property		-	6.4
Payments for acquisition of investment property	4(b)	(1.1)	(68.3)
Stamp duty paid upon acquisition of investment property	4(b)	-	(3.7)
Net cash outflows from investing activities		**(126.5)**	**(152.6)**
Cash flows from financing activities			
Proceeds from issue of units	9	30.7	1,130.4
Transaction costs on issue of units		(0.3)	(20.1)
Proceeds from borrowings		406.0	2,729.9
Repayment of borrowings		(828.0)	(3,092.5)
Repayment of related party loan		(150.0)	(150.0)
Proceeds received from Vicinity Limited		162.6	144.1
Funds advanced to Vicinity Limited		(120.0)	(122.5)
On-market unit buy-back		-	(113.7)
Distributions paid to external unitholders		(154.8)	(589.2)
Settlement of derivative financial liabilities		-	(42.6)
Debt establishment costs paid		(1.5)	(10.0)
Net cash outflows from financing activities		**(655.3)**	**(136.2)**
Net (decrease)/increase in cash and cash equivalents held		**(181.9)**	**190.9**
Cash and cash equivalents at the beginning of the year		**218.1**	**27.2**
Cash and cash equivalents at the end of the year		**36.2**	**218.1**

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.

Notes to the Financial Statements

The index of notes to the financial statements is shown below. Similar notes have been grouped into sections with relevant accounting policies and judgements and estimates disclosures incorporated within the notes to which they relate. The 'About This Report' section, which precedes the notes to the financial statements, contains information on the basis of preparation of the Financial Report, adoption of new accounting standards and significant accounting judgements, estimates and assumptions.

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About This Report

Reporting entity

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

The Trust is stapled to Vicinity Limited (the Company) to form the stapled group Vicinity Centres (the Vicinity Centres Group). Accordingly the financial report for Vicinity Centres Trust should be read in conjunction with the Vicinity Centres 30 June 2021 Annual Report available at vicinity.com.au.

Basis of preparation

This general purpose Financial Report:

- has been prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards (AASBs) issued by the Australian Accounting Standards Board. Compliance with AASBs ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- is presented in Australian dollars ($) and rounded to the nearest tenth of a million dollars ($m) in accordance with ASIC Legislative Instrument 2016/191 (unless otherwise stated);
- has been prepared in accordance with the historical cost convention, except for certain financial assets and liabilities, and investment properties which have been recognised at fair value; and
- was authorised for issue by the Board of Directors of Vicinity Centres RE on 18 August 2021. The Directors of the Vicinity Centres RE have the power to amend and reissue the Financial Report.

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

Impact of new standards, interpretations and amendments adopted by the Trust Group

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 accounting policies. The Trust Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

COVID-19 pandemic

While retail trading conditions improved for most centres within the portfolio over the financial year, the COVID-19 pandemic continued to unfavourably impact the Trust Group's operations and financial results during the year and several judgements and estimates made in the preparation of the financial statements. Further information on these impacts has been included in the Directors Report, and where relevant, additional disclosure has been included within the notes to the financial statements on accounting judgements and estimates subject to a significant level of uncertainty due to the pandemic. These judgements and estimates are summarised in the 'Significant accounting judgements, estimates and assumptions' section below.

Going concern

The Trust Group has a net current deficiency of $245.2 million (current liabilities exceed current assets), the Trust Group has considered the following factors at 30 June 2021 in determining that the Financial Report of the Trust Group should be prepared on a going concern basis:

- As at 30 June 2021, the Trust Group has substantial available liquidity including undrawn facilities of $2,399.0 million and cash and cash equivalents of $36.2 million and generates sufficient operating cash flows to meet its current obligations as they fall due; and
- The Trust Group has assessed scenarios which consider varying levels of unfavourable impacts of 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.

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.

The ongoing COVID-19 pandemic has increased the level of judgement and estimation applied in the preparation of the financial report at 30 June 2021 as the duration and extent of the pandemic and related financial, social and public health impacts remain uncertain. Additional disclosures including sensitivity analysis have been included within the relevant notes to the financial statements on the impact of this increased uncertainty.

The table below summarises the areas of the Financial Report subject to significant judgement and estimation and those which are impacted by the increased uncertainty due to the impacts of COVID-19:

Item	Area of judgement or estimation	Note
Valuation of investment properties	Key inputs into valuations such as capitalisation rates, discount rates, terminal yields and market rental growth rates are subject to a significant level of estimation and are not based on observable market data. Despite the increase in property transactions in calendar year 2021, there continues to be limited transactional evidence in certain property asset class to provide visibility on current market pricing. In addition, the longer-term impact of the pandemic on the economy, consumer shopping habits and physical retail sales, which are key indicators of future market rental growth, is uncertain. These factors mean that there is increased uncertainty in determining key inputs into investment property valuations at 30 June 2021.	4
Revenue and income and recoverability of tenant debtors	The Trust Group's revenue and income largely consists of fixed rental obligations due under lease agreements which are paid monthly in advance. Therefore, rental income and the assessment of the recoverability of tenant debtors have not been subject to a significant level of judgement or estimation prior to the pandemic. Retail trade has been unfavourably impacted by COVID-19, particularly as a result of the continuing international border closures, the protracted returns to offices particularly in the central business districts (CBD), and snap lockdowns mandated by state governments to contain local outbreaks. The Trust Group continues to negotiate rent waivers and deferrals with its affected retailers in good faith. In addition, the Trust Group continues to finalise a number of negotiations under the Federal Government's SME Commercial Code of Conduct and Leasing Principles During COVID-19 (SME Code) and is providing support to retailers suffering financial hardship and distress. As a result of these multiple factors, the rental income receivable at 30 June 2021 has remained relatively high compared to pre-pandemic levels. Significant judgement and estimate are required in determining allowances for expected credit losses on these receivables due to the uncertain impact of actual and potential shutdowns and restrictions on retail property performance, and the uncertain outcome of rental assistance negotiations.	2 10
Valuation of derivative financial instruments	The fair value of derivative financial instruments is 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.	7

Operations

1. Segment information

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

As a result of this stapled structure, management does not report the individual results of the Trust Group to the Chief Operating Decision Makers (which for the Vicinity Centres Group were the CEO and Managing Director (CEO), Chief Operating Officer (COO) and the Chief Financial Officer (CFO)). Rather, management reports segment 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. Revenue and income

(a) Accounting policies

Property ownership revenue and income

The Trust Group derives revenue and income in connection with the leasing and operation of its portfolio of investment properties. These comprises of:

- **Lease rental income**

  The Trust Group derives lease rental income as lessor from the leasing of the retail space within these investment properties. Lease income is recognised on a straight-line basis over the lease term. Items included in the straight-lining calculation are fixed rental payments, in-substance fixed payments, lease incentives given to tenants and fixed rental increases that form part of lease agreements. Note 2(b) includes the accounting for lease modifications.

- **Revenue from recovery of property outgoings**

  Under certain tenant lease agreements, the Trust Group recovers from tenants a portion of costs incurred by the Trust Group in the operation and maintenance of its shopping centres. The Trust Group, acting as principal, incurs these costs with third party suppliers and includes them within direct property expenses in the Statement of Comprehensive Income. Recovery amounts are invoiced to tenants each month (over time) at the start of the month for the provision of that month's services based on an annual estimate. Accordingly, where recovery amounts are received in advance, no adjustment is made for the effects of a financing component. Adjustments to reflect recoveries based on actual costs incurred are recorded within revenue in the Statement of Comprehensive Income and billed annually.

- **Other property-related revenue**

  Other property-related revenue largely includes amounts earned from the leasing of advertising and car parking space and the on-selling of other services at the Trust Group's shopping centres. The material components of this revenue are recognised over time as the relevant services are provided and relevant performance obligations satisfied.

(b) COVID19 rental assistance

The Trust Group continued to provide rental assistance in the form of rental waivers, payment deferrals and other temporary modifications to the underlying leases agreements to tenants in accordance with the principles of the SME Code. In addition, the Trust Group provided rental assistance to non-SME tenants impacted by the pandemic. The SME Code expired on 31 March 2021. Following the SME Code's expiry, the Trust Group continued to provide targeted rental assistance to retail tenants in categories and locations that continue to experience financial hardship and distress.

The impact of rental assistance agreements on the financial statements are discussed below.

2. Revenue and income (continued)

(b) COVID19 rental assistance

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, these are treated as modifications of the pre-existing leases (lease modifications). This treatment applies to all rental assistance agreements, including voluntary assistance to SMEs by 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) following the expiry of the SME code.

Lease modifications have the following effects on the financial statements in the current year:

- Waivers of lease receivables recognised as lease rental income prior to the date of an agreement being executed are written off through the Statement of Comprehensive Income, except to the extent of a pre-existing allowance for expected credit losses relating to outstanding lease receivables. For the year ended 30 June 2021, $120.9 million of lease receivables were waived, of which $58.3 million related to lease receivables recognised in prior financial periods.
- Lease rental income due over the remaining lease term, which incorporates any future reductions including waivers to fixed lease payments as compared to the original lease agreement is recognised on a straight-line basis over the remaining lease term. During the year, agreements to reduce future fixed lease payments totalled approximately $16.2 million of which approximately $12.0 million related to the year ended 30 June 2021. Additional straight-line revenue of approximately $11.0 million was recognised during the year 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 lease rental income with a corresponding lease receivable in the period to which the occupancy relates. For the year ended 30 June 2021, rental payments of approximately $10.3 million were deferred to future reporting periods.

As at 30 June 2021, approximately 6,069 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 1,974 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 year (relating to both rental assistance agreed and under negotiation) and as at 30 June 2021 is included in Note 10.

(c) 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.

	30-Jun-21 $m	30-Jun-20 $m
Recovery of property outgoings[1]	181.6	184.7
Other property-related revenue[1]	66.8	66.9
Total revenue from contracts with customers	**248.4**	**251.6**
Lease rental income[1]	847.8	878.2
Interest and other income	14.9	24.1
Total income	**862.7**	**902.3**
Total revenue and income	**1,111.1**	**1,153.9**

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

3. Taxes

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

Refer to Note 3 of the Vicinity Centres Group 30 June 2021 financial statements available at vicinity.com.au for further details of taxes paid by the Vicinity Centres Group.

4. Investment properties

The Trust Group's investment properties represent freehold and leasehold interests in land and buildings held 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, arm's 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.

(a) Portfolio summary

Shopping centre type	30-Jun-21			30-Jun-20		
	Number of properties	Value $m	Weighted average cap rate, %	Number of properties	Value $m	Weighted average cap rate, %
Super Regional	1	3,016.0	3.88	1	3,119.2	3.88
Major Regional	7	2,012.0	5.92	7	2,126.6	5.92
Central Business Districts	7	1,965.0	4.97	7	2,218.0	4.81
Regional	8	1,452.6	6.68	8	1,484.7	6.70
Outlet Centre	7	1,744.9	5.93	7	1,760.2	5.94
Sub Regional	24	2,539.3	6.51	24	2,588.7	6.55
Neighbourhood	3	167.5	6.23	4	195.2	6.52
Planning and holding costs[1]	-	40.6	n/a	-	29.3	n/a
Less: Property holdings by Vicinity Limited[2]	-	(82.9)	n/a	-	(76.5)	n/a
Total	**57**	**12,855.0**	**5.50**	**58**	**13,445.4**	**5.48**
Add: Investment property leaseholds[3]		343.2			264.7	
Less: Property held for sale (current asset)[4]		(128.0)			-	
Total investment properties		**13,070.2**			**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. Refer to Note 19(a) for further details of investment property leasehold balance.
4. This relates to the value of Box Hill North where the Trust Group has agreed to transfer to Vicinity Box Hill North Pty Ltd, a subsidiary of Vicinity Limited in two stages. Stage 1 of the settlement was concluded on 31 July 2021 with the transfer of the interest leasehold. Stage 2 is expected to be completed by 30 September 2021 with the transfer of the freehold property.

4. Investment properties (continued)

(b) Movements for the year

The following investment property transactions occurred during the year:

- Galleria Water Basin land swap (July 2020), the Trust Group received land with a fair value of $13.0 million and in return provided land with a fair value of $11.9 million[1] and cash of $1.1 million;
- Sale of other ancillary land (October 2020) for $3.0 million[1]; and
- Sale of Milton Village (June 2021) for $36.5 million[1].

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

	30-Jun-21 $m	30-Jun-20 $m
Opening balance at 1 July	**13,445.4**	**15,086.4**
Acquisitions including associated stamp duty and transaction costs	13.0	72.0
Capital expenditure[2]	155.2	296.5
Capitalised borrowing costs[3]	0.4	2.3
Disposals	(50.6)	(228.2)
Property revaluation decrement for directly owned properties[4]	(637.6)	(1,716.8)
Stamp duty written off on acquisition of investment property	-	(3.7)
Amortisation of incentives and leasing costs[5]	(72.7)	(71.9)
Straight-lining of rent adjustment	1.9	8.8
Closing balance at 30 June	**12,855.0**	**13,445.4**

1. Amounts exclude transaction costs and stamp duty incurred on acquisitions.
2. Includes development costs, maintenance capital expenditure, lease incentives, fit-out and other capital costs.
3. Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate of 3.9% (30 June 2020: 4.1%).
4. The property revaluation decrement of $637.6 million is before the addition of investment property leaseholds. The $634.0 million revaluation decrement presented within the Statement of Comprehensive Income includes a $3.6 million revaluation increment of investment property leaseholds held at fair value.
5. For leases where Vicinity is the lessor in the lease arrangement.

(c) Portfolio valuation

Significant Judgement and Estimate including the impact of the COVID-19 pandemic – continued valuation uncertainty

While retail trading conditions have improved for most centres within the portfolio over the financial year, there continues to be significant estimation uncertainty in determining key inputs into the fair value of the Trust Group's investment properties at 30 June 2021, causing material valuation uncertainty.

4. Investment properties (continued)

(c) Portfolio valuation (continued)

Significant Judgement and Estimate including the impact of the COVID-19 pandemic – continued valuation uncertainty (continued)

The table below discusses the key factors causing material valuation uncertainty and how they may influence investment property fair values in the future. In addition, the majority of the Trust Group's independent valuers note the existence of material valuation uncertainty at 30 June 2021 (consistent with the valuation process at 30 June 2020) as discussed below.

Uncertainty factor	Description
Lack of comparable property transaction market evidence	While market transactions have increased to date in calendar year 2021 as compared to calendar year 2020, comparable transaction evidence is not readily available across all retail property types within the portfolio, on which to determine market-based capitalisation and discount rates applied to property income to determine fair value. Transactions that occur in the future may evidence market pricing which varies from the estimated 30 June 2021 investment property fair values.
Impact of actual and potential shutdowns, restrictions and other indirect impacts on retail property performance	Social distancing measures, domestic and international border closures, delays in the national vaccine rollout, a protracted return to offices in the CBDs and snap lockdowns mandated by state governments, have negatively impacted retail trading conditions over the past year. These factors (amongst others) have also impacted consumer spending, shopping habits and physical retail sales. If these unfavourable trends continue in the future, further rental waivers or deferrals may be required to assist the affected tenants through the impacted period. There could also be further reductions in market rentals, longer tenant vacancy and downtime periods, and/or more tenant administrations, all of which will impact investment property fair values. The longer the pandemic continues, the greater the potential risk to overall investment property fair values.
Uncertain government policy settings	The majority of the economic measures put in place by the Federal and the respective State governments as a response to the pandemic or financial assistance to the Trust Group's tenants or customers, have expired or wound up during the year. Other measures have been introduced to either stimulate the economy or to balance the governments' budget. If these policies are changed it could impact consumer spending and retail sales which may influence future market rentals and tenant vacancy and downtime periods and ultimately property fair values.

Valuation process

The Trust Group's valuation process is governed by the Board and the internal management Investment and Capital Committee. The process is reviewed periodically to consider regulatory changes, changes in market conditions and other requirements where relevant including the impact of COVID-19. The determination of an investment property valuation requires assumptions to be made which may not be based on observable market data in all instances (i.e. capitalisation rates) and estimate future impact of events such as the COVID-19 pandemic. This means the valuation of an investment property is a significant judgement and estimate.

This valuation process requires:

- each property to be independently valued at least once per year;
- independent valuers (who are selected from a pre-approved panel) that are appropriately qualified. Qualified independent valuers must be authorised by law to carry out such valuations and have at least five years' valuation experience (including at least two years in Australia), and have been rotated across all properties at a minimum every three years. The last full portfolio rotation was undertaken in financial year ended 30 June 2019;
- internal valuations to be undertaken at the end of the reporting period (half-year and year end) if a property is not due for an independent valuation;
- where an internal valuation shows a variance greater than 10% from the last independent valuation, a new independent valuation to be undertaken (even if this results in a property being independently valued twice in one year). Consideration is also given to key metrics such as foot traffic, sales and rental collections relative to pre COVID-19 levels; and
- internal valuations to be reviewed by a director of an independent valuation firm to assess the assumptions adopted and the reasonableness of the outcomes.

Investment properties (continued)

(c) Portfolio valuation (continued)

Valuation process (continued)

In addition to its standard valuation process, the Trust Group incorporates the following as a response to the material valuation uncertainty at 30 June 2021:

- Providing information to independent valuers on the observed impacts of COVID-19 on each investment property, in addition to the provision of customary valuation information which commonly comprises tenancy schedules, capital and expense budgets, foot traffic and tenant sales performance.
- Assessing the reasonableness of COVID-19 related adjustments such as rental waivers and capital requirements incorporated into the investment property valuations by independent valuers. These were assessed against the observed impacts of the pandemic on each property and expected future impacts based on the facts and circumstances existing at 30 June 2021.
- Reviewing the 'material valuation uncertainty' clause, which was included by independent valuers within the majority of valuations. The inclusion of this clause is consistent with the valuations as at 30 June 2020 and highlights that while valuations can still be relied upon at 30 June 2021, due to the uncertain impacts of COVID-19, there is potential for significant and unexpected movements in value over a relatively short period of time post the valuation being completed. Valuations should therefore be reviewed on a more frequent basis than usual.
- Continually monitoring the evolving COVID-19 situation to identify whether there was any additional information available on its impacts that was relevant in measuring the fair value of investment properties at the end of the reporting period. Subsequent to 30 June 2021, further snap lock downs have been observed in many States of Australia including Victoria, Queensland, South Australia and Western Australia. Apart from the additional consideration for New South Wales investment properties below, the Group did not specifically envisage and quantify these snap lockdowns for other states at the reporting date, which would unfavourably impact the 30 June 2021 fair value of investment properties had it been considered at that time.
- As at 30 June 2021, the Trust Group reverted to a combination of 36 independent (external) and 21 internal valuations (30 June 2020: all independent valuations). Each property in the portfolio however has been independently valued at least once in the financial year, in-line with the Group's valuation process.

Additional considerations for New South Wales and Victorian investment properties

In June 2021, New South Wales (NSW) experienced a significant increase in COVID-19 cases which resulted in lockdown of four local government areas on 12 June 2021. This was expanded to include Greater Sydney and other regional areas effective 26 June 2021, and in addition, the level of restrictions was elevated. The Group considered that the occurrence of these events provided enough evidence at 30 June 2021 that further lockdown restrictions in NSW were likely to continue to be implemented after the end of the period.

The independent valuers had not specifically considered a further lockdown in NSW as likely prior to providing valuations to the Group As disclosed in the 'Key inputs and assumptions' section below, independent valuations incorporated specific unobservable adjustments for the estimated impact of future uncertain trading and economic conditions caused by COVID-19 as existing at the time of the independent's valuers' valuations.

Accordingly, the Trust Group made an internal estimate of the impact of possible further lockdown restrictions on the 30 June 2021 fair values. This identified an additional revaluation decrement of $10.8 million to the carrying value of directly owned investment properties and an additional $2.0 million of share of net loss of equity accounted investments at 30 June 2021, based on a most likely scenario of restrictions implemented for up to an eight-week period.

As the additional revaluation decrement was determined internally by the Trust Group, the list of investment properties shown within Note 4(d) identifies both the independent valuation amount and the carrying value at 30 June 2021, after adjusting for the estimated impacts of the restrictions in NSW.

As disclosed in Note 21, subsequent to 30 June 2021 the New South Wales government announced an extended lockdown on 28 July 2021. An escalation of further restrictions was not envisaged by the Group and therefore the announcement on 28 July 2021 would unfavourably impact the 30 June 2021 fair value of investment properties had it been considered at that time.

For the year ended 30 June 2020, the Trust Group considered that the increase in COVID-19 cases observed in Victoria in late June 2020 and the announcement of specific postcode lockdowns on 30 June 2020, provided enough evidence at 30 June 2020 that further lockdown restrictions in Victoria were likely to be implemented after the end of the period. The independent valuers had not specifically considered a further lockdown in Victoria as likely prior to providing valuations to the Trust Group due to the close proximity of the increase in cases and postcode lockdowns to 30 June 2020. Accordingly, the Trust Group made an internal estimate of the impact of possible further lockdown restrictions on independently determined 30 June 2020 fair values. This identified an additional revaluation decrement of $24.5 million based on a most likely scenario of further restrictions implemented.

4. Investment properties (continued)

(c) Portfolio valuation (continued)

Valuation methodology

To determine the fair value of retail investment properties as at 30 June 2021:

- independent valuations commonly adopt a fair value within the range calculated with reference to the 'capitalisation of net income' and 'discounted cash flow' methods;
- internal valuations utilise the latest available property financial information in the 'capitalisation of net income' method with a crosscheck using the discounted cash flow (DCF) method; and
- both independent and internal valuations employ the 'residual value' method when valuing development properties.

As at 30 June 2021, the expected impact of COVID-19 on short to medium term sales and rental growth highlights the importance of the DCF method both in the calculations of the independent valuations and supporting internal valuations.

The table below details each valuation methodology

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

Key assumptions and inputs

As the capitalisation of income and discounted cash flow valuation methods include key inputs that are not based on observable market data (namely market derived capitalisation and discount rates), investment property valuations are considered 'Level 3' of the fair value hierarchy (refer Note 20 for further details on the fair value hierarchy).

Key unobservable inputs used by the Trust Group in determining the fair value of its investment properties are summarised below. These are consistent with key inputs assessed in prior reporting period, for example an average softening in the weighted average portfolio capitalisation rate, partly due to the estimated impacts of COVID-19 and partly due to other market factors.

Consistent with 30 June 2020, the valuations at 30 June 2021 have incorporated specific unobservable adjustments relating to COVID-19. These adjustments reduced investment property fair values and included (where appropriate):

- Allowances for rental waivers and tenant support ranging from 0-7 months to be provided to tenants the lockdowns instigated by current and past lockdowns instigated by state governments as a response to the COVID-19 outbreaks (30 June 2020: range from 0-12 months across the portfolio);
- 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;
- Lower short to medium-term growth rates within the DCF valuations due to anticipated softer economic conditions and increased tenant incentives to lease space at assets.

4. Investment properties (continued)

(c) Portfolio valuation (continued)

Key assumptions and inputs (continued)

	30-Jun-21		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%	6.74%	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 to 15 months	7 months	3 to 15 months	7 months	
Market rents and rental growth rate	2.13% - 3.22%	2.81%	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.

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 30 June 2021. Specific key unobservable inputs may impact only the capitalisation method, the DCF method or both methods.

DCF method

30-Jun-21 $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]	12,897.3				
Impact on actual valuation		+248.4	(242.2)	(176.1)	+178.9
Resulting valuation		13,145.7	12,655.1	12,721.2	13,076.2

Capitalisation of net income method

30-Jun-21 $m	**Carrying value**	**Capitalisation rate -0.25%**	**Capitalisation rate +0.25%**
Actual valuation[1]	12,897.3		
Impact on actual valuation		+666.7	(604.2)
Resulting valuation		13,564.0	12,293.1

1. Excludes planning and holding costs and investment property leaseholds.

4. Investment properties (continued)

(d) List of investment properties held

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

As disclosed in Note 4(c), for investment properties located in New South Wales, the carrying value reflects independent or internal valuation amount and an adjustment for the estimated impacts of the increase in COVID-19 cases related to the Delta variant observed in New South Wales in late June 2021 (30 June 2020: the net of independent valuation amount and an adjustment for the estimated impacts of the increase in COVID-19 cases observed in Victoria in late June 2020).

i. Super Regional

	Ownership interest %	Valuation type 30-Jun-21	Valuation amount 30-Jun-21 $m	Carrying value 30-Jun-21 $m	Carrying value 30-Jun-20 $m
Chadstone	50	Independent	3,016.0	3,016.0	3,119.2
Total Super Regional			**3,016.0**	**3,016.0**	**3,119.2**

ii. Major Regional

	Ownership interest %	Valuation type 30-Jun-21	Valuation amount 30-Jun-21 $m	Carrying value 30-Jun-21 $m	Carrying value 30-Jun-20 $m
Bankstown Central	50	Independent	262.5	260.5	275.0
Bayside	100	Internal	430.0	430.0	459.8
Galleria	50	Independent	235.0	235.0	250.0
Mandurah Forum	50	Independent	217.5	217.5	227.5
Northland	50	Independent	402.5	402.5	422.1
Roselands	50	Internal	139.0	139.0	142.2
The Glen	50	Independent	327.5	327.5	350.0
Total Major Regional			**2,014.0**	**2,012.0**	**2,126.6**

iii. Central Business Districts

	Ownership interest %	Valuation type 30-Jun-21	Valuation amount 30-Jun-21 $m	Carrying value 30-Jun-21 $m	Carrying value 30-Jun-20 $m
Emporium Melbourne	50	Independent	520.0	520.0	640.0
Myer Bourke Street	33	Internal	135.0	135.0	149.0
Queen Victoria Building[1]	50	Independent	272.5	270.3	300.0
QueensPlaza	100	Independent	665.0	665.0	700.0
The Galeries	50	Independent	147.5	146.5	164.0
The Myer Centre Brisbane	25	Independent	118.8	118.8	140.0
The Strand Arcade	50	Independent	110.0	109.4	125.0
Total Central Business Districts			**1,968.8**	**1,965.0**	**2,218.0**

1. The title to this property is leasehold and expires in 2083.

4. Investment properties (continued)

(d) List of investment properties held (continued)

iv. Regional

	Ownership interest %	Valuation type 30-Jun-21	Valuation amount 30-Jun-21 $m	Carrying value 30-Jun-21 $m	Carrying value 30-Jun-20 $m
Broadmeadows Central	100	Independent	260.4	260.4	269.7
Colonnades	50	Internal	113.2	113.2	113.2
Cranbourne Park	50	Independent	127.0	127.0	130.0
Eastlands	100	Internal	163.0	163.0	156.8
Elizabeth City Centre	100	Internal	290.0	290.0	300.0
Grand Plaza	50	Internal	182.0	182.0	185.0
Rockingham Centre	50	Independent	210.0	210.0	217.5
Runaway Bay Centre	50	Independent	107.0	107.0	112.5
Total Regional			**1,452.6**	**1,452.6**	**1,484.7**

v. Outlet Centre

	Ownership interest %	Valuation type 30-Jun-21	Valuation amount 30-Jun-21 $m	Carrying value 30-Jun-21 $m	Carrying value 30-Jun-20 $m
DFO Brisbane[1]	100	Independent	67.0	67.0	62.5
DFO Essendon[2]	100	Internal	165.0	165.0	167.3
DFO Homebush	100	Internal	630.0	626.9	590.0
DFO Moorabbin[3]	100	Independent	104.0	104.0	111.9
DFO Perth[4]	50	Internal	110.0	110.0	105.0
DFO South Wharf[5]	100	Independent	610.0	610.0	663.0
DFO Uni Hill	50	Internal	62.0	62.0	60.5
Total Outlet Centre			**1,748.0**	**1,744.9**	**1,760.2**

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

4. Investment properties (continued)

(d) List of investment properties held (continued)

vi. Sub Regional

	Ownership interest %	Valuation type 30-Jun-21	Valuation amount 30-Jun-21 $m	Carrying value 30-Jun-21 $m	Carrying value 30-Jun-20 $m
Altona Gate Shopping Centre	100	Internal	107.0	107.0	100.0
Armidale Central	100	Independent	34.5	34.5	36.0
Box Hill Central (North Precinct)	100	Independent	118.0	118.0	127.5
Box Hill Central (South Precinct)[1]	100	Internal	203.0	203.0	219.5
Buranda Village	100	Independent	38.0	38.0	38.0
Carlingford Court	50	Independent	99.1	98.6	105.0
Castle Plaza	100	Internal	142.0	142.0	151.4
Ellenbrook Central	100	Internal	250.0	250.0	242.0
Gympie Central	100	Independent	72.5	72.5	72.5
Halls Head Central	50	Independent	38.3	38.3	40.0
Karratha City	50	Independent	49.3	49.3	40.0
Kurralta Central	100	Independent	45.5	45.5	42.0
Lake Haven Centre	100	Internal	270.0	270.0	283.9
Livingston Marketplace	100	Independent	79.5	79.5	83.0
Maddington Central	100	Internal	90.0	90.0	93.0
Mornington Central	50	Independent	35.0	35.0	36.0
Nepean Village	100	Internal	202.0	201.3	204.0
Northgate	100	Independent	83.0	83.0	85.0
Roxburgh Village	100	Internal	93.0	93.0	95.7
Sunshine Marketplace	50	Independent	61.5	61.5	60.1
Taigum Square	100	Independent	89.0	89.0	85.0
Warriewood Square	50	Independent	128.5	127.8	137.5
Warwick Grove	100	Internal	152.0	152.0	150.0
Whitsunday Plaza	100	Internal	60.5	60.5	61.6
Total Sub Regional			**2,541.2**	**2,539.3**	**2,588.7**

vii. Neighbourhood

	Ownership interest %	Valuation type 30-Jun-21	Valuation amount 30-Jun-21 $m	Carrying value 30-Jun-21 $m	Carrying value 30-Jun-20 $m
Dianella Plaza	100	Independent	63.0	63.0	63.0
Milton Village[2]	-	-	-	-	34.3
Oakleigh Central	100	Independent	80.0	80.0	72.6
Victoria Park Central	100	Independent	24.5	24.5	25.3
Total Neighbourhood			**167.5**	**167.5**	**195.2**

1. The title to this property is leasehold with options to extend the ground lease to 2134 at the Group's discretion.
2. Disposed during the year.

4. Investment properties (continued)

(e) Future undiscounted lease payments to be received from operating leases

The Trust Group's investment properties are leased to tenants under operating leases with rentals payable monthly. Future undiscounted lease payments to be received for the period of operating leases of investment properties are shown in the table below. These include amounts to be received for recovery of property outgoings for tenants on gross leases which will be accounted for as revenue from contracts with customers when earned[1]. Rentals which may be received when tenant sales exceed set thresholds and separately invoiced amounts for recovery of property outgoings are excluded[1].

The amounts shown in the table below have not been adjusted for the possible impacts of further rental waivers and deferrals to tenants as a result of the pandemic as disclosed in Notes 2 and 10 which, once agreed, may reduce the future lease payments to be received disclosed below.

	30-Jun-21 $m	30-Jun-20 $m
Not later than one year	829.3	850.0
Two years	696.9	728.7
Three years	561.2	608.8
Four years	415.9	479.6
Five years	310.0	332.0
Later than five years	807.8	896.8
Total undiscounted lease payments to be received from operating leases	**3,621.1**	**3,895.9**

1. Refer to Note 2 for the proportion of revenue earned relating to the recovery of property outgoings.

5. Equity accounted investments

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

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 discussed in Note 4(c).

(a) Summary of equity accounted investments

	Ownership		Carrying value	
	30-Jun-21 %	30-Jun-20 %	30-Jun-21 $m	30-Jun-20 $m
Chatswood Chase Sydney (Joint Venture)[1]	51.0	51.0	404.7	454.5
Victoria Gardens Retail Trust (Joint Venture)	50.0	50.0	74.6	72.5
Closing balance			**479.3**	**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.

(b) Movements for the year

	30-Jun-21 $m	30-Jun-20 $m
Opening balance	**527.0**	**668.7**
Additional investments made during the year	6.6	3.1
Share of net loss of equity accounted investments	(34.1)	(124.7)
Distributions of net income declared by equity accounted investments	(20.2)	(20.1)
Closing balance	**479.3**	**527.0**

(c) Summarised financial information of joint ventures

Chatswood Chase Sydney

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

	30-Jun-21 $m	30-Jun-20 $m
Investment properties (non-current)[1]	430.8	478.0
Other net working capital	(26.1)	(23.5)
Net assets	**404.7**	**454.5**
Total income	26.2	25.1
Aggregate net loss after income tax	(32.5)	(111.4)

1. The carrying value of the investment property includes the additional property revaluation decrement of $2.0 million adjustment to Chatswood's investment property carrying value due to prolonged lockdowns in NSW, as discussed in Note 4(c), recognised as share of net loss of equity accounted investment by the Group.

5. Equity accounted investments (continued)

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

Victoria Gardens Retail Trust

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

	30-Jun-21 $m	30-Jun-20 $m
Investment properties (non-current)	146.8	147.7
Interest bearing liabilities (non-current)	(68.6)	(67.3)
Other net working capital	(3.6)	(7.9)
Net assets	**74.6**	**72.5**
Total income	9.2	9.9
Aggregate net loss after income tax	(1.6)	(13.3)
Interest expense	(1.9)	(2.2)

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

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

At 30 June 2021, no amounts remain payable to the Trust Group (30 June 2020: $nil). Distribution income from the Trust Group's investment in Chatswood Chase Sydney was $17,714,163 (30 June 2020: $16,770,706) with $24,758,355 remaining receivable at 30 June 2021 (30 June 2020: $25,105,057).

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

At 30 June 2021, no amounts remain payable to the Trust Group (30 June 2020: $nil). Distribution income from the Trust Group's investment in Victoria Gardens Retail Trust was $2,507,541 (30 June 2020: $3,352,367) with $3,679,202 remaining receivable at 30 June 2021 (30 June 2020: $7,664,772).

6. Earnings per unit

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

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

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

Basic and diluted earnings per unit are as follows:

	30-Jun-21	30-Jun-20
Earnings per unit attributable to unitholders of the Trust Group:		
Basic earnings per unit (cents)	(5.64)	(37.13)
Diluted earnings per unit (cents)[1]	(5.64)	(37.13)

1. Calculated using the weighted average number of units used as the denominator in calculating basic earnings per units as the Trust Group made losses in both financial years.

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

	30-Jun-21 $m	30-Jun-20 $m
Earnings used in calculating basic and diluted earnings per unit of the Trust Group	(256.8)	(1,413.9)

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

	30-Jun-21 Number (m)	30-Jun-20 Number (m)
Weighted average number of units used as the denominator in calculating basic earnings per unit	4,551.5	3,807.8
Adjustment for potential dilution from performance rights on issue	8.2	7.2
Weighted average number of units and potential units used as the denominator in calculating diluted earnings per unit	**4,559.7**	**3,815.0**

Capital structure and financial risk management

7. Interest bearing liabilities and derivatives

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

During the year, the following financing activities have occurred:

- Net repayments of $422.0 million were made throughout the year with the proceeds from maturing term deposits and operational cash flows, partly offset by capital expenditure.
- Extension of existing debt facilities between six and twelve months.
- Maturities of $150.0 million of back to back related party borrowings were repaid with proceeds from drawdown of bank debt and operational cash flows on 27 May 2021.

(a) Summary of facilities

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

	30-Jun-21 $m	30-Jun-20 $m
Current liabilities		
Secured		
Related party borrowings[1]	-	151.9
Deferred debt costs[2]	-	(0.1)
Total current liabilities	**-**	**151.8**
Non-current liabilities		
Unsecured		
Bank debt	76.0	498.0
AUD Medium Term Notes (AMTNs)[3]	857.4	856.8
GBP European Medium Term Notes (GBMTNs)	642.9	625.6
HKD European Medium Term Notes (HKMTNs)	109.9	119.6
US Private Placement notes (USPPs)	822.8	885.2
EUR European Medium Term Notes (EUMTNs)	786.7	809.5
Deferred debt costs[2]	(13.8)	(16.7)
Total non-current liabilities	**3,281.9**	**3,778.0**
Total interest bearing liabilities	**3,281.9**	**3,929.8**

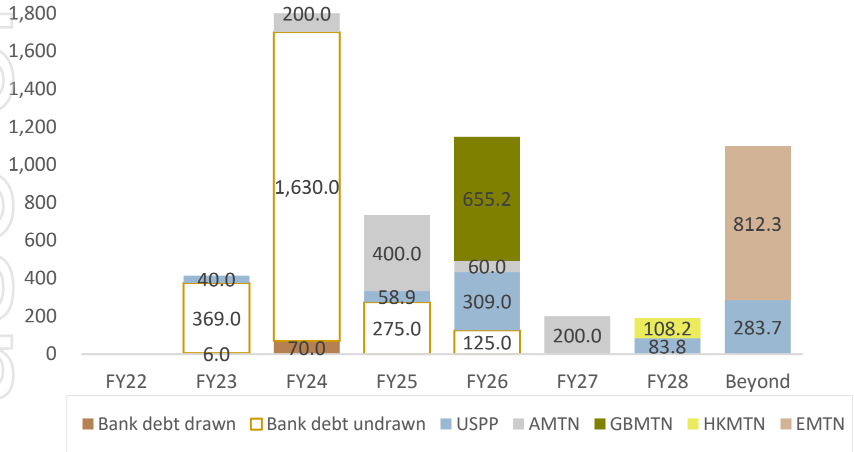
1. Repaid in May 2021. 30 June 2020: The Trust Group entered into a 'back-to-back' related party loan agreement with Vicinity Centres Finance Pty Ltd (VCFPL), a subsidiary of Vicinity Limited. The related party loan agreement between the Trust Group and VCFPL was secured and on the same terms and conditions as VCFPL's AMTNs over certain of the Trust Group's investment properties with a carrying value of $3,148.2 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 at the effective interest rate to borrowing costs in the Statement of Comprehensive Income.
3. Non-current unsecured AMTNs include AUD60.0 million issued under the Trust Group's EUMTN programme.

7. Interest bearing liabilities and derivatives (continued)

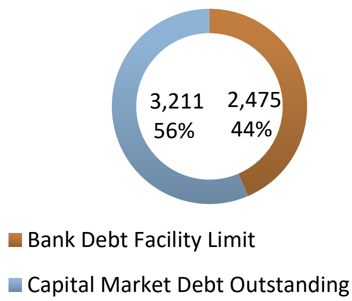
(b) Facility maturity and availability

The charts below outline the maturity of the Trust Group's total available facilities at 30 June 2021 by type and the bank to capital markets debt ratio. Of the $5,686.0 million total available facilities (30 June 2020: $5,836.0 million), $2,399.0 million remains undrawn at 30 June 2021 (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 -$8.7 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 $13.8 million (30 June 2020: $16.8 million) are not reflected in the amount drawn.

(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.

	30-Jun-21 $m	30-Jun-20 $m
Interest and other costs on interest bearing liabilities and derivatives	135.8	170.0
Amortisation of deferred debt costs	4.5	6.5
Amortisation of face value discounts	1.9	1.7
Amortisation of fair value adjustments relating to discontinuation of hedge accounting	(1.2)	(1.3)
Amortisation of AMTN, GBMTN and EMTN fair value adjustment	(2.1)	(3.7)
Interest charge on lease liabilities	24.7	18.3
Capitalised borrowing costs	(0.4)	(3.9)
Total borrowing costs	**163.2**	**187.6**

(d) Defaults and covenants

At 30 June 2021, the Trust Group had no defaults on debt obligations or breaches of lending covenants (30 June 2020: nil).

7. Interest bearing liabilities and derivatives (continued)

(e) Derivatives

As detailed further in Note 8, derivative instruments are held to hedge against the interest rate risk and foreign currency risk of the Trust Group's borrowings. Derivatives are initially recognised at fair value and subsequently remeasured to their fair value at each reporting period. The fair value of these derivatives is 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.

In respect of derivative financial instruments within the Statement of Comprehensive Income:

- movements in fair value are recognised within net mark-to-market movement on derivatives; and
- the net interest received or paid is included within borrowing costs.

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

	Carrying amount		Notional principal value (AUD)	
	30-Jun-21 $m	30-Jun-20 $m	30-Jun-21 $m	30-Jun-20 $m
Cross currency swaps (pay AUD floating receive USD fixed)	94.1	206.4	302.5	660.3
Cross currency swaps (pay AUD floating receive GBP fixed)	0.2	3.1	243.4	655.2
Cross currency swaps (pay AUD floating receive HKD fixed)	10.8	27.6	108.2	108.2
Cross currency swaps (pay AUD floating receive EUR fixed)	-	25.9	-	812.3
Interest rate swaps (pay floating/receive fixed)[1]	5.3	5.7	100.0	100.0
Total non-current assets	**110.4**	**268.7**	**n/a**	n/a
Cross currency swaps (pay AUD floating receive GBP fixed)	(0.1)	-	411.8	-
Cross currency swaps (pay AUD floating receive USD fixed)	(8.0)	-	357.8	-
Cross currency swaps (pay AUD floating receive EUR fixed)	(30.8)	-	812.3	-
Interest rate swaps (pay fixed/receive floating)	(174.9)	(252.2)	2,525.0	2,525.0
Total non-current liabilities	**(213.8)**	**(252.2)**	**n/a**	n/a
Total net carrying amount of derivative financial instruments	**(103.4)**	**16.5**	**n/a**	n/a

1. Notional value excludes the $300.0m swaps with a forward start date in August 2025 (30 June 2020: $nil). The fair value of this forward start contract at 30 June 2021 is included in the carrying value of $5.3m.

7. Interest bearing liabilities and derivatives (continued)

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

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

	30-Jun-21 $m	30-Jun-20 $m
Opening balance	**3,929.8**	**4,436.1**
Net cash repayments of borrowings	(572.0)	(512.6)
Foreign exchange rate adjustments recognised in profit and loss	(77.5)	13.1
Payment of deferred debt costs	(1.5)	(10.0)
Amortisation of face value discount	1.9	1.7
Amortisation of deferred debt costs	4.5	6.5
Fair value movements, non-cash	(3.3)	(5.0)
Closing balance	**3,281.9**	**3,929.8**

(g) Fair value of interest bearing liabilities

As at 30 June 2021, the Trust Group's interest bearing liabilities had a fair value of $3,497.5 million (30 June 2020: $3,993.1 million).

The carrying amount of these interest bearing liabilities was $3,281.9 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.

8. Capital and financial risk management

In the course of its operations the Trust Group is exposed to certain financial risks that could affect the Trust Group's financial position and performance. This note explains the sources of the following risks, how they are managed and exposure at the reporting date:

- Interest rate risk, Note 8(a);
- Foreign exchange risk, Note 8(b);
- Liquidity risk, Note 8(c); and
- Credit risk, Note 8(d).

Information about the Trust Group's objectives for managing capital is contained in Note 8(e).

Risk management approach

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

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

(a) Interest rate risk

Nature and sources of risk

Interest rate risk represents the potential for changes in market interest rates to impact the total interest expense on floating rate borrowings (cash flow interest rate risk) or the fair value of derivatives (fair value interest rate risk) held by the Trust Group.

Risk management

Interest rate swaps are used to manage cash flows interest rate risk by targeting a hedge ratio on the Trust Group's interest-bearing liabilities. Under the terms of the interest rate swaps, the Trust Group agrees to exchange, at specified intervals, amounts based on the difference between fixed interest rates and the floating market interest rate calculated by reference to an agreed notional principal amount. None of these derivatives are currently in designated hedge relationships. They are also not permitted to be entered into for speculative purposes and therefore the Trust Group is not significantly exposed to fair value interest rate risk.

Exposure

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

	30-Jun-21 $m	30-Jun-20 $m
Total interest bearing liabilities (Note 7(a))	3,281.9	3,929.8
Reconciliation to drawn debt		
Deferred debt costs	13.8	16.8
Fair value and foreign exchange adjustments to GBMTNs	12.3	29.6
Fair value and foreign exchange adjustments to USPPs	(47.5)	(109.9)
Fair value adjustments to AMTNs and secured related party borrowings	2.6	1.3
Foreign exchange adjustments to HKMTNs	(1.7)	(11.4)
Fair value and foreign exchange adjustments to EUMTNs	25.6	2.8
Total drawn debt	**3,287.0**	**3,859.0**
Less: Cash on term deposit[2]	-	(150.0)
Less: Fixed rate borrowings	(740.0)	(890.0)
Variable rate borrowings exposed to cash flow interest rate risk	**2,547.0**	**2,819.0**
Less: Notional principal of outstanding interest rate swap contracts	(2,425.0)	(2,425.0)
Net variable rate borrowings exposed to cash flow interest rate risk	**122.0**	**394.0**
Hedge ratio[1]	**96.3%**	**89.4%**

1. Calculated as net variable rate borrowings exposed to cash flow interest rate risk divided by total drawn debt less cash on term deposit.
2. Term deposit matured in July 2020.

8. Capital and financial risk management (continued)

(a) Interest rate risk (continued)

Sensitivity

A shift in the floating interest rate of +/- 25 bps, assuming the net exposure to cash flow interest rate risk as at 30 June 2021 remains unchanged for the next 12 months, would impact the Trust Group's cash interest cost for the next 12 months by $0.3 million (30 June 2020 +/-25 bps: $1.0 million).

A shift in the forward interest rate curve of +/- 25 bps, assuming the net exposure to fair value interest rate risk as at 30 June 2021 remains unchanged for the next 12 months, would impact net profit and equity for the next 12 months by $5.6 million (30 June 2020 +/-25 bps: $10.9 million).

This sensitivity analysis should not be considered a projection.

(b) Foreign exchange rate risk

Nature and sources of risk

Foreign exchange risk represents the potential for changes in market foreign exchange rates to impact the cash flows arising from the Trust Group's foreign denominated interest bearing liabilities (cash flow foreign exchange rate risk) or the fair value of derivatives and interest bearing liabilities (fair value foreign exchange rate risk) held by the Trust Group.

Risk management

Cash flow foreign exchange rate risk is managed through the use of cross currency swaps, which swap the foreign currency interest payments on foreign denominated interest bearing liabilities into Australian dollars and fix the exchange rate for the conversion of the principal repayment. None of these derivatives are currently in designated hedge relationships. They are also not permitted to be entered into for speculative purposes and therefore the Trust Group is not significantly exposed to fair value interest rate risk.

Exposure

As at the balance date, the Trust Group had entered into cross currency swaps with terms offsetting those of all foreign denominated interest bearing liabilities and therefore had no net exposure to cash flow foreign exchange rate risk (30 June 2020: nil net exposure). The Trust group has exposure to fair value risk on the valuation of the derivative financial instruments. The table below summarises the foreign denominated interest-bearing liabilities held by the Trust Group. Details of cross currency swaps held are shown in Note 7(e).

Foreign denominated interest bearing liabilities	Foreign currency	30-Jun-21 m	30-Jun-20 m
GBMTNs	GBP £	350.0	350.0
HKMTNs	HKD $	640.0	640.0
USPPs	USD $	523.0	523.0
EUMTNs	EUR €	500.0	500.0

Sensitivity

A shift in the forward GBP, HKD and USD exchange rate curves of +/- 5.0 cents, assuming the net exposure to fair value foreign exchange rate risk as at 30 June 2021 remains unchanged for the next 12 months, would impact net profit and equity for the next 12 months by $24.8 million (30 June 2020 +/- 5.0 cents: $36.5 million)

This sensitivity analysis should not be considered a projection.

(c) Liquidity risk

Nature and sources of risk

Liquidity risk represents the risk that the Trust Group will be unable to meet financial obligations as they fall due.

Risk management

To manage this risk, sufficient capacity under the Trust Group's financing facilities is maintained to meet the funding needs identified in the Trust Group's latest forecasts. This is achieved through obtaining and maintaining funding from a range of sources (e.g. banks and Australian and foreign debt capital markets), maintaining sufficient undrawn debt capacity and cash balances, and managing the amount of borrowings that mature, or facilities that expire, in any one year.

The COVID-19 pandemic has significantly impacted the Trust Group's cash flows and increased uncertainty within the Trust Group's forecasting process upon which future liquidity requirements are assessed. As a result of these impacts, the Trust Group continued to actively monitor and manage its capital requirements. These are discussed in Note 8(e).

8. Capital and financial risk management (continued)

(c) Liquidity risk (continued)

Exposure

The contractual maturity of cash on term deposit, interest bearing liabilities and the interest payment profile on interest bearing liabilities and derivatives is shown below. Estimated interest and principal payments are calculated based on the forward interest and foreign exchange rates prevailing at year end and are undiscounted. Timing of payments is based on current contractual obligations. Refer to Note 11 for details on trade payables that are not included in the table below.

30-Jun-21	Less than 1 year $m	1 to 3 years $m	Greater than 3 years $m	Total $m
Bank debt	-	76.0	-	76.0
AMTNs	-	200.0	660.0	860.0
GBMTNs	-	-	656.8	656.8
HKMTNs	-	-	112.0	112.0
USPPs	-	40.0	778.8	818.8
EUMTNs	-	-	918.5	918.5
Estimated interest payments and line fees on borrowings	104.5	200.2	268.0	572.7
Estimated net interest rate swap cash outflow	63.4	85.9	25.3	174.6
Estimated gross cross currency swap cash outflows	45.1	114.1	2532.7	2,691.9
Estimated gross cross currency swap cash (inflows)	(61.3)	(123.0)	(2,594.2)	(2,778.5)
Total contractual outflows	**151.7**	**593.2**	**3,357.9**	**4,102.8**

30-Jun-20	Less than 1 year $m	1 to 3 years $m	Greater than 3 years $m	Total $m
Bank debt	-	218.0	280.0	498.0
AMTNs	150.0	-	860.0	1,010.0
GBMTNs	-	-	647.0	647.0
HKMTNs	-	-	945.2	945.2
USPPs	-	-	122.2	122.2
EUMTNs	-	40.0	858.2	898.2
Cash and interest on term deposit (inflows)	(150.3)	-	-	(150.3)
Estimated interest payments and line fees on borrowings	120.6	224.8	378.1	723.5
Estimated net interest rate swap cash outflow	33.3	114.4	105.6	253.3
Estimated gross cross currency swap cash outflows	46.8	98.6	2,523.8	2,669.2
Estimated gross cross currency swap cash (inflows)	(64.1)	(128.8)	(2,778.1)	(2,971.0)
Total contractual outflows	**136.3**	**567.0**	**3,942.0**	**4,645.3**

(d) Credit risk

Nature and sources of risk

Credit risk is the risk that a tenant or counterparty to a financial asset held by the Trust Group fails to meet their financial obligations. The Trust Group's financial assets that are subject to credit risk are bank deposits, tenant receivables and derivative financial assets.

8. Capital and financial risk management (continued)

(d) Credit risk (continued)

Risk management

To mitigate credit risk in relation to derivative counterparties and bank deposits the Trust Group has policies to limit exposure to any one financial institution and only deal with those parties with high credit quality. To mitigate tenant credit risk, an assessment is performed taking into consideration the financial background of the tenant and the amount of any security deposit or bank guarantee provided as collateral under the lease, as is usual in leasing agreements. On an ongoing basis, trade receivable balances from tenants are monitored with the Trust Group considering receivables that have not been paid for 30 days after the invoice date as past due. The COVID-19 pandemic has increased credit risk on tenant receivables as many of the Trust Group's tenants were unable or chose not to trade, or had their trade significantly impacted during the year. Note 10 further discusses the assessment of credit risk on receivables at 30 June 2021.

Exposure

The maximum exposure to credit risk at the balance date is the carrying amount of the Trust Group's financial assets which are recognised within the Balance Sheet net of allowance for losses.

(e) Capital management

Approach and response to COVID-19

The Vicinity 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 Vicinity Group has long-term credit ratings of 'A2/stable' from Moody's Investors Service and 'A/stable' from Standard & Poor's.

In response to the uncertainties arising from the COVID-19 pandemic, the Vicinity Group continued to maintain a strong and conservative capital structure including extending its bank facilities between six and twelve months. As at 30 June 2021 the Vicinity Group had $36.2 million of cash on hand and $2,399.0 million of available undrawn facilities, with 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.

	30-Jun-21 $m	30-Jun-20 $m
Total drawn debt (Note 8(a))	**3,287.0**	**3,859.0**
Drawn debt net of cash	3,250.8	3,640.9
Total tangible assets excluding cash, investment property leaseholds and derivative financial assets	13,852.2	14,556.7
Gearing ratio (target range of 25.0% to 35.0%)	**23.5%**	**25.0%**

8. Capital and financial risk management (continued)

(e) Capital management (continued)

Interest cover ratio

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

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

At 30 June 2021 the interest cover ratio including one-off or non-recurring items was 5.1 times (30 June 2020: 3.9 times). Excluding amounts which the Vicinity Centres Group considers one-off or non-recurring items, which principally comprised allowances for expected credit losses arising as a result of the impacts of COVID-19, the interest cover ratio was 5.9 times.

9. 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 year 22.6 million new units were issued under the retail security holder Security Purchase Plan.

	30-Jun-21 Number (m)	30-Jun-20 Number (m)	30-Jun-21 $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

Working capital

10. 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 30 June 2021, the carrying value of trade receivables and other financial assets approximated their fair value.

	Note	30-Jun-21 $m	30-Jun-20 $m
Current			
Trade debtors		134.9	199.5
Deferred rent[1]		6.7	1.0
Accrued income		13.2	12.9
Less: estimated rent waivers	10(b)	(51.0)	(100.4)
Less: allowance for expected credit losses	10(b)	(77.3)	(69.2)
Total current trade receivables[2]		**26.5**	**43.8**
Current other assets			
Distributions receivable from joint ventures and associates		28.4	32.7
Prepayments		5.5	7.8
Land tax levies		20.5	19.7
Tenant security deposits held		0.4	0.6
Related party interest receivable		4.5	4.8
Other		17.3	12.0
Total other assets		**76.6**	**77.6**
Total trade receivables and other assets		**103.1**	**121.4**
Non-current			
Deferred rent[1]		3.6	-
Less: allowance for expected credit losses	10(b)	(2.6)	-
Loan to Vicinity Limited		413.7	456.5
Investment in unlisted fund at fair value		-	5.7
Investment in related party (Vicinity Enhanced Retail Fund) at fair value		0.1	0.7
Total non-current receivables and other assets		**414.8**	**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 by type.

Management of tenant credit risk

On an ongoing basis, trade receivable balances from tenants are monitored with the Trust Group considering receivables that have not been paid for 30 days after the invoice date as past due. The Trust Group does not hold any collateral in relation to trade or other receivables, other than security deposits or bank guarantees as is usual in leasing agreements. The maximum credit risk exposure at the balance date is the carrying amount of each class of receivables outlined above. Individual debt is considered in default when contractual payments have not been made and is written off when the Trust Group ceases collection activities.

10. Trade receivables and other assets (continued)

(a) Summary (continued)

Significant Judgement and Estimate including the impact of the COVID-19 pandemic

As a result of the impact of the COVID-19 pandemic on retail trade, the Trust Group continued to negotiate with its affected tenants as mandated by the SME Code during the financial year and subsequent to the expiry of the SME Code, in good faith and in accordance with the principles of the SME Code where applicable. Rental assistance provided to tenants have been in the form of rent waivers, deferrals and/or other lease changes. As at 30 June 2021, negotiations for rental assistance remain in progress with certain non-SME and SME tenants across the portfolio but in particular those based in Victoria. Despite the improvement in collection rates across the portfolio in the current year, the trade debtors balance remains relatively high as certain tenants continued to withhold contractual lease payments until these negotiations (and the amount of rental waivers provided by the Group) are finalised. Final outcomes are uncertain. The Trust Group has included an estimate of the rental waivers for agreements not yet completed (estimated rent waivers) within the allowance for expected credit losses (ECLs).

There continues to be significant estimation uncertainty in determining the allowance for ECLs including estimated waiver amount as disclosed in Note 10(b). This is driven by the uncertain impact of actual and potential lockdowns and restrictions on retail property performance, and the uncertain outcome of rental assistance negotiations.

(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 the 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 Trust Group has ceased collection activities in relation to the amounts owed. The approach taken to determine the lifetime ECLs at 30 June 2021 is outlined below.

Approach

The following approach was adopted to determine the allowance for ECLs at 30 June 2021. The approach was adjusted as compared to that adopted at 30 June 2020 to incorporate rental collection rates and tenant performance information in a COVID impacted operating environment. The availability of this information was limited at 30 June 2020. The allowance for ECLs at 30 June 2020 was based on the estimated likely rental waivers, and a probability weighted allowance based on forecasts of the impact of COVID-19 on retail sales, information on tenants' financial position and prior dealings with the tenants.

While the key inputs and assumptions, being the average actual collection rates and the estimated rental waivers arising from ongoing rental relief negotiations, 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 as discussed in Note 10(a). If these factors vary from management's estimate, 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 $5.7 million has been 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 as it was a better reflection of the overall credit risk within the portfolio given ongoing rent assistance negotiations. The ECL of $108.6 million relating to these debtors contained the following components:

- $51.0 million for estimated rent waiver amount from ongoing rental relief negotiations across the managed portfolio (30 June 2020: $100.4 million);
- $57.6 million additional allowances for the difference between cash flows contractually receivable by the Trust Group (after deducting estimated rent 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 was determined by:
  - Calculating the actual average cash collection rates observed across the 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-19 impacted period to those in excess of 90 days overdue at 30 June 2021 (i.e. billings relating to the period 1 April 2020 to 31 March 2021).
  - Calculating the actual average cash collection rates for certain segments of tenants (e.g. SME, Major Chain, National Chain), centre types (e.g. CBD, Non-CBD) and geographic locations (e.g. Victoria, New South Wales).

10. Trade receivables and other assets (continued)

(b) Allowance for expected credit losses (continued)

COVID-19 impacted trade debtors (continued)

– Applying these observed cash collection rates to the outstanding debt balance, after deducting likely waivers, for tenants where rent assistance negotiations are ongoing and debt is less than 90 days overdue to ascertain an estimate of the remaining credit risk.

Amounts deferred

A $16.6 million allowance was recognised for ECLs on rentals deferred and expected to be deferred (30 June 2020: $23.4 million). On average this represents 74% of the total rentals for which payment is expected to be deferred (30 June 2020: 74%).

Movements in the allowance for ECLs

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

	30-Jun-21 $m	30-Jun-20 $m
Opening balance at 1 July	**(169.6)**	**(7.3)**
Amounts written off	5.8	6.2
Rental waivers granted	120.9	-
Net remeasurement of prior period allowances[1]	72.4	-
Remeasurement of allowance	(160.4)	(168.5)
Closing balance at 30 June	**(130.9)**	**(169.6)**

1. The opening allowance for expected credit losses at 1 July 2020 was remeasured by $72.4 million due to better outcomes than anticipated in the Trust Group's rent waiver negotiations and cash collections relative to assumptions adopted at 30 June 2020.

Sensitivities

The key inputs and assumptions in determining the allowance for ECLs were the likely outcome of rental waivers arising from rental assistant 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 rental waivers by +/- 100bps would result in an increase/decrease of $0.2 million in the allowance for ECLs (30 June 2020: $0.7 million).
- **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 a $2.4 million decrease and a $2.8 million increase in the allowance for ECLs (30 June 2020: not applicable).

11. Payables and other financial liabilities

Payables represent liabilities for goods and services provided to the Trust Group prior to the end of the financial year and that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are carried at amortised cost and are not discounted due to their short-term nature. At 30 June 2021, the carrying value of payables approximated their fair value.

	30-Jun-21 $m	30-Jun-20 $m
Trade payables and accrued expenses	83.0	61.6
Lease rental income and property outgoings recovery revenue received in advance[1]	22.5	12.2
Accrued interest expense	14.7	13.0
Accrued capital expenditure	5.9	12.8
Security deposits	0.4	0.3
Related party payables	25.7	29.5
Other[2]	10.3	11.1
Total payables and other financial liabilities	**162.5**	**140.5**

1. Largely represents amounts received in advance relating to the following month's lease rental income and property outgoings recovery revenue.
2. Includes $6.4 million deposit of Box Hill North sold to Box Hill North Pty Ltd, a subsidiary of Vicinity Limited on 4 April 2021, which will be settled in September 2021.

12. Provisions

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

Where the provisions are not expected to be settled wholly within 12 months after the end of the annual reporting period in which the obligation arises, the liability is discounted to present value based on management's best estimate of the timing of settlement and the expenditure required to settle the liability at the reporting date.

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

	30-Jun-20 $m	Arising during the year $m	Paid during the year $m	Other movements $m	30-Jun-21 $m
Stamp duty	6.0	-	-	-	6.0
Land tax levies	19.7	20.5	(19.7)	-	20.5
Total current provisions	**25.7**	**20.5**	**(19.7)**	**-**	**26.5**

Other disclosures

13. Remuneration of the Responsible Entity and employees

The Trust Group is required to have an incorporated responsible entity (RE) to manage its activities. The RE provides Key Management Personnel for the Trust Group. The total RE fee recognised by the Trust Group for the year was $48,412,385, (30 June 2020: $53,974,690). At 30 June 2021 no RE fees remained payable to the RE (30 June 2020: nil).

The Trust Group is not required to prepare a Remuneration Report as the Directors and other Key Management Personnel are employed by the RE or its related entities. The Remuneration Report for the Vicinity Centres Group can be found in the 30 June 2021 Vicinity Centres Annual Report at vicinity.com.au.

14. Operating cash flow reconciliation

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

For the 12 months to:	30-Jun-21 $m	30-Jun-20 $m
Net loss after tax for the financial year	**(256.8)**	**(1,413.9)**
Exclude non-cash items and cash flows under investing and financing activities:		
Amortisation of incentives and leasing costs	72.7	71.9
Straight-lining of rent adjustment	(1.9)	(8.8)
Property revaluation decrement for directly owned properties	634.0	1,715.3
Revaluation decrement of leasehold assets	3.6	1.5
Stamp duty paid	-	3.7
Share of net loss of equity accounted investments	34.1	124.7
Distributions of net income from equity accounted investments	13.7	20.1
Amortisation of non-cash items included in interest expense	3.1	3.2
Net foreign exchange movement on interest bearing liabilities	(77.5)	13.1
Net mark-to-market movement on derivatives	119.9	(59.8)
Other non-cash items	2.1	0.5
Movements in working capital:		
Increase in payables, provisions and other liabilities	29.2	32.5
Decrease/(increase) in receivables and other assets	23.7	(24.3)
Net cash inflow from operating activities	**599.9**	**479.7**

15. Auditor's remuneration

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

For the 12 months to:	30-Jun-21 $'000	30-Jun-20 $'000
Audit and review of statutory financial statements of Vicinity Centre Group and its controlled entities	**1,454**	**1,121**
Assurance services required by legislation to be provided by the auditor	**19**	**18**
Other assurance services and agreed-upon procedures services under other legislation or contractual arrangements		
Property related audits[1]	227	200
Other assurance services and agreed upon procedures required under contract	46	116
Total other assurance services under other legislation or contractual arrangements	**273**	**316**
Other services		
Taxation compliance services	272	322
Assurance and other services	29	45
Total other services	**301**	**367**
Total auditor's remuneration	**2,047**	**1,822**

1. Comprises audits of outgoing statements, promotional funds, real estate trust account audits and joint venture audits required under legislation or contract.

16. Parent entity financial information

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

	30-Jun-21 $m	30-Jun-20 $m
Balance Sheet		
Current assets	937.9	1,456.3
Total assets	**14,458.1**	**14,979.2**
Current liabilities	(1,288.0)	(942.1)
Total liabilities	**(4,369.4)**	**(4,523.3)**
Net assets	**10,088.7**	**10,455.9**
Equity		
Contributed equity	13,996.6	13,966.3
Accumulated losses	(3,908.0)	(3,510.4)
Total equity	**10,088.7**	**10,455.9**
Net profit / (loss) for the financial year of Vicinity Centres Trust as parent entity	**57.7**	**(111.5)**
Total comprehensive profit for the financial year of Vicinity Centres Trust	**57.7**	**(111.5)**

The parent entity has no capital expenditure commitments which have been contracted but not provided for contingencies as at reporting date. Guarantees provided to subsidiary entities are disclosed at Note 18(b) and predominantly relate to fulfilling capital requirements under Australian Financial Services Licences held by these subsidiaries.

17. Related parties

(a) Background

The parent entity of the Trust Group is Vicinity Centres Trust, which is domiciled and incorporated in Australia. The deemed parent entity of the Vicinity Centres Group under AASB 3 *Business Combinations* is Vicinity Limited.

(b) Information on related party transactions and balances

The transactions with related parties, on normal commercial terms, and the balances outstanding at 30 June 2021 are outlined in the tables below. Transactions and balances relating to equity accounted investments are disclosed in Note 5(d).

For the 12 months to:	30-Jun-21 $'000	30-Jun-20 $'000
Ultimate parent		
Interest income on loan to Vicinity Limited	13,281	20,778
Other related parties		
Revenue and income		
Distribution revenue	33	40
Rent and outgoings revenue and income	14,594	17,363
Expenses and reimbursements		
Borrowing costs on secured related party borrowings	(6,920)	(11,729)
Asset management fees	(73,759)	(74,068)
Reimbursement of expenses	(46,547)	(52,445)

Outstanding related party trade receivables balances at year end are unsecured and settlement occurs in cash. The Trust Group does not hold any collateral in relation to related party receivables.

	30-Jun-21 $'000	30-Jun-20 $'000
Ultimate parent		
Interest receivable on loan to Vicinity Limited	3,135	4,811
Other related parties		
Interest payable on secured related party borrowings	-	(719)
Other payables	(888)	(4,221)
Borrowing costs receivable on secured related party borrowings	-	92
Other receivables	923	2,096

18. Commitments and contingencies

(a) Capital commitments

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

	30-Jun-21 $m	30-Jun-20 $m
Not later than one year	78.5	39.9
Later than one year and not later than five years	-	-
Total capital commitments	**78.5**	**39.9**

(b) Contingent assets and liabilities

Bank guarantees totalling $41.9 million have been arranged by the Vicinity Centres Group, primarily to guarantee obligations for two of the Vicinity Centres Group's Responsible Entities to meet their financial obligations under their Australian Financial Services Licences and other capital requirements (30 June 2020: $44.6 million).

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

19. Leases

All leases (lessee accounting) are accounted for by recognising a right of use asset and a lease liability except for leases of low value assets and short-term leases.

Lease liabilities

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term (which includes any extension option periods assessed as reasonably certain to be exercised). The discount rate applied is determined by reference to the interest rate implicit in the lease unless (as is typically the case) this is not readily determinable, in which case the lessee's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate, initially measured using the index or rate as at the commencement date. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease.

Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Trust Group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from modification, a change in an index or rate, when there is a change in the assessment of the term of any lease or a change in the assessment of purchasing the underlying asset.

19. Leases (continued)

(a) Movements for the year

The table below show the movements in the Trust Group's lease-related balances for the year:

Investment property leaseholds – lease liabilities	30-Jun-21 $m	30-Jun-20 $m
Opening balance - 1 July	**(264.7)**	**(260.1)**
Interest charge on lease liabilities	(24.7)	(18.3)
Lease payments	21.1	16.8
Market rent reassessment	(74.9)	(3.1)
Closing balance - 30 June[1]	**(343.2)**[2]	**(264.7)**[2]

1. Total lease liabilities of $343.2 million (30 June 2020: $264.7 million) represents $23.1 million of current lease liabilities (30 June 2020: $17.5 million) and $320.1 million of non-current lease liabilities (30 June 2020: $247.2 million).
2. As disclosed in Note 4(d), a number of the Trust Group's investment properties are held under long-term leasehold arrangements. The lease liabilities in relation to these investment property leaseholds meet the definition of investment property and are presented within investment property in Note 4(a).

(b) Lease liabilities maturity profile

The table below show the undiscounted maturity profile of the Trust Group's lease liabilities due as follows:

	30-Jun-21 $m	30-Jun-20 $m
Lease liabilities		
Not later than one year	23.1	13.3
Later than one but not more than five years	100.5	57.7
More than five years	818.9	468.9
Total	**942.5**	**539.9**

The Trust Group also recognised variable lease payments of $14.5 million during the year (30 June 2020: $12.5 million). These related primarily to investment property leaseholds where a component of lease payments is based on profitability achieved by the relevant property. As these lease payments are variable in nature, they are not included within the investment property leaseholds lease liability balance.

20. Other Trust Group accounting matters

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

Principles of consolidation

These consolidated financial statements comprise the assets and liabilities of all controlled entities at 30 June 2021 and the results of all controlled entities for the financial year unless otherwise stated. Controlled entities are:

- All entities over which the Trust Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity; and
- Fully consolidated from the date on which control is transferred to the Trust Group, and, where applicable, deconsolidated from the date on which control ceases.

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

Investments in joint operations

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

Fair value measurement

The Trust Group has classified fair value measurements 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).

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

There are no accounting standards or interpretation issued but not yet effective that are expected to have a material impact on the Trust Group's financial position or performance.

21. Events occurring after the end of the reporting period

Snap lockdowns including New South Wales

In the period between 30 June 2021 and the date of this report, snap lockdowns, interstate border closures and changing restriction levels continue to be observed across several states in response to COVID-19 outbreaks. In particular, the recent outbreak of the Delta strain continues to impact New South Wales with the State government imposing tightened restrictions on movement and further extending the period of lockdown to contain the outbreak. These restrictions and any future further restrictions will unfavourably impact the Trust Group's rental collections and financial performance in FY22.

In addition, as disclosed in Note 4(c) to the financial statements, the Trust Group considered the impact of these snap lockdowns and changing restriction levels up to 30 June 2021 in determining investment property fair values at 30 June 2021.

Commercial Tenancy Relief for Businesses in Victoria and New South Wales

The Victoria and New South Wales state governments announced the reintroduction of the Commercial Tenancy Relief Scheme and the amendment of the Retail and Other Commercial Leases (COVID-19) Regulation 2021 (collectively the Schemes), on 28 July 2021 and 13 August 2021 respectively. Landlords will be required to provide proportional rent relief to eligible businesses in accordance with the Schemes. While the Schemes are in effect, landlords will not be able to lock out, evict tenants, or terminate leases due to non-payment during the COVID-19 pandemic period, without a determination from the relevant authorities. Vicinity will act in good faith and in accordance with the principles of the Schemes where applicable.

COVID-19 pandemic

The duration, frequency 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 financial report on the potential impact that the uncertainty on the reported amounts of relevant revenues, expenses, assets and liabilities for the year ended 30 June 2021 and future periods where relevant.

Transfer of Box Hill North property

On 31 July 2021, the Trust Group successfully completed the transfer of the leasehold interest of the Box Hill North property to Vicinity Box Hill North Pty Ltd, a subsidiary of Vicinity Limited at a fair value of $128.0 million.

Other than the matters described above, no other matters have arisen since the end of the reporting 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 accordance with a resolution of the Directors of Vicinity Centres RE Ltd as Responsible Entity for Vicinity Centres Trust (the Trust), we declare that:

(a) in the opinion of the Directors, the financial statements and notes set out on pages 9 to 50 are in accordance with the *Corporations Act 2001* (Cth), including:

  i. giving a true and fair view of the Trust and its controlled entities' financial position as at 30 June 2021 and of the performance for the financial year ended on that date; and

  ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth); and

  iii. complying with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in the About this Report section of the financial statements; and

(b) in the opinion of the Directors, there are reasonable grounds to believe that the Trust and its controlled entities will be able to pay their debts as and when they become due and payable; and

(c) the Directors have been given the Declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 30 June 2021.

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

Trevor Gerber
Chairman
18 August 2021

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Independent auditor's report to the Unitholders of Vicinity Centres Trust

Opinion

We have audited the financial report of Vicinity Centres Trust (the "Trust") and its controlled entities (collectively the "Group"), which comprises the balance sheet as at 30 June 2021, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the declaration of the directors of Vicinity Centres RE Ltd, the Responsible Entity of the Trust.

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

a. Giving a true and fair view of the balance sheet of the Group as at 30 June 2021 and of its financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

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

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

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

Why significant

The Group owns a portfolio of retail property assets valued at $13,070.2 million at 30 June 2021, which represents 91.1% of total assets of the Group. In addition, there are retail property assets valued at $577.6 million held through interests in Joint Ventures.

The Group's total assets include investment properties either held directly or through interests in Joint Ventures. These assets are carried at fair value, which is assessed by the directors with reference to external and internal property valuations and are based on market conditions existing at the reporting date.

The valuation of investment properties is inherently subjective. A small difference in any one of the key market input assumptions, when aggregated across all the properties, could result in a material change to the valuation of investment properties.

We consider this a key audit matter due to the number of judgments required in determining fair value.

Impact of COVID-19 on investment property values

Given the market conditions at balance date, the majority of the independent valuers have reported on the basis of the existence of 'material valuation uncertainty', noting that less certainty, and a higher degree of caution, should be attached to the valuations than would normally be the case.

The disclosures in the financial statements provide particularly important information about the assumptions made in the property valuations and the market conditions at 30 June 2021.

We draw attention to Note 4 of the financial report which describes the material valuation uncertainty and 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 at 30 June 2021. Due to the material valuation uncertainty arising from the COVID-19 pandemic the property values may change significantly and unexpectedly over a relatively short period of time.

How our audit addressed the key audit matter

Our audit procedures included the following for both properties held directly and through interests in Joint Ventures:

- We discussed the following matters with management:
  - movements in the Group's investment property portfolio;
  - changes in the condition of each property, including an understanding of key developments and changes to development activities;
  - controls in place relevant to the valuation and development processes; and
  - the impact that COVID-19 has had on the Group's investment property portfolio including rent abatements offered to tenants and tenant occupancy risk arising from changes in the estimated lease renewals.
- On a sample basis, we performed the following procedures:
  - Evaluated the key assumptions and agreed key inputs to tenancy schedules. We tested the effectiveness of relevant controls over the leasing process and associated tenancy reports which are used as source data in the property valuations.
  - Assessed whether changes to lease arrangements as a result of COVID-19 had been factored into the valuations and that changes in tenant occupancy risk were also considered.
  - Tested the mathematical accuracy of valuations.
  - Involved our real estate valuation specialists to assist with the assessment of the valuation assumptions and methodologies.
  - Where relevant we compared the valuation against comparable transactions utilised in the valuation process.
  - Evaluated the suitability of the valuation methodology across the portfolio based on the type of asset. We considered the reports of the external and internal valuers, to gain an understanding of the assumptions and estimates used and the valuation methodology applied. This included key assumptions such as the capitalisation, discount or growth rate and future forecast rentals. We have also considered the 'material valuation uncertainty' disclosure included in the valuation reports and any other restrictions imposed on the valuation process (if any) and the market conditions at balance date.

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Why significant	How our audit addressed the key audit matter
	▶ Assessed the qualifications, competence and objectivity of the valuers. ▶ Assessed capitalised planning and holding costs relating to planned major development projects. ▶ Considered the additional valuation adjustments made as a result of the increase in COVID-19 cases and lockdowns observed in New South Wales in late June 2021. ▶ We have considered whether there have been any indicators of material changes in property valuations from 30 June 2021 up to the date of our opinion or any matters emerging since 30 June 2021 which provide evidence of a material change in valuation at that date. We involved our real estate valuation specialists to assist us in making this assessment. ▶ We have considered whether the financial report disclosures, in particular those relating to the material valuation uncertainty of the Investment Property portfolio, are appropriate.

2. Carrying value of trade receivables

Why significant

As at 30 June 2021, the Group held $27.5 million in trade receivables, net of $130.9 million allowance for expected credit losses.

Trade receivables primarily comprise amounts due from tenants of the Group's investment properties under lease agreements, less an allowance for expected credit losses.

The Group applies Australian Accounting Standard - AASB 9 Financial Instruments in calculating the allowance for expected credit losses, applying a forward-looking expected loss impairment model. This involves significant judgement as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions.

The recoverability of trade receivables is considered a key audit matter due to the value of uncollected rental income at 30 June 2021 and the significant judgement required in determining the allowance for expected credit losses.

The rapidly changing and uncertain trading and economic environment and the uncertain outcome of rental assistance negotiations with tenants have all contributed to significant estimation uncertainty in determining the allowance for expected credit losses at 30 June 2021.

We draw attention to Note 10 of the financial report which describes the impact of the COVID-19 pandemic on the trade receivables and the related allowance for expected credit losses and how this has been considered by the directors in the preparation of the financial report at 30 June 2021. We note in the event the impact of COVID-19 varies from conditions anticipated at balance date, this may result in a change in the expected credit loss provision in future periods.

How our audit addressed the key audit matter

In assessing the carrying value of trade receivables, we:

- Assessed the effectiveness of relevant controls in relation to tenant lease arrangements, including lease modifications.
- Tested the existence of trade receivables for a sample of tenant balances.
- Assessed receipts after year-end to determine any material change to exposure at the date of the financial report.
- Assessed whether the inputs into the determination of expected credit losses were consistent with the principles of AASB 9 and tested the mathematical accuracy of the calculations.
- Assessed management's application of cash collection trends observed during the period and the adjustments applied to cash collection rates and estimated waivers which reflects forward-looking considerations.
- Evaluated the key assumptions applied in calculating expected credit losses, for a sample of tenants.
- Assessed the adequacy of the Group's disclosures in relation to the valuation uncertainty of trade receivables included in the financial report, including the assumptions, estimations and judgements made in calculating the allowance for expected credit losses.

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Information other than the Financial Report and Auditor's Report thereon

The Directors of Vicinity Centres RE Ltd, the Responsible Entity of the Trust (the "RE"), are responsible for the other information. The other information comprises the information included in the Vicinity Centres Trust Financial Report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the RE are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors of the RE are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors of the RE either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the RE.

- Conclude on the appropriateness of the Directors of the RE's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst + Young

Ernst & Young

Alison Parker	Michael Collins
Partner	Partner
Melbourne	Melbourne
18 August 2021	18 August 2021