Financial Report for the year ended 30 June 2014

FEDERATION LIMITED

Comprising Federation Limited – ABN 90 114 757 783
and its controlled entities, including:
Federation Centres Trust No. 1 – ARSN 104 931 928;
Federation Centres Trust No. 2 – ARSN 122 223 974;
Federation Centres Trust No. 3 – ARSN 153 269 759;
which are known as the ASX listed stapled group, Federation Centres.

Directors of Federation Limited

Bob Edgar (Chairman)
Steven Sewell (Chief Executive Officer and Managing Director)
Clive Appleton
Tim Hammon
Charles Macek
Fraser MacKenzie
Debra Stirling
Wai Tang

Secretary of Federation Limited

Elizabeth Hourigan

Auditor

Ernst & Young
Ernst & Young Building
8 Exhibition Street
Melbourne Victoria 3000

Security Registrar

Link Market Services Limited
Level 1, 333 Collins Street
Melbourne Victoria 3000

FEDERATION CENTRES

Contents

Directors' Report

The Directors of Federation Limited present the financial report of Federation Centres for the year ended 30 June 2014.

Federation Centres

The ASX-listed Australian Real Estate Investment Trust (A-REIT), Federation Centres (the Group or FDC) is a stapled group comprising Federation Limited (the Company or FL), Federation Centres Trust No. 1 (FCT 1), Federation Centres Trust No. 2 (FCT 2) and Federation Centres Trust No. 3 (FCT 3) (collectively known as the Trusts). Although separate entities, the securities of each are stapled to ensure that they are traded as a single interest, under the ASX ticker code "FDC".

Accounting standards – AASB 10 *Consolidated Financial Statements* – require a parent entity to be identified for FDC, which is FL, on the basis that the financial and operating policies of FDC are governed by FL given the Directors and management of FDC are employed by FL and its subsidiaries.

As a result, the interests of securityholders in FCT 1, FCT 2 and FCT 3 (i.e. the non-parent entities) are presented as non-controlling interests, and described as other stapled entities of Federation Centres in the Statements of Comprehensive Income and Balance Sheets.

Directors

The Board of Directors of Federation Limited and Federation Centres Limited as Responsible Entity (RE) of the Trusts (together, the FDC Board) consist of the same members. The following persons were members of the FDC Board up to the date of this report unless otherwise stated:

Bob Edgar (Chairman)

Steven Sewell (Chief Executive Officer and Managing Director)

Clive Appleton

Peter Day (retired 28 February 2014)

Tim Hammon

Charles Macek

Fraser MacKenzie

Debra Stirling

Wai Tang (appointed 30 May 2014)

Pages 12 to 14 summarise the Directors biographies and qualifications.

Company Secretary

The Company Secretary is Elizabeth Hourigan. Dimitri Kiriacoulacos resigned as Company Secretary on 9 May 2014.

Principal activities

The principal activities of the Group during the year were property investment, property management, property development and leasing.

Significant matters

(a) Adoption of new accounting standards

From 1 July 2013, FDC adopted AASB 10 *Consolidated Financial Statements* which replaced the control and consolidation rules under AASB 127 *Separate Financial Statements*. The adoption of AASB 10 required FDC to consolidate Retail Direct Property (RDP) syndicates 5, 10, 14 and 15. Under the new accounting rules, FDC is deemed to control these RDP syndicates even though FDC holds less than the majority of the voting rights in these entities. Under the previous control rules under AASB 127, FDC did not consolidate these RDP syndicates as it was not deemed to have control on the basis that FDC held less than the majority of the voting rights in these entities.

FDC is required to adopt AASB 10 retrospectively. Therefore the comparative financial statements for 30 June 2013 have been shown as restated where the previously reported amounts have changed as a result of the adoption of AASB 10. The impact of adopting AASB 10 on the comparative financial statements has been disclosed in Note 2 of this report. The restatements made had no impact on the net assets, net results, underlying earnings or net tangible assets of FDC.

(b) Asset recycling transactions

Acquisitions

On 18 December 2013, FDC acquired Carlingford Court, a sub-regional shopping centre in Sydney, New South Wales (NSW) for $177 million, in a 50/50 co-ownership arrangement with a major Australian corporate superannuation fund manager. FDC's share of the purchase price for the property was $88.5 million.

FDC's strategy to rationalise its RDP syndicates is nearing completion with property worth $516 million acquired by FDC from the RDP syndicate business as listed below. Properties worth a further $198.3 million have been sold on market by the RDP syndicates.

Date	Syndicate	Cash Paid $m	Properties	FDC Interest	Value $m	Capitalisation Rate
24 July 2013	Retail Direct Property 27	13.3	Sunshine Marketplace (VIC)	50%	46.0	8.00%
24 July 2013	Retail Direct Property 10	20.8	Maitland Hunter Mall (NSW)	100%	12.0	11.00%
			Lennox Village (VIC)	50%	24.6	8.00%
22 August 2013	Retail Direct Property 37	19.5	West End Plaza (NSW)	100%	55.7	8.00%
			Monier Village (QLD)	100%	12.8	8.00%
31 October 2013	Retail Direct Property 26	12.7	Maddington Central (WA)	100%	97.1	8.00%
			Indooroopilly Central (QLD)	100%	46.9	9.00%
			Tweed Supermarket (NSW)	100%	15.0	7.00%
28 February 2014	Woodlands Village	1.8	Woodlands Village (QLD)	100%	12.9	9.75%
20 December 2013 31 March 2014	Retail Direct Property 34 (1) Retail Direct Property 25	31.2	Emerald Village (QLD)	100%	20.5	10.25%
			Emerald Market (QLD)	100%	14.5	10.00%
			Oxenford Village (QLD)	100%	24.2	7.75%
			Terrace Central (NSW)	100%	27.0	8.50%
30 April 2014	Retail Direct Property 15	14.2	Meadow Mews (TAS)	100%	41.3	8.01%
30 June 2014	Retail Direct Property 12	17.3	Glenorchy Central (TAS)	100%	18.6	8.50%
			Oakleigh Central (VIC)	100%	46.6	8.13%
Total		**130.8**			**515.7**	

(1) FDC acquired the property interests of RDP 34 directly rather than all the externally held units in the syndicate.

FDC will look to acquire the remaining $314 million of properties in the four remaining active RDP syndicates by the end of calendar year 2014. The total cash outlay for FDC after taking into account FDC's existing investment held in these RDP syndicates is expected to be up to $95 million, and will be funded by available cash or capacity within FDC debt facilities. This excludes expiring RDP syndicate debt facilities that may potentially need to be refinanced.

Disposals

Unconditional contracts to sell Somerville in VIC for $42.1 million and Springwood in QLD for $53.3 million were executed on 4 June 2014 and 9 July 2014 respectively. Settlement for Somerville will be in September 2014 and Springwood was on 18 August 2014.

The active marketing of Arndale Central in SA continues, with its disposal expected to be finalised by the end of calendar year 2014.

Proceeds from the sale of these assets will be recycled into the substantial organic growth redevelopment pipeline across the portfolio.

(c) Debt capital market transaction

On 10 December 2013, FDC announced that it had successfully priced an issue of $150 million of fixed rate notes under its secured Australian Medium Term Note programme. The notes will mature on 13 December 2019 and were priced at 170 bps above the Australian dollar swap rate as at 6 December 2013. The settlement of the issue occurred on 13 December 2013.

On 21 May 2014, FDC announced that it had successfully priced a second issue of $150 million of fixed rate notes under its secured Australian Medium Term Note programme. The notes will mature on 27 May 2021 and were priced at 150 bps above the Australian dollar swap rate. The settlement of the issue occurred on 27 May 2014.

(d) Software implementation

Phase One of the implementation of our new information technology platform has been successfully completed – on time and under budget. The implementation of Phase Two, focusing on business intelligence, long-range forecasting and leasing is underway and is scheduled for completion by early calendar year 2015.

(e) Release of stamp duty provision

During the period, the Victorian State Revenue Office (SRO) withdrew assessments leaving modest stamp duty payable by FDC.

The provision included in FDC's Balance Sheet as at 30 June 2013 was reduced by $67.1 million, being the amount provided against these assessments.

Operating and Financial Review

Strategy summary

The Group is a national, vertically integrated and internally managed Australian Real Estate Investment Trust with valued co-ownership arrangements.

Our strategic objective is to create sustainable returns for our securityholders through owning, managing, operating and developing our centres.

As an owner and manager of Australian-only regional, sub-regional and convenience centres that are weighted toward non-discretionary retail we are in a strong position to achieve our strategic objective.

We strive to achieve our strategic objective through active engagement with our people, retailers and the communities we serve and through the provision of engaging consumer experiences.

Business model

The FDC business model is primarily focused on its direct interests in 63 quality Australian based shopping centres valued at $4.7 billion (based on ownership). These assets account for approximately 91% of FDC's gross income and provide a diversified income source as they comprise nearly 4,500 leases across over 2,100 retailers.

Aside from its core interest in direct property ownership, FDC will also continue to receive property, leasing and development services fees for the management of a significant portfolio of assets worth $2.1 billion (based on co-ownership value) on behalf of its co-ownership partners, which include ISPT, Challenger, the Perron Group, Salta and Leda Holdings.

Property operational review

This Operating and Financial Review focuses on the FDC directly owned portfolio of 61[1] shopping centres as at 30 June 2014.

The key operating metrics achieved for the period are outlined below:

	As at 30 June 2014	As at 30 June 2013
Comparable Net Operating Income (NOI) Growth [2]	2.3%	2.8%
Occupancy	99.5%	99.5%
No. of Leasing Transactions	759	710
Leasing Spread – Renewals [2]	3.1%	3.2%
Annual Retail Sales Growth [3]	0.7%	3.3%
Specialty Occupancy Cost	14.6%	14.7%

(1) Oakleigh Central and Glenorchy Central acquired from RDP 12 on 30 June 2014, not included in operating metrics for the year ended 30 June 2014.

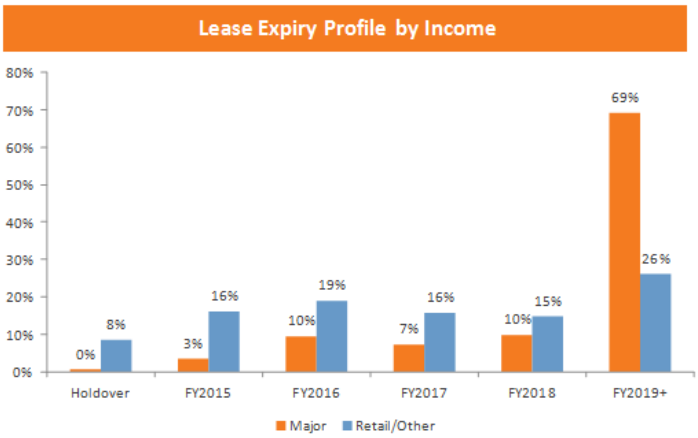
(2) Calculated assuming ownership share as at 30 June 2014 remained unchanged since the beginning of the comparative period.

(3) Calculated based on Shopping Centre Council of Australia (SCCA) guidelines.

Retail trading conditions improved modestly during the period, but challenges were still present. The Portfolio achieved 2.3% growth in net operating income on a comparable basis for the year ended 30 June 2014. This performance reflects the portfolio's diversification across shopping centre type, location and retailers, with a focus on non-discretionary retail. During the period, management's focus on cost optimisation contributed to the Portfolio net operating income growth.

Approximately 94% of property income is derived from base rent, and growth in net operating income is underpinned by 93% of specialty retailers on ongoing leases containing fixed annual percentage increases together with active management of shopping centre operating expenses. Through FDC's established relationships with its retailers, debtors (net of provisions) remain at an acceptable level of 1.2% of total billings.

Leases with major retailers are typically for 20 years, and leases with specialty retailers are typically for five years. FDC's lease expiry profile by income is depicted below.



The Portfolio's lease expiry profile is well weighted with 65% of rental income secured on leases with an expiry of FY2017 and beyond. FDC also derives income from casual mall leasing, percentage rent and other income, and this represents approximately 6% of FDC's property income.

Leasing results

During the year, Federation Centres' leasing team completed 759 specialty lease deals across the Portfolio. Lease renewals represent the majority of leasing transactions completed. Rental growth of 3.1% was achieved on the renewals with income renewed representing 9.0% of total portfolio specialty rental income. With the renewals completed, 189 new lease transactions undertaken and minimal impact from tenant administrations, the Portfolio occupancy rate was maintained at 99.5%.

The Portfolio's Top 10 Retailers (by income) features Australia's well known retail brands as shown below.

Top 10 Retailers

Rank	Retailer	Retailer Type	Number of stores	% of total income
1	Woolworths	Supermarket	42	8.3%
2	coles	Supermarket	34	6.5%
3	Kmart	Discount Department Store	19	4.7%
4	BIG W	Discount Department Store	14	3.0%
5	Target.	Discount Department Store	14	2.9%
6	MYER	Department Store	4	1.3%
7	TerryWhite chemists	Specialty	14	1.1%
8	priceline pharmacy	Specialty	22	1.1%
9	THE REJECT SHOP	Mini Major	20	1.0%
10	CommonwealthBank	Specialty	30	0.8%
Top 10 Total			**213**	**30.7%**

On an amalgamated basis the Woolworths Group and Wesfarmers are the Portfolio's largest retailers representing a combined 26.6% of total portfolio rental income.

Sales analysis

The Portfolio recorded annual sales growth of 0.7% for the year ended 30 June 2014, compared with 3.3% achieved for the prior period. In the prior period ended June 2013, sales growth was positively influenced by a 53 week trading period for both the Woolworths Group and Wesfarmers. Adjusting for this, portfolio growth for the year ended June 2013 would have been 2.4%. For comparison purposes, the sales growth for the current period ended June 2014 has been adjusted to exclude this additional week of sales from the prior period.

Retail trading conditions improved moderately during the period, however challenges were still experienced. These included the economic and political climate, levels of overseas travel remaining above long-term averages and the employment outlook for certain sub-sectors of the economy such as manufacturing.

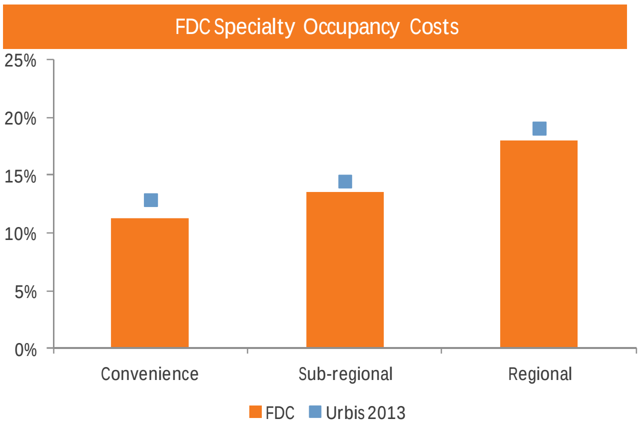
The reduction in sales growth from the prior period is primarily attributed to the performance of discount department stores with specific brands enduring challenging conditions, which is consistent with the industry-wide experience for this category. Department stores also recorded a decline in sales, however the Portfolio only derives 2% of sales from these stores. Specialties sales growth continues to be underpinned by the performance of service-oriented and food retailers, which are well-represented within the Portfolio.

FDC Sales Category Analysis[1]			
Category	Annual Sales ($m)	% of Portfolio Sales	MAT Change[2]
Supermarkets	3,292.8	41%	1.1%
Specialties	2,966.0	37%	1.6%
Discount Department Stores	1,060.4	13%	(2.9%)
Mini Majors	606.1	7%	0.5%
Department Stores	171.0	2%	(1.2%)
Portfolio Total	8,096.3	100%	0.7%

(1) Oakleigh Central and Glenorchy Central, which were acquired from RDP 12 on 30 June 2014, excluded from metrics.

(2) Calculated in accordance with Shopping Centre Council of Australia (SCCA) standards. Prior year included 53 week reporting period for the Woolworths Group and Wesfarmers. For comparison purposes, prior year has been adjusted to reflect a 52 week reporting period.

Specialty occupancy costs across the portfolio remain below the Urbis[1] benchmark average across the three main centre types. Management of these costs remains an ongoing focus of FDC.



(1) Urbis undertakes an annual benchmarking survey of Australian Shopping Centre performance and acts as independent analyst preparing the benchmarks with participation of virtually all major owners of shopping centres throughout Australia and in co-operation with the SCCA.

Financial performance [(1)]

Financial results

The highlights of the financial performance of the Group are:

- Statutory net profit for the year of $441.3 million (30.91 cents per security), an increase of $228.6 million or 108% from prior year;
- Underlying earnings for the year of $242.9 million (17.01 cents per security), an increase of $18.5 million or 8% from the prior year;
- Full year distribution of 15.7 cents per security, an increase of 11% from the prior year.

The sound operating results delivered is a result of improvements in FDC shopping centres through strategic acquisitions, improved operating efficiencies, redevelopment and refurbishment leading to NOI and valuation growth. Refinancing of our debt facilities generated significant further returns to FDC.

The following reconciles underlying earnings to statutory net profit and is extracted from Note 4 of FDC's financial statements.

Summary Segment Income Statement for the year ended	**30 June 2014**	**30 June 2013**	**Variance**
	$m	**$m**	**$m**
Direct property investment income	310.3	309.5	0.8
Syndicate investment income and management fees	16.8	49.3	(32.5)
Property management, development and leasing fees	14.4	12.7	1.7
Total income	**341.5**	**371.5**	**(30.0)**
Overheads and depreciation (net of recoveries)	(41.9)	(46.1)	4.2
Borrowing costs	(56.7)	(101.0)	44.3
Underlying earnings	**242.9**	**224.4**	**18.5**
Non-distributable items:			
Asset revaluations	160.1	25.2	134.9
Stamp duty expenses	(12.8)	(27.4)	14.6
Reversal of stamp duty provision	67.1	-	67.1
Software implementation costs	(18.4)	-	(18.4)
Other non-distributable items	2.4	(9.5)	11.9
Statutory net profit	**441.3**	**212.7**	**228.6**

Direct property investment income has remained steady. Any reduction in income that arose from disposing of 50% interests in 11 of our assets to strategic partners in FY2013 has been fully offset by organic net operating income growth of 2.3% on the remaining portfolio, and additional income from FDC's acquisition of syndicate property assets and 50% interest in Carlingford Court during the year.

Financing costs decreased by $44.3 million as higher-cost facilities were replaced with competitively priced facilities, made possible by renegotiation and restructure of finance facilities following the A- senior secured credit rating, and reduction in balance sheet gearing achieved by using proceeds from asset sales to repay debt. Operating costs decreased by $4.2 million from the implementation of various cost saving initiatives across the Group.

The above positive contributions to underlying earnings were offset by the decrease in syndicate investment income and management fees of $32.5 million compared to prior year as the wind up of the syndicate business progressed. This income stream will reduce to zero once the RDP syndicate business is wound up, which is expected to be completed by the end of calendar year 2014.

Statutory net profit for the year was $441.3 million. The increase from prior year of $228.6 million is attributable to strong asset valuations growth and the reversal of stamp duty provisions arising from favourable outcomes with the Victorian SRO, offset by software implementation costs incurred as part of the roll-out of an enterprise-wide information technology platform.

[(1)] Performance of the group is monitored by statutory net profit as required by Accounting Standards, and three additional measures of performance being: Underlying Earnings, Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO). These additional measures are used by the Chief Executive Officer in assessing the performance of the Group, to make strategic decisions and as a guide to assessing an appropriate distribution to declare. FFO and AFFO are calculated based on a Property Council of Australia White Paper issued in June 2013.

FDC's Funds from Operations (FFO) for the period was $244.8 million with Adjusted Funds from Operations (AFFO) of $195.6 million as shown in the table below:

	30 June 2014	30 June 2013	Variance
	$m	$m	$m
Underlying earnings	**242.9**	**224.4**	**18.5**
Add: Amortisation of rent free periods	1.9	2.3	(0.4)
Funds From Operations	**244.8**	**226.7**	**18.1**
Less: Maintenance and operating capital expenditure	(30.1)	(32.1)	2.0
Add: Other adjustments [1]	(0.7)	2.3	(3.0)
Adjusted Funds From Operations before Software implementation costs	**214.0**	**196.9**	**17.1**
Less: Software implementation costs	(18.4)	-	(18.4)
Adjusted Funds From Operations after Software implementation costs	**195.6**	**196.9**	**(1.3)**

[1] Relates to derivative and debt break costs arising from early repayment of borrowings pursuant to capital transactions, and proceeds received from receivables previously impaired.

The results achieved for the year allowed FDC to declare a total distribution of 15.7 cents ($224 million) which represented 92% of underlying earnings or 105% of AFFO before software implementation costs.

Financial position

The balance sheet of FDC remains strong with:

- An increase in property investments owned to $4.7 billion, attributable to increase in number of investment properties to 63 and valuation growth of $160.1 million, partially offset by a decrease in managed fund investments due to the wind up of the syndicate business;
- A gearing ratio[1] of 24%, which is below FDC's target range, and highlights the capacity available for strategic asset acquisitions and redevelopments going forward; and
- An increase in Net Tangible Assets to $2.37 per unit, due to property valuation increase and the release of the stamp duty provision during the period.

The balance sheet below is prepared on a summarised basis and derived from Note 4 of FDC's financial statements.

	30 June 2014	30 June 2013	Increase/ (decrease)
	$m	$m	$m
Cash and cash equivalents	57.3	72.2	(14.9)
Property investments	4,651.0	4,145.4	505.6
Managed fund investments	88.2	344.1	(255.9)
Intangible assets	199.7	199.7	-
Other assets	49.2	130.3	(81.1)
Total assets	**5,045.4**	**4,891.7**	**153.7**
Interest bearing liabilities	1,210.7	1,251.7	(41.0)
Other liabilities	245.3	277.0	(31.7)
Total liabilities	**1,456.0**	**1,528.70**	**(72.7)**
Net assets	**3,589.4**	**3,363.0**	**226.4**
NTA per security ($)	**2.37**	**2.22**	**0.15**

[1] Interest bearing liabilities less cash and cash equivalents divided by total tangible assets less cash and cash equivalents.

Redevelopment and Asset Strategy

With adequate balance sheet capacity secured, FDC continues with its development pipeline. Four projects totalling $289 million are either under construction or Board approved. Construction at Warnbro Centre is nearing completion and will be opening on time and under budget in September 2014. Leasing on this development is 100% complete, the majority with strong national retailers. There are strong indications that actual returns will exceed budget. Construction works commenced at Cranbourne Park in early 2014 with completion on schedule for the third quarter of 2015. Leasing of this project is progressing in line with expectations.

As part of our portfolio repositioning program, $95 million of non core assets have been sold (at a premium of 10% to Net Tangible Asset) and replaced by properties acquired from syndicates. This forms part of the repositioning of the portfolio which, together with the $1 billion development pipeline, strengthens the quality and metrics of the property portfolio.

FDC recorded a valuation increase on its portfolio of $160.1 million. This was driven by income growth and cap rate compression arising from growing confidence of investors in the resilience and underlying strength of sub-regional and neighbourhood asset classes.

Operational efficiencies

A major investment in improved business efficiency culminated in the roll-out of an enterprise-wide information technology platform. This major initiative will replace over 15 legacy systems, will improve our management information and reduce complexity. Phase One of the implementation costing $18 million went live on 1 July 2014, on time and under budget. Phase Two of the implementation, expected to cost around $10 million, which focuses on business intelligence, long range forecasting and leasing, has commenced and is scheduled for completion by early calendar year 2015.

FDC has implemented a formal procurement program across the major spend categories to cut costs and realise process efficiencies. This program is focused on achieving the “best value” outcome for FDC across its portfolio of centres which will provide flow on benefits to both retailers and partners.

Financing activities

FDC continued with its focus to diversify funding sources and increase the duration of its debt facilities with $150 million of six year fixed rate notes issued under the Australian Medium Term Notes programme (AMTN) in December 2013. The quality and growth potential of the portfolio and the strength of the balance sheet continues to garner the support of debt investors, as reflected in FDC’s follow-up issue of $150 million of seven year fixed rate notes in May 2014.

FDC’s S&P investment grade credit rating, low balance sheet gearing and quality of the asset portfolio, enabled FDC to restructure its syndicated bank facility during FY2014 resulting in notable savings in borrowing costs and lengthening of the maturity profile. In August 2014, FDC successfully negotiated new banking arrangements with its incumbent lenders, replacing its syndicated facility with a club style format. Under the new arrangement, FDC can negotiate volume, tenor and price on a bilateral basis, while the facility terms are governed by common provisions applicable to all bank lenders. Refer to the section ‘Events occurring after the end of the reporting period’ for additional details.

Combined with the debt capital market programmes established earlier in the financial year, the new banking arrangements offer greater control and flexibility in the management of FDC’s short to medium term debt requirements.

The available capacity under the banking arrangements, along with FDC’s established Australian and European debt capital market programmes provide the liquidity required to deliver on FDC’s redevelopment program, finalise the RDP syndicate rationalisation, as well as pursue any strategic asset acquisitions such as the recently completed acquisition of Carlingford Court in December 2013.

Corporate readiness

The FDC brand evolution is nearing completion with all our centres expected to adopt a new name, which reflects the strong community focus and proudly displays our ribbon swirl, by the end of the calendar year 2014. The corporate and legal identities of all FDC trusts and companies have been updated to incorporate the new brand and identity.

FDC is committed to building and sustaining a culture of Innovation that empowers our people, makes the way we do business simpler and easier, and taps into the creativity of our team. To drive key Innovation initiatives across our business, and ensure that efforts are directed at strategic outcomes that benefit Federation Centres and its stakeholders, we established an Innovation Committee to lead the FDC Innovation Program. The committee comprises diverse people and business areas, as well as external consultants who specialise in helping businesses drive growth and Innovation Programs in a rapidly changing digital landscape. The initial focus of the team will centre around:

- Cost optimisation and procurement;
- Consumer engagement and loyalty; and
- Performance data, business intelligence and analytics.

Distribution

On 12 June 2014, the Directors declared a second half distribution of 7.8 cents per security.

Given the solid Group performance owing to overhead savings and better than expected savings in financing costs, supported by the strong balance sheet position, the Directors declared an additional distribution of 0.4 cents per security on 22 August 2014, providing securityholders with a total second half-year distribution of 8.2 cents per security ($117.1 million). In addition to the first half-year distribution of 7.5 cents, total distributions declared to securityholders for the full year is $224 million. The payment date of the second half-year distribution of 7.8 cents and 0.4 cents will be on or around 29 August 2014 and 19 September 2014 respectively.

Risks

To execute its strategies and enhance stakeholder value, FDC faces a number of risks that are actively managed as detailed below.

Risk description	Potential impact	How managed
General risks of retail property investment		
Overall depressed market conditions in national and local economies which impact • the ability to attract new tenants to fill lease expiries • consumer shopping trends such as the online and offshore shopping • local real estate conditions • changes in levels of competition Any one or a combination of the above will result in reduced rental income and widening of cap rates.	Reduced returns from an investment in retail property due to a decrease in rental income generated from property interests as a result of increased vacancy rates or negative leasing spreads. The market value of properties is mainly based on rental income and cap rates. A decrease in rental income and widening of cap rates may adversely impact the value of properties and FDC's net asset position.	FDC has an experienced leasing team to strengthen FDC's relationships with retailers and FDC's ability to attract replacement tenants to protect occupancy rates. Diversification of the portfolio to include appropriate mix of discretionary and non-discretionary exposure. Redevelopment of centres to promote positive customer experience and therefore increase foot traffic.
Property development risk		
• Construction not being completed on time or on budget; • Proposed leasing terms not being achieved; • Maintaining existing occupancy levels during construction and leasing new space on completion; • Funding being available for new development; • Obtaining required permits, licences or approvals and timing of receipt of such approvals; • Industrial disputes affecting timing; • Customers lost to competitors during development phase may not return.	There is no guarantee that completed development projects will increase the value of the property being developed. Accordingly, there is a risk that some or all of the development expenditure may be expensed. In the event a proposed project does not proceed, pre-development costs may need to be written-off.	FDC has assembled a strong development team with significant experience in retail development. FDC undertakes rigorous feasibility studies and due diligence for all potential development projects including the utilisation of third-party expertise. FDC secures pre-commitments from major tenants prior to any development being undertaken.
Co-ownership agreements		
FDC is a 50% co-owner of a number of properties with third parties, and does not have exclusive control over the development, financing, leasing and other aspects of the properties. Owning an interest in an asset jointly with a third party imposes restrictions on flexibility, which do not apply when the asset is wholly owned. From time to time, major decisions will be required associated with redevelopment, refurbishment, refinancing, or sale of the properties themselves or adjoining land.	Where FDC has business objectives that are inconsistent with those of its co-owner in relation to those decisions, such business objectives may not be able to be achieved, or to be achieved in a timely manner, and there is the possibility for disputes to arise, which may be costly to resolve.	FDC seeks to understand the business objectives of FDC and the third party and ensure they are aligned and consistent before entering into the agreements. Relationships with co-owners are maintained by internal JV relationship teams comprising senior experienced executives who ensure compliance with the various contractual agreements between the parties. FDC is retained as the manager and is responsible for the redevelopment programs. FDC has rights of first refusal if the co-owner opts to exit the co-ownership agreement.

Risks (continued)

Risk description	Potential impact	How managed
Tenant default Default by a tenant that causes it to break its lease or default on payment of its lease obligations.	Systemic default by a number of tenants or deterioration in the financial performance of major retailers and other anchor tenants could adversely impact the operational and financial results of FDC.	• FDC maintains a diverse portfolio of tenants; and • Actively monitors and manages the exposure to any individual tenant to ensure that it is unlikely a default by any individual tenant would cause a material adverse effect on the operations of FDC.

Business strategies, prospects and likely developments

The Operating and Financial Review sets out information on the business strategies and prospects for future financial years, and refers to likely developments in FDC's operations and the expected results of those operations in future financial years (see pages 3 to 11 of this Directors' report). Information in the Operating and Financial Review is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Information that could give rise to likely material detriment to FDC, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage has not been included.

Forecast

The domestic retail market in Australia remains subdued, despite the recent recovery in consumer confidence and strong growth in housing and the share market. Below trend growth and rising unemployment will partially be offset by the current low interest rate environment – with most market commentators indicating it will remain at its current level for the next 12 months. Despite these headwinds, FDC will remain vigilant in its pursuit of innovative solutions to deliver system and process improvements and will further streamline costs through procurement initiatives.

Full year 2015 earnings are forecast, subject to any unforeseen events, to be in the range of 18.0 to 18.3 cents per security.

Distributions paid to investors are expected to be at the upper end of the range of 90 to 95% of underlying earnings or 95 to 105% of adjusted funds from operations (AFFO).

Events occurring after the end of the reporting period

(a) Restructure of bank facilities in August 2014

In FDC's ongoing review of its debt strategy, FDC has entered into new banking arrangements with its incumbent lenders resulting in the replacement of the syndicated facility with a club style banking structure. Under these arrangements, FDC can negotiate volume, tenor and price on a bilateral basis, while the facility terms are governed by common provisions applicable to all participating lenders.

Following on from the second bond issuance in May 2014 under the AMTN, FDC was also able to reduce its core banking limits from $1.555 billion to $1.405 billion (a reduction of $150 million equivalent to the A$ bond face value), comprising:

- $555 million maturing August 2015;
- $250 million maturing August 2016;
- $200 million maturing August 2017;
- $200 million maturing August 2018; and
- $200 million maturing August 2019.

There was also a reduction in financial covenants (a decrease in number of covenants which have substantially the same or better thresholds).

(b) Increase to second half-year distribution declared

On 22 August 2014, the Directors increased the second half-year distribution by 0.4 cents to 8.2 cents per security. This brings the full year distribution declared to 15.7 cents per security ($224 million).

Except for the matters discussed above, no other matter or circumstance has arisen in the interval between 30 June 2014 and the date hereof that has significantly affected or may significantly affect:

(i) the Group's operations in current and future financial years, or

(ii) the results of those operations in current and future financial years, or

(iii) the Group's state of affairs in current and future financial years.

Information on Directors

Bob Edgar
BEc, PhD, F Fin, FAICD

Chairman

Appointed December 2011

Background and Experience

Bob Edgar has more than 30 years' experience as a senior executive, with 25 years at ANZ Banking Group in various senior roles, including Deputy Chief Executive Officer, Senior Managing Director, Chief Operating Officer and Chief Economist.
Dr Edgar is Chair of the Nomination Committee.

Current Directorships, Executive Positions and Advisory Roles

Dr Edgar is a Non-executive Director of Asciano Limited, LinfoxArmaguard Pty Ltd and Transurban Group and Chairman of the Prince Henry's Institute for Medical Research.

Past Non-executive Directorships (past three years)

Nufarm Limited, AMMB Holdings Berhad.

Steven Sewell
BSc

Chief Executive Officer and Managing Director

Commenced February 2012
Appointed MD July 2012

Background and Experience

Steven Sewell commenced as Federation Centre's Chief Executive Officer in February 2012 and was appointed a Director in July 2012. Mr Sewell has extensive experience in the management and development of Australian shopping centres. Mr Sewell was Chief Executive Officer of Charter Hall Retail REIT (formerly Macquarie Countrywide Trust) for more than five years and National Head of Property Management for QIC Properties.

Current Directorships, Executive Positions and Advisory Roles

Mr Sewell is a Non-executive Director of Capitol Health Limited, current Chairman of the Shopping Centre Council of Australia, a Director of the Property Council of Australia Limited and a member of the Advisory Board of The Centre of Workplace Leadership at the University of Melbourne.

Past Non-executive Directorships (past three years)

None

Clive Appleton
BEc, MBA, FAICD

Non-executive Director

Appointed December 2011

Background and Experience

Clive Appleton has over 30 years' experience in retail property and funds management. Mr Appleton was Chief Executive Officer of Jennings Properties Limited (now Federation Centres) for 10 years until 1996 before becoming Managing Director of Gandel Management Limited.
Mr Appleton is a member of the Audit and Risk Committee, the Nomination Committee and the Remuneration and HR Committee.

Current Directorships, Executive Positions and Advisory Roles

Mr Appleton is a Non-executive Director of APN Property Group Limited, The Gandel Group Pty Ltd, Arrow International Group Limited, Aspen Group Limited, Perth Airport Development Group Pty Ltd and Perth Airport Pty Ltd. He is a council member of the Cairnmillar Institute.

Past Non-executive Directorships (past three years)

Chairman, AG Coombs

Tim Hammon
BCom, LLB

Non-executive Director

Appointed December 2011

Background and Experience

Tim Hammon has extensive wealth management, property services and legal experience. He is currently Chief Executive Officer of Mutual Trust Pty Limited and previously worked for Coles Myer Ltd in a range of roles including Chief Officer, Corporate and Property Services with responsibility for property development and leasing and corporate strategy. He was also Managing Partner of various offices of Mallesons Stephen Jaques.
Mr Hammon is a member of the Nomination Committee and the Remuneration and HR Committee, and sits on the Board of the Responsible Entity that has responsibility for the Retail Direct Property managed funds.

Current Directorships, Executive Positions and Advisory Roles

Mr Hammon is Chief Executive Officer of Mutual Trust Pty Limited.

Past Non-executive Directorships (past three years)

None

Charles Macek
BEc, M.Admin, FAICD, FCA, FCPA, SF Fin

Non-executive Director

Appointed December 2011

Background and Experience

Charles Macek has extensive experience in the finance industry in Australia, New Zealand, the United Kingdom and Japan. He has held numerous senior positions and directorships in a range of public companies, including Telstra, and is a former Director and Chairman of IOOF.
Mr Macek is Chair of the Remuneration and HR Committee and a member of the Nomination Committee.

Current Directorships, Executive Positions and Advisory Roles

Mr Macek is Chairman of Racing Information Services Australia Pty Ltd. He is a Non-executive Director of Wesfarmers and Earthwatch Institute Australia, Vice Chairman of the International Financial Reporting Standards Advisory Committee and a member of the Investment Committee of UniSuper Ltd.

Past Non-executive Directorships (past three years)

None

Fraser MacKenzie
Dip BS, FCCA, FCPA, MAICD

Non-executive Director

Appointed October 2009

Background and Experience

Fraser MacKenzie has more than 40 years' finance and general management experience in the United Kingdom, the United States and Asia, including Chief Financial Officer for both Coles Group/Coles Myer and OPSM Group. Mr MacKenzie held senior finance and general management roles at Pfizer, Gestetner Holdings and Smith Kline & French Laboratories, in addition to various accounting positions in his early career at Royal Bank of Scotland, Hambros Bank and Ernst & Young.
Mr MacKenzie is Chair of the Audit and Risk Committee and a member of the Nomination Committee.

Current Directorships, Executive Positions and Advisory Roles

None

Past Non-executive Directorships (past three years)

None

Debra Stirling
BA, GAICD

Non-executive Director

Appointed December 2011

Background and Experience

Debra Stirling has more than 20 years' experience as a senior executive in retailing, building and construction materials, manufacturing and mining. Ms Stirling was Executive General Manager of People and Communications for Newcrest Mining Limited from January 2008 to July 2014. She has previously held executive roles with Rinker Group, CSR and Coles Myer.
Ms Stirling is a member of the Audit and Risk Committee, Nomination Committee and Remuneration and HR Committee.

Current Directorships, Executive Positions and Advisory Roles

Ms Stirling is a member of the Monash University Mining Advisory Board and the PNG Government's Lae Technical Training Centre of Excellence Taskforce.

Past Non-executive Directorships (past three years)

None

Wai Tang
MBA, BAppSc, GAICD

Non-executive Director

Appointed May 2014

Background and Experience

Wai Tang has extensive retail industry experience and knowledge gained through senior executive and board roles. Her former senior executive roles included Operations Director for Just Group and Chief Executive Officer of the Just Group sleepwear business Peter Alexander. Prior to joining the Just Group; she was General Manager of Business Development for Pacific Brands. She was also the co-founder of the Happy Lab retail confectionery concept.
Ms Tang is a member of the Audit and Risk Committee and the Nomination Committee.

Current Directorships, Executive Positions and Advisory Roles

Ms Tang is currently a Non-executive Director of Kikki K and the Melbourne Festival.

Past Non-executive Directorships (past three years)

Specialty Fashion Group, L'Oréal Melbourne Fashion Festival.

Director's interests

The interests of each Director in the capital of the Group at the date of this report are included in the Remuneration Report on page 46.

Information on Company Secretaries

The Company Secretary is Elizabeth Hourigan. Ms Hourigan is also Senior Legal Counsel of the Group. Ms Hourigan is the Company Secretary of Federation Limited and of the Responsible Entity, Federation Centres Limited.

Indemnification and insurance of Directors and Officers

The Company 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 Company 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 Company 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 or Officers of Federation Centres. This excludes a liability that arises out of wilful breach of duty or improper use of inside information. The premium also insures the Company 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.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made under this indemnity to Ernst & Young during or since the end of the financial year.

Loans to Directors

No loans have been made to the Directors of Federation Centres, including their related entities, by Federation Limited or Federation Centres Limited.

Meetings of Directors

The following table sets out the number of meetings of Directors of Federation Limited and Federation Centres Limited as RE of FCT 1, FCT 2 and FCT 3 (including meetings of committees of Directors) held for the year and the number of meetings attended by each Director:

	Board meetings	Remuneration and HR Committee	Audit and Risk Committee	Nominations Committee
Number of meetings held	10	5	6	6
Number of meetings attended by:				
Bob Edgar	10	n/a	n/a	6
Steven Sewell	10	n/a	n/a	n/a
Clive Appleton	9	4	6	6
Peter Day [(1)]	7	n/a	4	3
Tim Hammon	10	5	n/a	6
Charles Macek	10	5	n/a	5
Fraser MacKenzie	10	n/a	6	6
Debra Stirling	10	5	6	6
Wai Tang [(2)]	1	n/a	0	0

n/a Not a member of the committee
[(1)] Retired on 28 February 2014
[(2)] Appointed a Director on 30 May 2014 and a member of the Audit and Risk Committee and the Nominations Committee on 13 June 2014

Remuneration Report (Audited)

During FY2013 the Board completed a major review and overhaul of our remuneration philosophy and policies. KPMG, an external remuneration advisor, was appointed to work in conjunction with the Board and management and endorse the new outcomes. The new philosophy, principles and framework were implemented and effective 1 July 2013.

With Federation Centres now a stable, soundly managed and well capitalised organisation the Remuneration and HR Committee recommended, and the full Board approved, a shift from the original short-term cash-based remuneration structure to a long-term remuneration structure designed with an appropriate mix of fixed and 'at-risk' remuneration to ensure a strong alignment of interest between management and securityholders.

The Board confirmed the principles underpinning Federation Centres' remuneration policy, that is to attract, reward and retain engaged, high-performing employees while developing a diverse talent pool.

The overarching aims of the major remuneration review were to drive the creation of additional enterprise value, allocate the rewards on a stronger meritocratic basis and further increase alignment between employees and securityholders.

The Board believes this has been achieved. The newly implemented remuneration structure delivers on many 'best practice' outcomes:

- The Performance Reward Payment has a cash component, a mid-term deferral of 12 to 24 months in equity and a long-term equity component allocated using Face Value methodology and deferred for 48 months.
- At all times during the deferral period, any equity issued as a result of the payment may be forfeited or clawed back if any material event subsequently comes to the attention of the Board.

A mandatory equity holding requirement has been introduced for key management personnel. All deferred equity allocated to the key management personnel (KMP) from this year on will count towards the five-year time limit to build up to 60% of total fixed remuneration (100% for the Chief Executive Officer and Managing Director).

This is the first full year of application of these major changes, which were flagged by the Board in last year's Remuneration Report. We are satisfied that the application of the new Performance Reward Payment methodology has driven improved performance and a better balanced sharing of the outperformance between securityholders and management.

The Committee has reviewed the appropriateness of the changes implemented and has agreed that the new framework remains 'fit for purpose' for next year (FY2015).

In line with the last two years, based on Federation Centres' overall performance and to recognise the importance of the contribution by all employees, the $1,000 Exempt Employee Security Plan will be offered again. This offer strengthens the alignment of all employees with that of our securityholders.

The Board is pleased to present the FY2014 Remuneration Report that covers KMP who have direct authority and responsibility for planning, directing and controlling the activities of Federation Centres.

C. Macek

Charles Macek
Chairman, Remuneration and HR Committee

CONTENTS

SECTION 1 – OVERVIEW

At Federation Centres, our people strategy is designed to build the capability and culture required to be a leading Australian real estate investment trust (A-REIT). Following last year's review of the reward framework, the new initiatives have now been embedded in the 2014 financial year (FY2014). These initiatives have continued to emphasise market-driven reward structures linked to performance that assist Federation Centres with attracting and retaining highly motivated and engaged people. The standard of our compliance requirements is maintained within our Right Way framework, which overarches the reward framework. In addition, we measure behaviours to ensure that 'what' we achieve is not at the expense of 'how' we work together. Non-compliance with the Right Way framework has a negative impact on any Performance Reward Payment. Serious breaches can reduce any potential payment to zero.

A summary of these initiatives is provided below.

a. Embedding the new reward framework

Following the Remuneration and HR Committee's (the Committee) review of the reward framework in FY2013, an updated framework was developed to reflect current remuneration practices and the company's strategic agenda. The updated framework includes links to strategy and performance and reflects the following principles:

- Provide market-competitive remuneration practices that attract, retain and motivate high-performing executives.
- Demonstrate clear links between performance, strategy execution and creation of value.
- Encourage executives to manage from the perspective of securityholders through a balance of performance measures and appropriate deferral.

A new Performance Reward Payment (PRP) has been implemented, replacing the separate Short-Term Incentive (STI) and Long-Term Incentive (LTI) programs. Tables 2 and 3 set out PRP detail for Executive Key Management Personnel (Executive KMP). The PRP comprises:

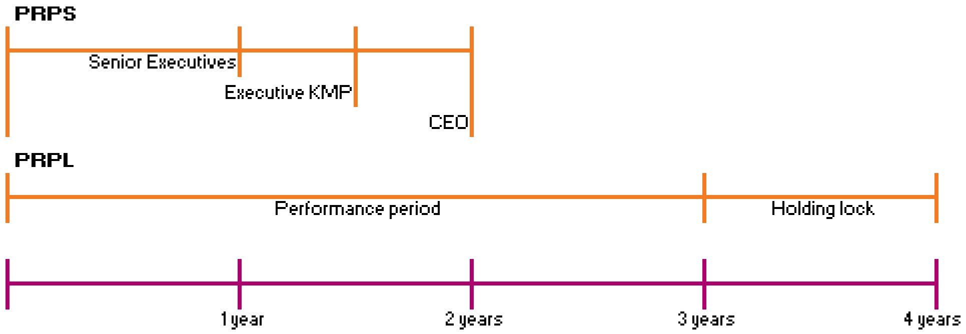
A. Short-term PRP (PRPS):

- An amount paid in cash after a 12-month performance period.
- An amount deferred into equity for 24 months in the case of the Chief Executive Officer and Managing Director (referred to as the CEO hereafter), 18 months for other members of the Executive Committee, and 12 months for other senior executives. This deferred portion is paid in Federation Centres' equity.

B. Long-term PRP (PRPL):

- An amount allocated using the Face Value methodology in performance rights, deferred and tested after three years with an additional trading lock of one year after the performance test. The performance rights are subject to:
  - internal hurdles based on underlying earnings per security (UEPS) and Group return on equity (ROE) with a profit floor to ensure appropriate return and growth; and
  - an external hurdle, measured against the S&P/ASX 200 A-REIT Index on a relative total securityholder return (TSR) basis, excluding Westfield Group (ASX: WDC).

A summary of the deferral is depicted below.



b. Enhancing alignment with securityholder interests

As part of a specific focus on rewarding the delivery of strategy and business objectives and ultimately increasing value for our securityholders, key enhancements were introduced. These include the following:

- The pool for the short-term component of the PRP (PRPS) to be self-funded from the respective year's earnings based on target performance. Where Federation Centres' financial results fail to achieve the on-target level of performance, the Board may exercise its absolute discretion to make no PRP awards.
- Deferral on PRPS of 24 months for the CEO, 18 months for Executive KMP (other than the CEO) and 12 months for other senior executives.
- For the long-term component of the PRP (PRPL), a new ROE measure was introduced as an internal hurdle, in addition to UEPS, to focus management attention on the effective use of capital.
- A 12-month trading lock for equity vesting under the PRPL after the performance hurdles are met. This effectively lengthens the PRPL deferral from three to four years. During this time, the underlying equity may be forfeited or clawed back if any material event subsequently comes to the attention of the Board.
- Mandatory minimum equity holding for Executive KMP.

For general employees, a second grant of securities under the Exempt Employee Security Plan was made to continue to lift the level of equity ownership among employees and thus encourage closer alignment with securityholders. Eligible employees were granted stapled securities in Federation Centres up to the value of $1,000 for no financial consideration, subject to a minimum three-year holding period from the date the stapled securities were allocated or until cessation of their employment, whichever is earlier.

c. Attracting and retaining talent

Throughout FY2014, we further strengthened our capabilities by attracting and retaining high-performing and motivated executives to lead and manage Federation Centres. A number of senior appointments were made, including the appointment to the Executive Committee of Peter Coroneo as Executive General Manager Leasing and Carolyn Reynolds as General Counsel.

Following an external remuneration benchmarking review, the CEO will receive a $100,000 remuneration increase for FY2015. Four other Executive KMP will also receive a market related adjustment.

We also looked to build our talent pipeline at all levels through the roll-out of a talent framework focused on talent identification, development and succession and the introduction of a graduate program that seeks to recruit and develop talented graduates who want to build their career with us.

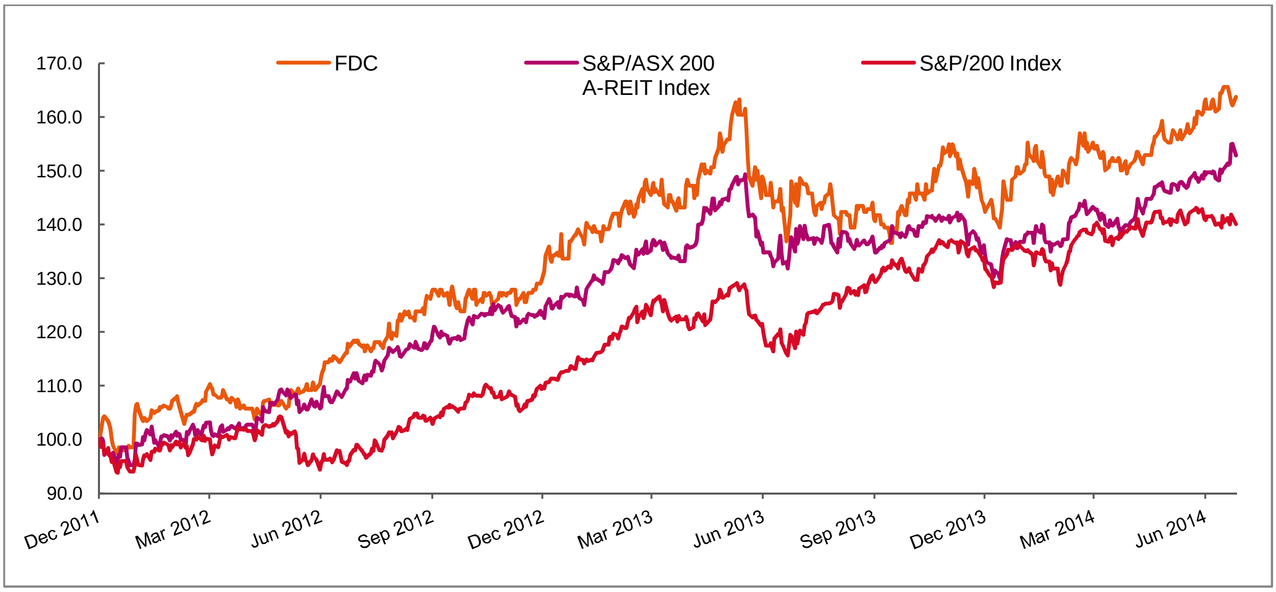
Link to FY2014 financial performance

As a recently stapled group, Federation Centres is only able to provide historical performance metrics for the previous three years, as follows:

Performance metric	FY2012[(1)]	FY2013	FY2014
Security price as at 30 June ($)	1.98	2.37	2.49
Distributions declared per security (cents)	6.5	14.1	15.3
Total securityholder return for the year ended 30 June	17.6%	26.8%	11.5%
S&P/ASX 200 A-REIT Index	10.8%	24.2%	11.1%

(1) 2012 figures are for the period 1 December 2011 to 30 June 2012 post Aggregation.

Figure 1: Relative Federation Centres security price to 30 June 2014



The graph and table confirm strong trading performance over the last 12-month period and the period from Aggregation to 30 June 2014. In summary:

- Federation Centres' security price closed at $2.37 on 28 June 2013 and increased to $2.49 on 30 June 2014.
- Federation Centres delivered an 11.5% total return for the year ended 30 June 2014.
- In FY2014, Federation Centres outperformed the S&P/ASX 200 A-REIT Index by 0.46% and underperformed the S&P/ASX 200 Index by 5.91%.
- In the period from Aggregation to 30 June 2014, Federation Centres outperformed the S&P/ASX 200 A-REIT Index and the S&P/ASX 200 Index by 10.9% and 23.7% respectively.

SECTION 2 – KEY MANAGEMENT PERSONNEL

This Remuneration Report is consistent with Australian Accounting Standards. Key management personnel (KMP) are defined as those persons with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Within Federation Centres, KMP for the 12 months ending 30 June 2014 therefore comprised:

- Members of the Executive Committee (Executive KMP).
- Non-executive Directors.

Executive KMP	
Current	
Steven Sewell	Chief Executive Officer and Managing Director
Peter Coroneo(1)	Executive General Manager Leasing
Colleen Harris	Executive General Manager People and Culture
Tom Honan	Chief Financial Officer
Kerrie Lavey	Executive General Manager Corporate Communications
Carolyn Reynolds(2)	General Counsel
Jonathan Timms	Executive General Manager Development and Asset Strategy
Mark Wilson	Executive General Manager Property Operations
Former	
Dimitri Kiriacoulacos(3)	General Counsel and Executive General Manager Corporate Development

(1) Peter Coroneo commenced employment with Federation Centres on 15 July 2013 and was appointed to the Executive Committee on 19 November 2013.

(2) Carolyn Reynolds commenced employment with Federation Centres and was appointed to the Executive Committee on 28 May 2014.

(3) Dimitri Kiriacoulacos ceased as an Executive KMP on 28 May 2014 and employment with Federation Centres on 4 July 2014.

Non-executive Directors	
Current	
Bob Edgar	Chairman Chairman, Nomination Committee
Clive Appleton	Director Member, Remuneration and HR Committee Member, Audit and Risk Committee Member, Nomination Committee
Tim Hammon	Director Member, Remuneration and HR Committee Member, Nomination Committee
Charles Macek	Director Chairman, Remuneration and HR Committee Member, Nomination Committee
Fraser MacKenzie	Director Chairman, Audit and Risk Committee Member, Nomination Committee

Debra Stirling	Director Member, Remuneration and HR Committee Member, Audit and Risk Committee Member, Nomination Committee
Wai Tang[1]	Director Member, Audit and Risk Committee Member, Nomination Committee
Former	
Peter Day[2]	Director Member, Audit and Risk Committee Member, Nomination Committee

(1) Wai Tang commenced as a Director on 30 May 2014 and as a member of the Audit and Risk Committee on 13 June 2014.

(2) Peter Day retired as a Director and as a member of the Audit and Risk Committee and Nomination Committee on 28 February 2014.

SECTION 3 – GOVERNANCE

Board oversight and independence

The Board of Directors has responsibility to ensure good governance is in place in relation to executive remuneration. To ensure that the Board acts independently of management and is fully informed when making remuneration decisions, the Board has established the following protocols:

1. The Board has established a Remuneration and HR Committee (the Committee) comprised only of independent Non-executive Directors. The Committee is responsible for reviewing and making recommendations on remuneration policies for Federation Centres, including policies governing the remuneration of Executive KMP and other senior executives. Further information regarding the respective roles and responsibilities of the Board and the Committee is contained in their respective Charters, available at www.federationcentres.com.au.
2. When considering the recommendations of the Committee, the Board applies a policy prohibiting the CEO and other executives from being present and participating in discussions impacting their own remuneration.
3. The Committee can seek advice from both management and external advisors in developing its remuneration recommendations for the Board.

External advisors and remuneration consultants

The Committee directly engages external advisors to provide input to the process of reviewing Executive KMP and Non-executive Director remuneration. During FY2014, KPMG was engaged by the Committee to provide a number of services, including:

- providing benchmarking data for CEO, Executive Committee and Non-executive director remuneration;
- providing information on market practice and trends in remuneration within the A-REIT sector, and broader ASX;
- providing advice on the tax implications of the PRP; and
- undertaking actuarial valuations of the equity provided to Executive KMP under the PRP for the purposes of AASB2.

The engagement of KPMG was undertaken by the Committee, independent of management, and based on an agreed set of protocols governing the manner in which the engagement would be developed by KPMG and provided to the Committee. These protocols ensure that the following steps are taken:

KPMG takes instructions from the Committee and is accountable to the Committee for all work;

- During the course of any assignments, KPMG may seek input from management; however, deliverables are provided directly to the Committee; and
- Professional fee arrangements are agreed directly with the Committee Chairman.

The work undertaken by KPMG in the FY2014 did not constitute a remuneration recommendation for the purposes of the Corporations Act.

SECTION 4 – EXECUTIVE KMP REMUNERATION FRAMEWORK

Remuneration mix

The total remuneration for Executive KMP comprises fixed and at-risk components.

The relative weightings of the fixed and at risk components of total target remuneration are detailed in Table 1. A higher proportion of the CEO's total remuneration is at risk as he has the greatest scope to influence Federation Centres' long-term performance.

Table 1: Relative weightings of total target remuneration(1)

	Fixed	At risk	
	Total fixed remuneration	PRPS(2)	PRPL
Current Executive KMP			
Steven Sewell	28%	36%	36%
Peter Coroneo	50%	25%	25%
Colleen Harris	44%	28%	28%
Tom Honan	40%	30%	30%
Kerrie Lavey	44%	28%	28%
Carolyn Reynolds	50%	25%	25%
Jonathan Timms	40%	30%	30%
Mark Wilson	44%	28%	28%
Former Executive KMP			
Dimitri Kiriacoulacos	44%	28%	28%

(1) The percentages reflect the total remuneration opportunity for each component at target. The actual value derived by the Executive KMP for each of the components may differ from the figures shown in the table above as those values are dependent on actual performance against target for the at-risk components.

(2) 50% of PRPS provided to eligible Executive KMP is paid in cash and 50% is deferred into Federation Centres securities for 18 months (24 months for Steven Sewell). In the case of Dimitri Kiriacoulacos, 100% of PRPS for FY2014 was paid in cash.

Total fixed remuneration

Total fixed remuneration (TFR) comprises base salary, superannuation contributions and any salary sacrifice amounts (for example, motor vehicle leases).

As a general principle, Federation Centres aims to provide a competitive level of fixed pay that recognises the size, scope and complexity of the role; the relevant job market; and the experience, capability and performance of the incumbent. For each Executive KMP, TFR is positioned at or around the median of the comparator group, with a range of between 80% and 120% of the agreed midpoint to account for the specific capabilities and experience of the individual in the role. Remuneration is benchmarked against two comparator groups:

1. Primary comparator group comprising S&P/ASX 200 listed Australian real estate investment trusts (A-REITs) on the basis that these companies operate in the same industry as Federation Centres and will generally compete for the same executive talent. Westfield Group has been specifically excluded due to its significant difference in size and global remuneration framework compared to Federation Centres.
2. Secondary comparator group selected primarily on the market capitalisation of Federation Centres and comprising 10 companies above and below the market capitalisation of Federation Centres. Although this comparator group includes companies from a variety of industries, it provides a broad overview and validation having regard to company size.

At-risk remuneration

The at-risk remuneration is managed by the Performance Reward Payment (PRP) framework. The framework is described in detail in Tables 2 and 3 below.

Table 2: Key features – Performance Reward Payment – Short Term (PRPS)

PRPS	
Definition and objective	The PRPS provides eligible participants with the opportunity to receive an annual, performance-based incentive payment, when a combination of Group financial and individual performance objectives are achieved.
Participation	All permanent employees, including Executive KMP.
PRPS opportunity	• For the CEO, the PRPS opportunity at a target level of performance is 125% of TFR. • For other Executive KMP, the PRPS opportunity at a target level of performance is between 50% and 75% of TFR. Each Executive KMP has a theoretical maximum of three times target for exceptional individual and Federation Centres' performance. It is important to note that, given the fact that there is a limited pool for above target performance, it is not possible for each executive to achieve the maximum target in the same year.
Performance period	The applicable PRPS performance period is the full financial year. Performance objectives for FY2014 were finalised by the Board in the case of the CEO and by the CEO and Board in the case of other Executive KMP. Where an Executive KMP commenced or ceased employment during the year, their PRPS was evaluated and paid on a pro-rata basis.
Payment method	The PRPS will be provided as a cash payment following the Board's review of Federation Centres' financial results at the end of the performance period. For Executive KMP and senior executives, there will be a component deferred into equity for a period of 12 to 24 months (18 months for Executive KMP and 24 months for CEO), which has been introduced following the review of the reward framework.
Grant date	Payments are expected to be made in early September 2014 after finalisation of the FY2014 audited financial statements.
Link with performance (through a combination of Group and individual objectives)	The PRPS is designed to incentivise and reward high performance by placing a meaningful proportion of the participant's potential remuneration at risk and to align executive interests with Federation Centres' financial performance and strategic goals and objectives (as set out in Table 2.1).

Table 2: Key features – Performance Reward Payment – Short Term (PRPS) (continued)

PRPS (continued)

Performance measures and results

Table 2.1 provides a more detailed overview of the performance objectives and measures and the subsequent results for Executive KMP for FY2014.

Table 2.1: Performance objectives, measures and results for Executive KMP

Objective	Performance measure	Reason the performance measure was adopted	Result
Group financial	Achieve target underlying earnings per security (UEPS) as reflected in the Board-approved budget	Underlying EPS is a key driver of Federation Centres' capacity to pay distributions, which is typically a primary objective for investors in the S&P/ASX 200 A-REIT Index	Refer to Table 2.3 for comparison of actual result against target
	Achieve target return on equity (ROE) as reflected in the Board-approved budget	The ROE measure was introduced to focus management attention on the effective use of capital to provide a more overt connection to long-term strategy and focus on development	The ROE met the target objective
	Achieve target management expense ratio (MER)	The MER measure was introduced to focus management attention on expense management, both internally and externally	MER managed to a target benchmarked to peers. With progress measured by the Board
	Management of strategic alliance and successful completion of transactions and joint ventures as approved by the Board	Balance Sheet strength is a critical foundation for future success	Working capital raised from strategic alliances used to purchase syndicate assets and acquire new assets (e.g. Carlingford Court)
	Achieve capital/debt optimisation	Diversified funding sources	Issued medium-term notes rated A- by Standard & Poor's

Table 2: Key features – Performance Reward Payment – Short Term (PRPS) (continued)

PRPS (continued)

Performance measure and results (continued)

Table 2.1: Performance objectives, measures and results for Executive KMP (continued)

Objective	Performance measure	Reason the performance measure was adopted	Result
Individual objectives, including strategic and people leadership	While the individual objectives varied depending upon the specific role of the executive, they collectively targeted achievement of the following key initiatives:		
	Continue to develop strong relationships with tenant retailers and deliver leasing productivity enhancement and optimisation of retail mix	Ensures quality and security of base income	Objective met – portfolio occupancy maintained at 99.5%
	Execute asset strategy and manage development pipeline	Shopping centre development and portfolio management is a key driver of future growth	Objective met – five projects delivered on budget and $288m of projects approved and/or commenced, two large projects performing on or ahead of forecast
	Lead and develop collective capabilities of functional teams	Effective teams underpin successful delivery of strategic objectives	Objective met – Specialist leasing and development capability strengthened with review of business structures
	Implement engagement survey benchmark	Set benchmark for future assessment	Engagement survey completed with a high workforce engagement outcome
	Continue to build constructive relationships with existing and potential investors to ensure they are well informed and supportive of business plans	Informed investors will help ensure that Federation Centres is perceived positively by external stakeholders	Objective met – Federation Centres outperformed S&P/ASX 200 A-REIT Index by 10.9%

Table 2: Key features – Performance Reward Payment – Short Term (PRPS) (continued)

PRPS (continued)	
Balance between financial and non-financial targets	**Table 2.2 provides details of the balance between financial and non-financial targets for Executive KMP for FY2014.**

Table 2.2: Balance between financial and non-financial targets

	% financial targets	**% non-financial targets**
CEO	45%	55%
All other current Executive KMP	25% to 45%	55% to 75%

Assessment of performance	The Committee, with input from the Board Chairman, assesses the CEO's performance against his objectives and makes a recommendation to the Board for final determination. The CEO assesses the performance of all other Executive KMP relative to their individual objectives and makes recommendations to the Committee for consideration. In turn, the Committee makes recommendations to the Board for final determination.
Cessation of employment	Generally, an entitlement to PRPS is forfeited upon the cessation of employment (for example, due to resignation). However, if cessation of employment is due to illness, disability or death or is a Federation Centres initiated termination other than for cause (for example, genuine redundancy), the Executive KMP may receive a pro-rata PRPS for the portion of the performance period they were employed by Federation Centres. Any cash portion of the PRPS will be paid at the same time as all others.

Table 2: Key features – Performance Reward Payment – Short Term (PRPS) (continued)

PRPS (continued)

Outcomes – financial

The calculation of financial performance for FY2014 was undertaken in July 2014 by comparing actual performance against the agreed performance objectives.

Table 2.3 provides further detail on the underlying EPS targets that applied, the performance level required to achieve a 'maximum' level of payment for PRPS purposes, and the actual underlying EPS result achieved.

Table 2.3: UEPS targets

Element	Target objective (cents per security)	Maximum objective (cents per security)	Actual result[1] (cents per security)
Underlying EPS	16.70	18.76	17.01

(1) Based on underlying earnings included in the Segment Income Statement as per Note 4 of the Financial Report.

Awards for Executive KMP

PRPS opportunities and outcomes for FY2014 for Executive KMP are set out in Table 2.4.

Table 2.4: PRPS opportunities and outcomes for FY2014

	Target PRPS as % of TFR	Maximum PRPS opportunity as % of TFR	Actual PRPS awarded ($)	% of maximum PRPS opportunity awarded[1]
Current Executive KMP				
Steven Sewell	125%	375%	2,767,188	64%
Peter Coroneo[2][3]	43%	129%	231,698	71%
Colleen Harris	65%	195%	546,975	62%
Tom Honan	75%	225%	1,082,813	64%
Kerrie Lavey	65%	195%	212,713	26%
Carolyn Reynolds[4]	50%	150%	Not applicable	
Jonathan Timms	75%	225%	536,250	37%
Mark Wilson	65%	195%	475,475	35%
Former Executive KMP				
Dimitri Kiriacoulacos[2]	65%	195%	367,451	37%

Note: the maximum PRPS opportunity as % of TFR is the theoretical maximum the Executive KMP can receive. It is important to note that, given the fact that there is a limited pool for above target performance and individual performance is taken into account, it is not possible that each executive achieves the maximum target in the same year.

(1) The proportion of maximum PRPS opportunity that was not awarded for FY2014 has lapsed.

(2) The PRPS amounts for Peter Coroneo and Dimitri Kiriacoulacos relate to the period they were Executive KMP during FY2014.

(3) As per Peter Coroneo's Executive Services Agreement his FY2014 PRPS was pro-rated to reflect his role as General Manager Leasing.

(4) Carolyn Reynolds was not eligible for an FY2014 PRPS award given she commenced after 1 April 2014.

Table 3: Key features – Performance Reward Payment – Long Term (PRPL)

PRPL (formerly LTI)	
Objective	To ensure that securityholder and Executive KMP interests are aligned and to retain and incentivise executives over the longer term.
Definition/equity instrument	Offers consist of a grant of performance rights under the Federation PRPL. Each performance right provides the participant with the right to receive one Federation Centres' stapled security at a future time for nil consideration, subject to the achievement of agreed performance hurdles as set out below.
Participation	Executive KMP.
PRPL opportunity	Table 3.1 indicates the value of the grants, expressed as a percentage of TFR, made under the FY2014 and FY2013 offers to Executive KMP. For these purposes, the value of each right is calculated based on the face value of the underlying security (based on the 10 day volume weighted average price immediately preceding the grant date).

Table 3.1: Grant value of offers as a percentage of TFR

	PRPL or LTI grant value as a percentage of TFR at date of PRPL or LTI offer	
	FY2014	**FY2013**
Executive KMP		
Steven Sewell	125%	120%
Peter Coroneo(1)	50%	Not applicable
Colleen Harris	65%	50%
Tom Honan(1)	75%	Not applicable
Kerrie Lavey	65%	50%
Carolyn Reynolds(2)	Not applicable	Not applicable
Jonathan Timms	75%	80%
Mark Wilson	65%	80%
Former Executive KMP		
Dimitri Kiriacoulacos	65%	65%

(1) Peter Coroneo and Tom Honan did not participate in the FY2013 LTI grant as their employment with Federation Centres commenced after the FY2013 offer.

(2) Carolyn Reynolds did not participate in the previous PRPL or LTI grants as her employment with Federation Centres commenced after the grant dates. She will be eligible to participate in the FY2015 PRPL grant, and the PRPL grant value as a percentage of TFR at date of the PRPL offer will be 50% of TFR.

Table 3: Key features – Performance Reward Payment – Long Term (PRPL)

PRPL (continued)

	Current (PRPL)	Previous (LTI)
Performance periods	Performance period of three years from 1 July 2013 to 30 June 2016. Holding lock of 12 months after performance period. Restriction period is four years in total. Testing occurs within 14 days of Group results for FY2013 and subsequent grants.	The performance period typically covers a period of three years. However, as Federation Centres' securities commenced trading on the ASX from 5 December 2011, the performance period for the FY2012 grant is less than three years. The performance periods are as follows: • FY2012 grant: 5 December 2011 to 30 June 2014 • FY2013 grant: 1 July 2012 to 30 June 2015. Testing occurs within 30 days of Group results for the FY2012 grant and within 14 days of Group results for the FY2013 grant.
Allocation method	Face value	Fair/accounting value
Performance hurdles	Allocations of performance rights will be tested against two performance hurdles: • 40% will be subject to the achievement of a relative total securityholder return (TSR) performance hurdle; and • 60% will be tied to the achievement of underlying EPS and Group ROE growth targets. Each hurdle will be measured independently at the end of the performance period.	Allocations of performance rights will be tested against two performance hurdles: • 50% will be tied to the achievement of a relative total securityholder return (TSR) performance hurdle; and • 50% will be tied to the achievement of an underlying EPS performance hurdle. Each hurdle will be measured independently at the end of the performance period.
Rationale for performance hurdles	The Board adopted relative TSR as an externally focused performance measure on the basis that it is transparent and aligns remuneration with Federation Centres' long-term performance relative to its nominated peer group. Underlying EPS and ROE were adopted as the internally focused measures. Underlying EPS is a key driver of Federation Centres' capacity to pay distributions, which is typically a primary objective for investors in the S&P/ASX 200 A-REIT Index. The new ROE measure was introduced to ensure alignment with Federation Centres' long-term strategy regarding capital management and redevelopment.	The Board adopted relative TSR as an externally focused performance measure on the basis that it is transparent and aligns remuneration with Federation Centres' long-term performance relative to its nominated peer group. Underlying EPS was adopted as the internally focused measure as it is a key driver of Federation Centres' capacity to pay distributions, which is typically a primary objective for investors in the S&P/ASX 200 A-REIT Index.

Table 3: Key features – Performance Reward Payment – Long Term (PRPL)

<table>
<tr><th colspan="3">PRPL (continued)</th></tr>
<tr><th></th><th>Current (PRPL)</th><th>Previous (LTI)</th></tr>
<tr>
<td>Externally focused performance measure</td>
<td>
The relative TSR performance hurdle applies to 40% of the FY2014 grant. Broadly, TSR measures the return to a securityholder over the relevant performance period in terms of changes in market value of the securities plus the value of any dividends and distributions paid on the securities.
For the FY2014 grant, the Board decided that an appropriate comparator group for the relative TSR performance hurdle was the S&P/ASX 200 A-REIT Index, excluding Westfield Group.
Where appropriate, the Board has discretion to adjust the comparator group to take into account events, including but not limited to takeovers, mergers or de-mergers, that might occur with respect to the entities in the comparator group.
Federation Centres' TSR performance will be calculated at the end of the performance period and measured against the TSR performance of members of the comparator group to assess Federation Centres' relative TSR performance. The percentage of TSR performance rights that vest, if any, will be determined by reference to the percentile ranking achieved by Federation Centres over the performance period compared to the comparator group:
<table>
<tr><th>Relative TSR percentile ranking</th><th>Percentage of relative TSR performance rights that may vest</th></tr>
<tr><td>At 51st percentile or below</td><td>0%</td></tr>
<tr><td>Between 51st and 75th percentile</td><td>Progressive pro-rata vesting from 51% on a straight-line basis</td></tr>
<tr><td>75th percentile or above</td><td>100% (i.e. maximum amount under the Plan)</td></tr>
</table>
</td>
<td>
The relative TSR performance hurdle applies to 50% of the LTI grant. Broadly, TSR measures the return to a securityholder over the relevant performance period in terms of changes in market value of the securities plus the value of any dividends and distributions paid on the securities.
For the FY2012 and FY2013 LTI grants, the Board decided that an appropriate comparator group for the relative TSR performance hurdle was the S&P/ASX 200 A-REIT Index.
Where appropriate, the Board has discretion to adjust the comparator group to take into account events, including but not limited to takeovers, mergers or de-mergers, that might occur with respect to the entities in the comparator group.
Federation Centres' TSR performance will be calculated at the end of the performance period and measured against the TSR performance of members of the comparator group to assess Federation Centres' relative TSR performance. The percentage of TSR performance rights that vest, if any, will be determined by reference to the percentile ranking achieved by Federation Centres over the performance period compared to the comparator group:
<table>
<tr><th>Relative TSR percentile ranking</th><th>Percentage of relative TSR performance rights that may vest</th></tr>
<tr><td>Less than the 50th percentile</td><td>0%</td></tr>
<tr><td>At the 50th percentile</td><td>50%</td></tr>
<tr><td>Between 50th and 75th percentile</td><td>Progressive pro-rata vesting from 50% on a straight-line basis</td></tr>
<tr><td>75th percentile or above</td><td>100% (i.e. maximum amount under the Plan)</td></tr>
</table>
</td>
</tr>
</table>

Table 3: Key features – Performance Reward Payment – Long Term (PRPL)

PRPL (continued)

	Current (PRPL)	Previous (LTI)
Internally focused performance measure	The remaining 60% of the performance rights is subject to achievement of cumulative underlying EPS and Group ROE growth targets. For these performance rights to commence vesting, cumulative underlying EPS and Group ROE growth must each be at least 95% of the target in Federation Centres' business plans over the three-year performance period. The following outlines the vesting parameters in more detail. If both the underlying EPS and ROE growth targets are met, then the level of achievement compared to the business plan will determine vesting, as follows: • 25% of performance rights will vest if growth in both underlying EPS and ROE is 95% of the business plan. • The actual number vested will depend on a matrix of underlying EPS and ROE achievement against the business plan. For example, an ROE growth outcome of 105% of the business plan and an underlying EPS growth outcome of 100% of the business plan will result in 62.5% of the internal hurdle performance rights vesting. • 100% of the performance rights will vest if growth in both underlying EPS and ROE is equal to or greater than 105% of the business plan.	The remaining 50% of the performance rights is subject to an underlying EPS performance hurdle. Broadly, underlying EPS measures the percentage earnings generated by Federation Centres attributable to each security on issue. Performance rights subject to the underlying EPS hurdle will vest in accordance with the following scale: (see table below) The underlying EPS vesting scale for the FY2012 LTI grant was developed against a backdrop of significant uncertainty and reflected the transitional environment and challenges faced in forecasting an underlying EPS target for FY2014 at the point at which the new entity was only just established. In determining the underlying EPS vesting scale for the FY2013 grant, the Board considered the major contributors to underlying EPS (namely property net operating income, overheads and interest expense) and the variability or controllability of these components. The FY2013 underlying EPS vesting scale has been adopted giving due regard to the variability of the key components driving underlying EPS and the level of stretch required to exceed target underlying EPS. Federation Centres will disclose the actual underlying EPS targets applicable to the LTI grants at the end of the relevant performance period.

Percentage of underlying EPS target achieved	Percentage of underlying EPS performance rights to vest
FY2013 grant	
less than 100%	0%
100%	50%
101%	75%
102% and above	100%
FY2012 grant	
98%	50%
99%	70%
100%	80%
101%	90%
102% and above	100%

Table 3: Key features – Performance Reward Payment – Long Term (PRPL)

PRPL (continued)	
Rights attaching to performance rights	Until the performance rights vest, an Executive KMP has no entitlement to receive dividends or distributions, no legal or beneficial interest in the underlying stapled securities, and no voting rights. There is no retesting of the performance rights. Any performance rights that do not vest at the end of the performance period will lapse.
Forfeiture of performance rights	There are a number of circumstances in which Executive KMP's performance rights will not vest (i.e. other than failure to meet the performance hurdle thresholds). These include where an Executive KMP: 1. Resigns, or is terminated for poor performance; 2. Deals (or purports to deal) with their performance rights in contravention of the Plan Rules or Offer Letter; or 3. Acts fraudulently or in a manner that brings the Group into disrepute, or is convicted of an offence or has a judgement entered in connection with the affairs of the Group. In the event of cessation of employment for such reasons as redundancy, death, total and permanent disablement or retirement, a pro-rata amount of unvested performance rights will normally lapse based on the remaining performance period. The portion relating to the Executive KMP's completed service may still vest at the end of the performance period subject to meeting the performance measures under the Plan. These performance rights will continue to be subject to the holding lock (where applicable). The Board retains discretion to determine the treatment of an Executive KMP's performance rights upon cessation of employment. The Plan Rules provide for forfeiture where a material misstatement has occurred due to a participant's fraud, dishonesty or other breach of their obligations to the Group. The Plan Rules also give the Board discretion to re-evaluate the treatment of a participant's PRPL securities where the participant's performance rights have vested as a result of someone else's fraud, dishonesty or non-compliance.
Change of control	In the event of a change of control, the Board has discretion to determine the treatment of unvested performance rights in accordance with the Plan Rules. In making its determination, the Board will consider a number of factors it considers relevant, which may include performance against the performance conditions up to the date of the change of control event (the event), the portion of the performance period elapsed at the date of the event and the nature of the event.
Linking PRPL outcomes with Group performance	No PRPL performance rights vested in FY2014. The FY2012 LTI grant will be tested at the completion of FY2014 and, based on current analysis, greater than 90% is expected to vest. As required by the Corporations Act, the performance metrics as per page 20 sets out Federation Centres' performance during FY2012, FY2013 and FY2014 in Australian dollars (five-year historical performance information not being available).

Table 3: Key features – Performance Reward Payment – Long Term (PRPL)

PRPL (continued)

Table 3.2: FY2014 PRPL (formerly LTI) grants

	Performance condition[1]	Number of performance rights granted[2]	Grant date	Fair value of rights on grant date [3] [4] ($)
Current Executive KMP				
Steven Sewell	Relative TSR	233,920	15-Nov-2013	236,259
	UEPS/ROE	350,881		656,148
	Total	**584,801**		**892,407**
Peter Coroneo	Relative TSR	34,986	9-Dec-2013	34,286
	UEPS/ROE	52,479		93,939
	Total	**87,465**		**128,225**
Colleen Harris	Relative TSR	47,598	15-Nov-2013	48,074
	UEPS/ROE	71,396		133,511
	Total	**118,994**		**181,585**
Tom Honan	Relative TSR	91,534	15-Nov-2013	92,449
	UEPS/ROE	137,301		256,753
	Total	**228,835**		**349,202**
Kerrie Lavey	Relative TSR	44,953	15-Nov-2013	45,404
	UEPS/ROE	67,430		126,094
	Total	**112,383**		**171,498**
Jonathan Timms	Relative TSR	79,329	15-Nov-2013	80,123
	UEPS/ROE	118,994		222,519
	Total	**198,323**		**302,642**
Mark Wilson	Relative TSR	74,041	15-Nov-2013	74,781
	UEPS/ROE	111,061		207,684
	Total	**185,102**		**282,465**

Table 3: Key features – Performance Reward Payment – Long Term (PRPL)

PRPL (continued)

Table 3.2: FY2014 PRPL (formerly LTI) grants (continued)

	Performance condition(1)	Number of performance rights granted(2)	Grant date	Fair value of rights on grant date (3) (4) ($)
Former Executive KMP				
Dimitri Kiriacoulacos	Relative TSR	59,762	15-Nov-2013	60,360
	UEPS/ROE	89,642		167,630
	Total	**149,404**		**227,990**

(1) The test period for the performance conditions of the FY2014 grant is from 1 July 2013 to 30 June 2016.

(2) The grants made to Executive KMP represented their full PRPL entitlement for the relevant financial year. The number of performance rights granted was calculated using the 'face value' methodology. The security price used in the calculation is the volume weighted average price of Federation Centres' securities 10 trading days immediately preceding the grant date. In the case of Peter Coroneo, the grant date was 9 December 2013; however, the volume weighted average price used for the other Executive KMP was applied.

(3) Calculated based on a fair value per performance right of:

Grant date	UEPS/ROE hurdle $	TSR hurdle $
15 November 2013	1.87	1.01
9 December 2013	1.79	0.98

The fair value per performance right was calculated by independent consultants (KPMG) as at each of the grant dates identified above. The valuation of the TSR performance rights incorporates the probability of achieving market conditions whereas the valuation of UEPS performance rights does not. This results in a lower fair value for TSR performance rights than for UEPS performance rights. Further details on assumptions used to determine the fair value of the performance rights are included in Note 17 to the Financial Reports. Under accounting standards, this fair value (adjusted to take into account the probability of meeting the non-market vesting conditions) is recognised as an expense to Federation Centres over the vesting period (which includes the period of the holding lock).

(4) The value of the grant has been estimated based on the fair value per instrument as at the date of grant. The minimum total value of the grant to the Executive KMP is nil should none of the applicable performance conditions be met.

Total performance rights held by KMP including the FY2014 Grant detailed above are as follows:

	Opening	Granted during the year	Forfeited	Vested	Closing
Current Executive KMP					
Steven Sewell	1,649,456	584,801	-	-	2,234,257
Peter Coroneo	-	87,465	-	-	87,465
Colleen Harris	168,540	118,994	-	-	287,534
Tom Honan	38,144	228,835	-	(19,072)	247,907
Kerrie Lavey	144,195	112,383	-	-	256,578
Jonathan Timms	389,514	198,323	-	-	587,837
Mark Wilson	871,089	185,102	-	-	1,056,191
Total	**3,260,938**	**1,515,903**	**-**	**(19,072)**	**4,757,769**

Table 3: Key features – Performance Reward Payment – Long Term (PRPL)

PRPL (continued)

Total performance rights held by KMP including the FY2014 Grant (continued)

	Opening	Granted during the year	Forfeited	Vested	Closing
Former Executive KMP					
Dimitri Kiriacoulacos[1]	502,917	149,404	(189,796)	-	462,525

(1) As Mr Kiriacoulacos left Federation Centres on 4 July 2014, he forfeited a portion of his FY2014 and FY2013 performance rights.

Employment agreements

Remuneration and other terms of employment for Executive KMP are formalised in Executive Services Agreements (ESAs). The terms and conditions of employment of the Executive KMP reflect market conditions at the time of their contract.

Key features of the Executive KMP ESAs include the following:

- Eligibility to participate in short-term and long-term incentive plans;
- Ongoing employment until terminated by either the Executive KMP or Federation Centres;
- Federation Centres may make payments in lieu of all or part of the applicable notice period; and
- Treatment of incentives on termination will vary depending on the reason for termination; however, in most 'good leaver' scenarios short-term and long-term incentives will continue on foot (subject to satisfaction of the applicable performance conditions) and will lapse or be forfeited in 'bad leaver' scenarios.

Notice period provisions are detailed below.

	Termination by Federation Centres		Termination by Executive KMP	Fundamental change[1]
	For cause	Other		
Steven Sewell Kerrie Lavey Jonathan Timms Mark Wilson	Immediately	12 months	6 months	Executive may terminate immediately. Entitled to 12 months' TFR
Colleen Harris	Immediately	6 months	3 months	Executive may terminate immediately. Entitled to 12 months' TFR
Peter Coroneo Tom Honan Carolyn Reynolds	Immediately	6 months	6 months	No fundamental change clause.

(1) Fundamental change includes circumstances where the Executive KMP member ceases to report to the CEO or to a position of equal or greater authority or, in the case of the CEO, a material adverse change in who he reports to; or a substantial diminution in responsibility or authority excluding diminution arising through termination or notice of termination; or with the Executive KMP member's consent or as a result of a restructure or reorganisation where the Executive KMP member continues to report to the most senior executive of Federation Centres or the Group.

Table 4: CEO's performance objectives, measures and subsequent results

Objective and weighting	Measure	Reason chosen	Result as assessed by the Board
Financial (45%)	Achieve target underlying EPS, ROE and operating metrics (including distributions per security and underlying earnings). Complete debt restructure and explore ownership options for core assets and extension of joint venture structures.	Indicator of company's profitability and efficient management of capital. Maximise securityholder value and confidence.	Consistent with other Executive KMP, the Board has determined this component will be awarded above target.
	Achieve target management expense ratio (MER).	The MER measure was introduced to focus management attention on expense management, both internally and externally.	MER managed to a target benchmarked to peers. With progress measured by the Board.
Leadership and operational excellence (25%)	Lead, manage and grow an effective and engaged leadership team to ensure Federation Centres delivers on targets. Create sustainable value and competitive advantage through organisational effectiveness (structure, culture, brand, and systems). Embed engagement and alignment benchmarks across Federation Centres. Deliver pilot and user acceptance of information technology platform by June 2014.	A highly effective leadership team and optimal organisational structure are critical to ensuring Federation Centres is well positioned to deliver on its critical initiatives. Set benchmarks in engagement and alignment for future performance measurement. Streamline processes and increase operating efficiency.	Achieved – expected level of performance achieved. Managed implementation of information technology platform and assessment of organisational structure and team capability, brand, values and systems to the satisfaction of the Board.
Strategic (30%)	Complete asset strategy for each individual asset and assess feasible developments. Drive quality and security of income base through leasing and retail mix optimisation and productivity. Simplify and protect equity investment for future growth and enhanced ROE. Deliver a vision, strategy, structure and business plan that delivers an improvement in portfolio and operational performance.	Achieving these will ensure that Federation Centres is positively regarded as an investment and employer of choice, with a clear vision, strategy, structure and business plan.	Exceeded – high level of performance achieved. Strategic initiatives in place and key milestones completed to the satisfaction of the Board.

Total Remuneration

Table 5: Total Executive KMP remuneration for FY2014 and FY2013

Executive KMP	Period	Short-term benefits				Other long-term benefits		Share-based payments		Post-employment		Total
		Base salary ($)	PRPS[1] cash ($)	Non-monetary[2] ($)	Other[3] ($)	Leave entitlements[4] ($)	Special Bonus Plan[5] ($)	Performance rights[6] ($)	PRPS Deferred[7] ($)	Superannuation contributions ($)	Termination benefits ($)	($)
Current Executive KMP												
Steven Sewell	FY2014	1,142,392	1,383,594	13,048	58,333	-	-	950,158	426,608	17,775	-	3,991,908
	FY2013	880,019	1,282,500	2,364	100,000	-	-	807,704	-	16,470	-	3,089,057
Peter Coroneo[8] [9]	FY2014	236,897	120,470	2,380	-	-	-	12,429	44,574	10,912	-	427,662
	FY2013	-	-	-	-	-	-	-	-	-	-	-
Colleen Harris	FY2014	368,025	273,488	5,499	-	-	-	109,743	101,190	17,775	-	875,720
	FY2013	301,252	285,503	3,542	-	-	-	80,751	-	12,353	-	683,401
Tom Honan[10]	FY2014	766,007	541,407	4,987	-	-	-	114,984	200,320	17,775	-	1,645,480
	FY2013	105,070	-	197	-	-	-	9,658	-	2,745	-	117,670

Refer to page 42 for footnotes

Table 5: Total Executive KMP remuneration for FY2014 and FY2013 (continued)

Executive KMP	Period	Short-term benefits				Other long-term benefits		Share-based payments		Post-employment		Total
		Base Salary ($)	PRPS [1] cash ($)	Non-monetary [2] ($)	Other[3] ($)	Leave entitlements[4] ($)	Special Bonus Plan[5] ($)	Performance rights[6] ($)	PRPS deferred[7] ($)	Superannuation contributions ($)	Termination benefits ($)	($)
Kerrie Lavey	FY2014	406,483	106,357	16,381	-	-	-	96,448	39,352	17,775	-	682,796
	FY2013	328,090	238,819	2,423	-	-	-	69,087	-	13,725	-	652,144
Carolyn Reynolds[8]	FY2014	39,001	-	152	-	-	-	-	-	1,481	-	40,634
	FY2013	-	-	-	-	-	-	-	-	-	-	-
Jonathan Timms	FY2014	646,762	268,125	7,696	-	-	-	235,087	99,206	17,775	-	1,274,651
	FY2013	553,466	375,219	21,501	29,609	-	-	186,625	-	13,725	-	1,180,145
Mark Wilson	FY2014	670,287	237,738	10,345	-	11,016	-	480,769	87,963	17,775	-	1,515,893
	FY2013	679,718	463,750	9,387	-	11,212	233,333	435,464	-	16,470	-	1,849,334
Subtotal Current Executive KMP	FY2014	4,275,854	2,931,179	60,488	58,333	11,016	-	1,999,618	999,213	119,043	-	10,454,744
	FY2013	2,847,615	2,645,791	39,414	129,609	11,212	233,333	1,589,289	-	75,488	-	7,571,751

Refer to page 42 for footnotes

Table 5: Total Executive KMP remuneration for FY2014 and FY2013 (continued)

Executive KMP	Period	Short-term benefits				Other long-term benefits		Share-based payments		Post-employment		Total
		Base salary ($)	Cash PRPS[1] ($)	Non-monetary[2] ($)	Other[3] ($)	Leave entitlements[4] ($)	Special Bonus Plan[5] ($)	Performance rights[6] ($)	Deferred PRPS[7] ($)	Superannuation contributions ($)	Termination benefits ($)	($)
Former Executive KMP												
Michael Benett[11]	**FY2014**	-	-	-	-	-	-	-	-	-	-	-
	FY2013	116,658	77,671	668	-	1,725	-	60,546	-	4,118	372,116	633,502
Gerard Condon[11]	**FY2014**	-	-	-	-	-	-	-	-	-	-	-
	FY2013	212,559	134,714	4,665	-	3,516	-	272,169	-	7,482	500,000	1,135,105
Dimitri Kiriacoulacos[11] [12]	**FY2014**	501,658	367,451	7,732	-	-	-	266,183	-	16,150	645,791	1,804,965
	FY2013	527,260	395,500	3,915	-	-	-	250,093	-	16,470	-	1,193,238
Marlon Teperson[11]	**FY2014**	-	-	-	-	-	-	-	-	-	-	-
	FY2013	593,089	458,836	13,158	97,325	-	-	394,428	-	14,389	-	1,571,225
Total	**FY2014**	4,777,512	3,298,630	68,220	58,333	11,016	-	2,265,801	999,213	135,193	645,791	12,259,708
	FY2013	4,297,181	3,712,512	61,820	226,934	16,453	233,333	2,566,525	-	117,947	872,116	12,104,821

Refer to page 42 for footnotes

Footnotes for pages 39 to 41

(1) The cash component is 50% of the FY2014 PRPS, and is scheduled to be paid in early September 2014 (following Board approval of the audited FY2014 financial statements). In the case of Dimitri Kiriacoulacos, the cash component was 100% of his FY2014 PRPS entitlement given he resigned from the company on 4 July 2014.
(2) Non-monetary benefits include motor vehicles and other non-cash fringe benefits (including the value of death and total permanent disability insurance premiums paid by Federation Centres on behalf of the Executive KMP).
(3) Other benefits include relocation allowances or reimbursements.
(4) Leave entitlements reflect long-service leave accrued for the period.
(5) The special bonus plan was a cash-based plan put in place prior to aggregation with all payments now finalised and paid. All grants under this plan have been funded by CNPR Group.
(6) In accordance with the requirements of Australian Accounting Standards, remuneration includes a proportion of the fair value of the equity compensation granted or outstanding during the year (i.e. performance rights awarded under the PRPL plan that remained unvested as at 30 June 2014. The fair value of the equity instruments is determined as at the grant date and is progressively allocated over the vesting period. This amount included as remuneration is not related to or indicative of the benefit (if any) that Executive KMP may ultimately realise should the performance rights vest. The fair value of the performance rights at the date of their grant has been determined in accordance with AASB 2 Share Based Payments, applying a Monte Carlo simulation valuation method.
(7) The amount reflects 50% of the PRPS deferred for 18 months for Executive KMP and 24 months for the CEO, and paid using Federation Centres securities.
(8) There are no FY2013 comparatives as the Executive KMP commenced employment in FY2014.
(9) Peter Coroneo commenced with Federation Centres on 15 July 2013 and was appointed Executive KMP on 19 November 2013. Amounts disclosed relate to the period Mr Coroneo was an Executive KMP.
(10) Included in performance rights is an amount related to special performance rights worth $100,000 issued to Tom Honan on commencement of his employment. The rights will vest conditional on continued service, adherence with internal compliance programmes and satisfactory performance. Subject to these conditions, 50% of the rights vest on the first anniversary of his commencement, and the remaining 50% on the second anniversary. The pro-rated values of these rights have been included as his remuneration for FY2013 and FY2014.
(11) Termination benefits paid were based on the provisions set out in individual Executive Services Agreements. Marlon Teperson did not receive any termination benefits in line with his separation arrangement. Under the Aggregation Implementation Agreement, CNPR Group reimbursed Federation Centres for the benefits paid to Mr Benett and Mr Condon.
(12) Dimitri Kiriacoulacos ceased to be a KMP on 28 May 2014, and left the organisation on 4 July 2014. Termination benefits were paid in July 2014 and the total amount is disclosed in full. All other amounts disclosed relate to the he was an Executive KMP.

SECTION 5 – NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration philosophy

Non-executive Director fee levels are set with regard to time commitment and workload, the risk and responsibility attached to the role and external market benchmarking. To promote independence and impartiality, no element of Non-executive Director remuneration is 'at risk'; i.e. it is not based on the performance of Federation Centres.

The current maximum fee pool of $2.25 million was endorsed by securityholders in November 2011. No increase to the Non-executive Director fee pool will be sought at the 2014 Annual General Meeting.

Board and committee fees

The Remuneration and HR Committee (the Committee) engaged KPMG to undertake a benchmarking analysis of non-executive director fees in the external market. The review included comparisons of Federation Centres' Non-executive Director fees against two comparator groups:

- Primary comparator group comprising S&P/ASX 200 listed Australian real estate investment trusts (A-REITs) and other selected real estate companies on the basis that these companies operate in the same industry as Federation Centres and will generally compete for the same director talent. Westfield Group has been specifically excluded due to its significant difference in size and global remuneration framework compared to Federation Centres.
- Secondary comparator group selected primarily on market capitalisation of Federation Centres and comprising five companies above and below the market capitalisation of Federation Centres. Although this comparator group includes companies from a variety of industries, it provides a broad overview and validation having regard to company size.

Based on the external benchmarking data, Federation Centres' Board and Committee fees (inclusive of Company superannuation contributions) were established as detailed in Table 6 below.

Table 6: FY2014 Board and Committee fees

Board/committee	Role	FY2014 fees[1] ($)
Board	Chairman	450,000
	Non-executive Director	160,000
Audit and Risk Committee	Chairman	40,000
	Member	20,000
Nomination Committee	Chairman	No additional fee
	Member	No additional fee
Remuneration and HR Committee	Chairman	40,000
	Member	20,000

(1) Fees are inclusive of superannuation.

The FY2015 fees for Board and Committee membership will remain at FY2014 levels. The Chairman of the Board receives no further remuneration for committee membership, although he may attend committee meetings.

On occasion, Non-executive Directors may sit on ad hoc committees of the Board. In these instances they may receive additional fees. During FY2014, no payments for membership of ad hoc committees were made.

Non-executive Directors are entitled to be reimbursed for all business-related expenses, including travel on company business, that may be incurred in the discharge of their duties.

Table 7: Non-executive Directors fees for FY2014 and FY2013

Non-executive Director	Period	Short-term benefits Fees ($)	Short-term benefits Committee fees ($)	Post-employment benefit[1] Superannuation contributions ($)	Total fees ($)
Current Non-executive Directors					
Bob Edgar	FY2014	432,225	-	17,775	**450,000**
	FY2013	433,530	-	16,470	**450,000**
Clive Appleton	FY2014	146,453	36,613	16,934	**200,000**
	FY2013	146,789	36,741	16,470	**200,000**
Tim Hammon	FY2014	147,635	18,454	13,911	**180,000**
	FY2013	149,666	18,708	11,626	**180,000**
Charles Macek	FY2014	146,453	36,613	16,934	**200,000**
	FY2013	146,789	32,110	16,101	**195,000**
Fraser MacKenzie	FY2014	146,453	36,613	16,934	**200,000**
	FY2013	148,288	37,072	14,640	**200,000**
Debra Stirling	FY2014	146,453	36,613	16,934	**200,000**
	FY2013	146,789	36,741	16,470	**200,000**
Wai Tang[2]	FY2014	12,768	-	1,181	**13,949**
	FY2013	-	-	-	**-**
Sub Total	**FY2014**	**1,178,440**	**164,906**	**100,603**	**1,443,949**
	FY2013	**1,171,851**	**161,372**	**91,777**	**1,425,000**
Former Non-executive Directors					
Peter Day[3]	FY2014	98,423	12,303	9,274	120,000
	FY2013	149,666	18,708	11,626	180,000
Sub Total	**FY2014**	**98,423**	**12,303**	**9,274**	**120,000**
	FY2013	**149,666**	**18,708**	**11,626**	**180,000**
Total	**FY2014**	**1,276,863**	**177,209**	**109,877**	**1,563,949**
	FY2013	**1,321,517**	**180,080**	**103,403**	**1,605,000**

(1) Non-executive Directors receive no post-employment benefits other than statutory superannuation.
(2) Wai Tang was was appointed on 30 May 2014.
(3) Peter Day retired on 28 February 2014.

Other Board fees

During FY2014, Messrs Day, Hammon and MacKenzie were also remunerated in their capacity as Non-executive Directors of Retail Responsible Entity Limited (RREL), which is a wholly owned subsidiary of Federation Centres (FDC) and acts as the responsible entity for various Retail Direct Property syndicates.

As of 1 January 2013, membership of the Board of Federation Manager Limited changed to be exactly the same as the Federation Centres Board; as a consequence, Messrs Day, Hammon and MacKenzie ceased to be entitled to additional fees for that Board.

Table 8 discloses the fees paid during FY2014 for their work as Non-executive Directors of these entities and the total fees they received, including the fees earned in their capacity as Non-executive Directors of Federation Centres.

Table 8: Non-executive Director fees earned from other Group entities and from FDC for FY2014 and FY2013

		Fees earned from Other Group Entities			Total FDC fees	Total Board fees (CMCS, RREL and FDC)
Non-executive Director	**Period**	**Board fees ($)**	**Non-monetary benefits ($)**	**Superannuation contributions ($)**	**($)**	**($)**
Current Non-executive Directors						
Tim Hammon	FY2014	46,136	-	3,864	180,000	**230,000**
	FY2013	70,156	-	4,844	180,000	**255,000**
Fraser MacKenzie	FY2014	-	-	-	200,000	**200,000**
	FY2013	23,170	-	1,830	200,000	**225,000**
Former Non-executive Directors						
Peter Day	FY2014	30,757	-	2,576	120,000	**153,333**
	FY2013	70,156	-	4,844	180,000	**255,000**

Related party transactions with Directors and Executive KMP

The table below shows the securities held (directly or indirectly) by Directors and Executive KMP.

	Opening securities	Granted as remuneration	Additions during the year	Other movements	Closing
Directors					
Peter Day	53,621	-	20,000	(73,621)	**n/a**
Bob Edgar	50,000	-	-	-	**50,000**
Steven Sewell	-	-	-	-	**-**
Clive Appleton	11,850	-	-	-	**11,850**
Tim Hammon	10,000	-	-	-	**10,000**
Charles Macek	50,000	-	-	-	**50,000**
Fraser MacKenzie	92,887	-	-	-	**92,887**
Debra Stirling	10,000	-	-	-	**10,000**
Wai Tang	n/a	-	-	3,809	**3,809**
Total	**278,358**	**-**	**20,000**	**(69,812)**	**228,546**
Executive KMP					
Tom Honan	-	19,072	-	-	**19,072**

There were no other related party transactions or balances with Directors and Executive KMP or their controlled entities.

Non-audit services

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

Details of the amounts paid or payable to the auditor Ernst & Young for audit and non-audit services provided during the year are set out in Note 19 to the financial report.

The Board 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* for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure 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 10 Code of Ethics for Professional Accountants.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 48.

Rounding of amounts to the nearest thousand dollars

The Group is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off, in accordance with that Class Order, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in Melbourne on 22 August 2014 in accordance with a resolution of the Directors.

Bob Edgar

Chairman

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Auditor's Independence Declaration to the Directors of Federation Limited

In relation to our audit of the financial report of Federation Centres for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Bree M

B R Meehan
Partner
Melbourne
22 August 2014

Statements of Comprehensive Income

for the year ended 30 June 2014

		Federation Limited and its Controlled Entities	
	Notes	30.06.14 $'000	Restated[(1)] 30.06.13 $'000
REVENUE			
Property ownership revenue		520,029	527,482
Services revenue		13,664	24,099
Distribution revenue		2,136	5,864
Interest revenue		10,719	11,170
Total Revenue		**546,548**	**568,615**
Share of net profits of associates and joint venture partnerships accounted for using the equity method	6(a)	7,378	20,764
Fair value adjustment on financial assets at fair value through profit or loss		999	(5,911)
Property revaluation increment for directly owned properties	6(c)	176,635	44,573
Other income		2,741	18,004
Borrowing costs	8(g)	(74,218)	(132,404)
Direct property expenses		(136,648)	(140,689)
Employee benefits expenses	16	(63,929)	(67,837)
Other expenses from ordinary activities		(24,119)	(23,256)
Net movement on mark to market of derivatives		(11,541)	752
Movement in net assets attributable to puttable interests in consolidated finite life trusts	11(b)	(18,350)	(17,987)
Discount on acquisition of puttable interests in consolidated finite life trusts		-	490
Stamp duty expense on business combinations		(7,977)	(17,135)
Stamp duty written off on acquisition of investment property	6(c)	(4,864)	(10,246)
Reversal of stamp duty provision		67,100	-
Net loss from capital transactions and selling costs		-	(14,851)
Deferred debt costs written off and debt break cost paid as a result of capital transactions		-	(12,466)
Software implementation costs		(18,436)	-
PROFIT BEFORE INCOME TAX EXPENSE		**441,319**	**210,416**
Income tax benefit	12	-	2,239
NET PROFIT AFTER TAX [(2)]		**441,319**	**212,655**
Attributable to:			
Federation Limited securityholders		(30,726)	(11,499)
Other stapled entities of Federation Centres		472,045	224,154
NET PROFIT ATTRIBUTABLE TO SECURITYHOLDERS OF FEDERATION CENTRES		**441,319**	**212,655**
Basic (loss) per security in Federation Limited (cents)	14	(2.15)	(0.81)
Diluted (loss) per security in Federation Limited (cents)	14	(2.15)	(0.81)
Basic earnings per stapled security in Federation Centres (cents)	14	30.91	14.97
Diluted earnings per stapled security in Federation Centres (cents)	14	30.76	14.92

[(1)] Restated as required by the adoption of AASB 10 *Consolidated Financial Statements* (refer Note 2(a))

[(2)] There was no other comprehensive income for the year. Net profit or loss equals comprehensive income for the year.

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

Balance Sheets

as at 30 June 2014

		Federation Limited and its Controlled Entities		
	Notes	30.06.14 $'000	Restated[1] 30.06.13 $'000	Restated[1] 01.07.12 $'000
CURRENT ASSETS				
Cash assets and cash equivalents		64,870	102,656	205,119
Receivables and other assets	5	40,915	90,138	130,972
Non-current assets classified as held for sale	6	95,300	441,104	-
Financial assets carried at fair value through profit or loss	6	3,555	79,071	78,292
Total current assets		**204,640**	**712,969**	**414,383**
NON-CURRENT ASSETS				
Receivables and other assets	5	117,388	117,388	3,587
Investments accounted for using the equity method	6(a)	106,030	119,874	590,834
Investment property	6(b)	4,613,104	4,286,848	3,920,491
Financial assets carried at fair value through profit or loss	6	2,900	3,000	152,089
Intangible assets	7	199,735	199,735	199,735
Plant and equipment		5,930	10,445	3,319
Total non-current assets		**5,045,087**	**4,737,290**	**4,870,055**
TOTAL ASSETS		**5,249,727**	**5,450,259**	**5,284,438**
CURRENT LIABILITIES				
Interest bearing liabilities	8	136,656	372,940	140,111
Payables and other liabilities	9	211,598	210,027	184,942
Provisions	10	25,010	86,829	83,001
Derivative financial instruments		770	546	3,565
Total current liabilities		**374,034**	**670,342**	**411,619**
NON-CURRENT LIABILITIES				
Interest bearing liabilities	8	1,177,753	1,215,196	1,325,154
Provisions	10	675	975	4,541
Derivative financial instruments		12,451	1,545	5,344
Puttable interests in consolidated finite life trusts	11	95,382	199,173	187,925
Deferred tax liability	12	-	-	2,239
Total non-current liabilities		**1,286,261**	**1,416,889**	**1,525,203**
TOTAL LIABILITIES		**1,660,295**	**2,087,231**	**1,936,822**
NET ASSETS		**3,589,432**	**3,363,028**	**3,347,616**

[1] Restated as required by the adoption of AASB 10 *Consolidated Financial Statements* (refer Note 2(a))

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

Balance Sheets
as at 30 June 2014 (continued)

		Federation Limited and its Controlled Entities		
	Notes	30.06.14 $'000	Restated(1) 30.06.13 $'000	Restated(1) 01.07.12 $'000
EQUITY				
Equity attributable to securityholders of Federation Limited				
Contributed equity		-	-	-
Share-based payment reserve		7,940	4,460	898
Accumulated losses		(67,779)	(37,053)	(25,554)
Total equity attributable to securityholders of Federation Limited		**(59,839)**	**(32,593)**	**(24,656)**
Equity attributable to other stapled entities of Federation Centres				
Contributed equity	13	3,657,240	3,657,240	3,453,502
Class Action True-up Securities (CATS)		-	-	203,261
Accumulated losses		(7,969)	(261,619)	(284,491)
Total equity attributable to other securityholders of Federation Centres		**3,649,271**	**3,395,621**	**3,372,272**
Equity attributable to securityholders of Federation Centres				
Federation Limited securityholders		(59,839)	(32,593)	(24,656)
Other stapled entities of Federation Centres		3,649,271	3,395,621	3,372,272
TOTAL EQUITY ATTRIBUTABLE TO SECURITYHOLDERS OF FEDERATION CENTRES		**3,589,432**	**3,363,028**	**3,347,616**

(1) Restated as required by the adoption of AASB 10 *Consolidated Financial Statements* (refer Note 2(a))

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

Statements of Changes in Equity

for the year ended 30 June 2014

	Contributed equity $'000	Class Action True-up Securities [1] $'000	Accumulated losses $'000	Share-based payment reserve $'000	Total $'000
	Federation Limited and its Controlled Entities				
As at 1 July 2012	**3,453,502**	**203,261**	**(310,045)**	**898**	**3,347,616**
Net profit for the year [2]	-	-	212,655	-	212,655
Issue of securities, net of transaction costs	203,163	(203,261)	-	-	(98)
Share-based payments	575	-	-	3,562	4,137
Distribution paid and payable [3]	-	-	(201,282)	-	(201,282)
As at 30 June 2013	**3,657,240**	**-**	**(298,672)**	**4,460**	**3,363,028**

	Contributed equity $'000	Class Action True-up Securities [1] $'000	Accumulated losses $'000	Share-based payment reserve $'000	Total $'000
	Federation Limited and its Controlled Entities				
As at 1 July 2013	**3,657,240**	**-**	**(298,672)**	**4,460**	**3,363,028**
Net profit for the year [2]	-	-	441,319	-	441,319
Share-based payments	-	-	-	3,480	3,480
Distribution paid and payable [3]	-	-	(218,395)	-	(218,395)
As at 30 June 2014	**3,657,240**	**-**	**(75,748)**	**7,940**	**3,589,432**

[1] At 30 June 2012, the Class Action True Up Securities (CATS) were presented under equity rather than under liabilities on the basis that they represented an obligation of FDC to issue a fixed number of its own securities. On 31 July 2012, 86,668,507 FDC securities were issued to CATS holders. No further obligations to CATS holders remain. Security issuance costs of $98,000 were incurred to issue the new securities.

[2] Net profit for the year is equal to other comprehensive income as there are no items recognised directly in other comprehensive income. For accounting purposes, FL is the identified parent of FDC. As a result, under AASB 127, FCT 1, FCT 2 and FCT 3 are considered as non-controlling interests. The analysis of total comprehensive loss between FL and other stapled entities is as follows:

	Federation Limited and its Controlled Entities 30.06.14 $'000	Restated 30.06.13 $'000
Total comprehensive loss attributable to Federation Limited	(30,726)	(11,499)
Total comprehensive income attributable to other stapled entities of Federation Centres	472,045	224,154
Total comprehensive income	**441,319**	**212,655**

[3] Distributions declared for the year of $224.1 million represents 15.7 cents per stapled security (2013: 14.1 cents), of which $5.7 million (0.4 cents per stapled security) was declared on 22 August 2014 and therefore was not recognised as liability as at 30 June 2014.

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

Cash Flow Statements

for the year ended 30 June 2014

	Notes	Federation Limited and its Controlled Entities 30.06.14 $'000	Restated 30.06.13 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		545,396	563,527
Payments to suppliers and employees		(238,526)	(225,915)
Distributions received from associates and managed investments		7,936	35,607
Interest and other income received		11,102	10,436
Interest paid/derivative settlements		(73,327)	(152,561)
Deferred debt costs paid		(7,551)	(10,579)
Net cash inflow from operating activities	18	**245,030**	**220,515**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of syndicates, net of cash acquired (1)		-	(89,028)
Returns of capital received from other investments		76,615	35,161
Payments for plant and equipment and other investments		(1,442)	(8,801)
Proceeds from disposal of investment properties		441,104	463,800
Acquisition of investment properties		(106,000)	(188,223)
Payments for capital expenditure on investment properties		(101,519)	(81,260)
Transaction costs paid on capital transactions		(4,100)	(7,356)
Other stamp duty paid		(8,121)	(27,480)
Net cash inflow from investing activities		**296,537**	**96,813**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		720,258	766,887
Repayments of borrowings		(991,455)	(898,495)
Break cost paid on repayment of borrowings		(695)	(8,713)
Receipt of related party loan repayments		21,263	39,661
Loans extended to related parties		-	(114,636)
Acquisition of puttable interests in consolidated finite life trusts		(96,236)	(684)
Distributions paid to external securityholders (2)		(232,488)	(203,811)
Net cash outflow from financing activities		**(579,353)**	**(419,791)**
Net decrease in cash and cash equivalents		**(37,786)**	**(102,463)**
Cash and cash equivalents at the beginning of the year		102,656	205,119
Cash and cash equivalents at the end of the year		**64,870**	**102,656**

(1) Relates to the acquisition of Retail Direct Property 18, Centro MCS 28 and 33 in the prior year

(2) Includes distribution paid to FDC securityolders of $214 million (2013: $181 million) and to puttable interests of $18 million (2013: $22 million)

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

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Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below and throughout the notes to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements of Federation Limited (the Group or FDC), consisting of Federation Limited (FL), Federation Centres Trust No. 1 (FCT 1), Federation Centres Trust No. 2 (FCT 2) and Federation Centres Trust No. 3 (FCT 3) and their controlled entities.

(a) Statement of compliance with International Financial Reporting Standards

This general purpose financial report complies with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and the notes thereto, complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Basis of preparation of financial statements

This general purpose financial report for the year ended 30 June 2014 has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. For the purpose of preparing financial statements, the Group is a for-profit entity. The financial report is presented in Australian dollars.

The accounting policies adopted are consistent with those of the previous financial year except as noted. When the presentation or classification of items in the financial report is amended, comparative amounts are also reclassified unless it is impractical.

The financial statements of FDC reflect the consolidation of FL, FCT 1, FCT 2, FCT 3, and their controlled entities. For the purposes of preparing the consolidated financial statements, FL is identified as the parent entity of FDC. The securityholders' interests in FCT 1, FCT 2 and FCT 3 are presented as non-controlling interests and described as other stapled entities of Federation Centres, rather than as attributable to owners of the parent, representing the fact that FCT 1, FCT 2 and FCT 3 are not owned by FL, but by securityholders directly.

The Constitutions of the Company and the Trusts ensure that shares in the Company and units in the Trusts are "stapled" together and are traded collectively on the Australian Securities Exchange together, under the symbol FDC.

(i) Going concern

These financial statements have been prepared on a going concern basis.

(ii) Historical cost convention

These financial statements have been prepared on an historical cost basis, except for certain financial assets and financial liabilities (including derivative instruments) and investment property which have all been recognised at fair value.

(iii) Rounding of amounts

The Company is an entity of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars ($'000); or in certain cases, the nearest dollar.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Principles of consolidation

Consolidation of an investee begins from the date the investor obtains control of the investee and ceases when the investor loses control of the investee. Consolidation involves the aggregation of the Balance Sheet, Statement of Comprehensive Income and cashflows of the investees to the parent and the full elimination of all inter-entity transactions.

Where the parent owns less than 100% of the investee, it recognises non-controlling interests. The Group presents its non-controlling interests in syndicates as puttable interests in finite life trusts as required by AASB 132 *Financial Instruments: Presentation*.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the following activities:

(i) Property ownership revenue

As the owner of a number of shopping centres, the Group derives rental revenue from the leasing of the retail space in these properties. Lease income is recognised on a straight-line basis over the lease term.

(ii) Services revenue

Property management and leasing fees are generated from existing properties, and development fees are derived in respect of new developments and redevelopments. Fees are in accordance with generally accepted commercial terms and conditions.

Fee revenue is recognised on an accruals basis as earned and when it can be reliably measured.

(iii) Distribution revenue

Distributions are recognised when the investment has declared a distribution.

(iv) Interest revenue

Interest revenue is recognised on a time proportion basis using the effective interest method.

(e) Impact of new and amended standards

Other than the impact of AASB 10 *Consolidated Financial Statements* described in Note 2 and those listed below, no other new and amended standards that became effective for FDC on 1 July 2013 had a material impact on the financial statements.

AASB 12 *Disclosures of Interests in Other Entities*

The adoption of AASB 12 has resulted in additional disclosures about interests in controlled entities, significant judgements made in determining control, and effects of changes in ownership interest that do not result in a loss of control. FDC has made disclosures on judgements in determining control in Note 2, and information on interests in controlled entities and effects of changes in ownership interests in Note 11.

AASB 13 *Fair value*

The adoption of AASB 13 has not resulted in any change to the amounts previously recognised or methods adopted by FDC in determining fair value because the methods adopted were consistent with the guidance in AASB 13. Additional disclosure requirements on these methods, including assumptions made, key inputs and fair value hierarchy, are now mandatory under AASB 13. These have been disclosed by FDC in Note 6 Investment Properties in describing the fair valuation of investment properties, and Note 7 Intangible Assets in disclosing the recoverable amount of goodwill.

AASB 2011-4 Amendments *to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

There was no change in the Statement of Comprehensive Income results and Balance Sheet position of FDC as a result of adopting this amendment. However, disclosures on key management personnel equity, options and rights holdings have been removed from the financial statements and are now located in the Remuneration Report, thereby removing the duplication of these disclosures that occurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impact of new and amended standards (continued)

AASB 136 *Impairment of Assets* and AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

The changes to AASB 136 effective 1 July 2013 required the disclosure of key assumptions and inputs used to determine the recoverable amount of goodwill if this was calculated using discounted cashflow techniques. FDC has disclosed the assumptions and inputs used in Note 7.

The changes to AASB 136 also required FDC to disclose the recoverable amount of goodwill by cash generating unit. However, this was further amended by AASB 2013-3, which is effective for periods beginning 1 January 2014 and therefore has been early adopted by FDC. The AASB 2013-3 amendments clarified that disclosure of the recoverable amount is only required for impaired assets. There were no other impacts to FDC from early adopting AASB 2013-3.

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

Certain new Accounting Standards and Interpretations have been published that are not mandatory for the 30 June 2014 reporting period. FDC has assessed the impact of these new Accounting Standards and Interpretations that are relevant to the Group (based on the current and known future activities of the Group), and does not expect any material impact on FDC's net asset, net profit, presentation or disclosures when these standards become effective for FDC.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

(a) AASB 10 *Consolidated Financial Statements*

AASB 10 replaced the control and consolidation rules under both AASB 127 *Consolidated Financial Statements* and AASB Interpretation 112 *Special Purpose Entities*. The new control model introduced by AASB 10 broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations that give rise to control such as when acting as a fund manager, potential voting rights and other scenarios where holding less than a majority of voting rights may give rise to control.

In assessing the impact of AASB 10 on the Group, management undertook an analysis to determine the amount of power the Group had over a Retail Direct Property (RDP) syndicate and the ability of the Group to affect its returns through its power by analysing:

- The Group's equity interests, and the dispersion of interests held by external investors (the higher the Group's equity interests are, and the higher the dispersion of external investors' interest, the more power the Group is deemed to have);
- The Group's powers as Responsible Entity (RE) and property manager of the RDP syndicates;
- The rights of other investors to remove the RE;
- The Group's ability to vote its interests on key matters and how much the Group has been able to influence the voting in the past;
- The Group's ability to appoint or remove the directors of the RE; and
- The amount of variable returns that the Group earns from the RDP syndicates. This included analysing the total fees and distributions earned from the RDP syndicates compared to other investors.

Based on the results of the analysis undertaken, FDC consolidated a further four RDP syndicates, being RDP 5, 10, 14 and 15, even though FDC holds less than a majority of the voting rights. This is due to the following reasons:

- FDC is the RE of these RDP syndicates through its wholly owned subsidiary, and is legally able to appoint and remove the directors of the RE.
- In addition to holding equity interests from which FDC derives distribution income and capital appreciation, FDC also earns other income such as property management fees, fund management fees and other service fees.

The consolidation of RDP 5, 10, 14 and 15 is in addition to the RDP syndicates that FDC currently consolidated on the basis that it holds the majority of the voting rights in these RDP syndicates.

AASB 10 requires retrospective application – i.e. FDC is required to restate and represent comparative period information as if RDP 5, 10, 14 and 15 have always been consolidated. Accordingly, the comparative periods in the Statements of Comprehensive Income, Balance Sheets, Cash Flow Statements and relevant notes to the financial statements are presented as "Restated".

The adoption of AASB 10 resulted in the gross up of the Balance Sheet and Statement of Comprehensive Income. However, the restatements had no impact on the net assets, net results, underlying earnings or net tangible assets of FDC. The gross up in the Balance Sheet and Statement of Comprehensive Income is offset by an increase in the amounts attributable to non-controlling interests, which FDC is required to present as 'puttable interests in consolidated finite life trusts' – a liability on the Balance Sheet, and an expense in the Statement of Comprehensive Income. In addition, AASB 10 has had no impact on underlying earnings as non-wholly owned syndicates are excluded when calculating underlying earnings – refer Note 4.

2. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(a) AASB 10 *Consolidated Financial Statements* (continued)

The following Statement of Comprehensive Income items were restated for the year ended 30 June 2013:

	Previously reported 30.06.13 $'000	AASB 10 adjustment $'000	Restated 30.06.13 $'000
Property ownership revenue	500,839	26,643	**527,482**
Services revenue	26,146	(2,047)	**24,099**
Distribution revenue	8,055	(2,191)	**5,864**
Interest revenue	11,013	157	**11,170**
Other income	18,695	(691)	**18,004**
Fair value adjustment on financial assets at fair value through profit or loss	(4,250)	(1,661)	**(5,911)**
Property revaluation increment for directly owned properties	37,925	6,648	**44,573**
Borrowing costs	(124,686)	(7,718)	**(132,404)**
Direct property expenses	(133,331)	(7,358)	**(140,689)**
Employee benefits expenses	(70,040)	2,203	**(67,837)**
Other expenses from ordinary activities	(18,393)	(4,863)	**(23,256)**
Net movement on mark to market of derivatives	898	(146)	**752**
Movement in net assets attributable to puttable interests in consolidated finite life trusts	(9,011)	(8,976)	**(17,987)**
TOTAL EFFECT ON NET PROFIT/(LOSS) AFTER TAX	**n/a**	**nil**	**n/a**
TOTAL EFFECT ON TOTAL COMPREHENSIVE INCOME/(LOSS)	**n/a**	**nil**	**n/a**

The following Balance Sheet items were restated at 30 June 2013:

	Previously reported 30.06.13 $'000	Adjustments arising from the adoption of AASB 10 $'000	Restated 30.06.13 $'000
Cash assets and cash equivalents	93,317	9,339	**102,656**
Receivables and other assets – current	89,413	725	**90,138**
Non-current assets classified as held for sale	417,354	23,750	**441,104**
Financial assets carried at fair value through profit or loss – non-current	44,033	(41,033)	**3,000**
Investment property	4,081,715	205,133	**4,286,848**
Payables and other liabilities – current	206,210	3,817	**210,027**
Interest bearing liabilities – non-current	1,108,410	106,786	**1,215,196**
Derivative financial instruments liability – non-current	1,115	430	**1,545**
Puttable interests in consolidated finite life trusts	112,292	86,881	**199,173**
IMPACT ON NET ASSETS	**n/a**	**nil**	**n/a**

2. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(a) AASB 10 *Consolidated Financial Statements* (continued)

The following Balance Sheet items were restated at 1 July 2012:

	Previously reported 30.06.12 $'000	Adjustments arising from the adoption of AASB 10 $'000	Restated 01.07.12 $'000
Cash assets and cash equivalents	200,478	4,641	**205,119**
Receivables and other assets – current	127,397	3,575	**130,972**
Financial assets carried at fair value through profit or loss – Non-current	192,254	(40,165)	**152,089**
Investment property	3,701,041	219,450	**3,920,491**
Payables and other liabilities – current	165,926	19,016	**184,942**
Interest bearing liabilities – non-current	1,238,662	86,492	**1,325,154**
Derivative financial instruments liability – non-current	4,715	629	**5,344**
Puttable interests in consolidated finite life trusts	106,561	81,364	**187,925**
IMPACT ON NET ASSETS	**n/a**	**nil**	**n/a**

The impacts on Cash Flow Statements for the year ended 30 June 2013 are as follows:

	Previously reported 30.06.13 $'000	Adjustments arising from the adoption of AASB 10 $'000	Restated 30.06.13 $'000
Net cash inflow from operating activities	217,507	3,008	220,515
Net cash inflow from investing activities	100,024	(3,211)	96,813
Net cash outflow from financing activities	(424,692)	4,900	(419,791)
Net decrease in cash and cash equivalents	(107,161)	4,697	(102,463)

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of financial statements requires estimates and assumptions concerning the application of accounting policies to be made by the Group. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(a) Investment property values (refer Note 6(b))

Investment properties are carried at their fair value. Valuations are based on either an independent valuation or a Directors' valuation that is supported by the extrapolation of independent valuations on similar properties. Valuations are determined based on assessments and estimates of uncertain future events, including upturns and downturns in property markets, availability of similar properties, vacancy rates, market rents, capitalisation and discount rates. Refer to Note 6(b) for further information regarding investment property valuations.

(b) Fair value of financial instruments

Management uses its judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For mark to market derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

(c) Intangible assets (refer Note 7)

The Group tests annually whether goodwill has suffered any impairment in accordance with its accounting policy. The recoverable amounts of the cash-generating units have been determined based on fair value less costs to sell calculations. These calculations require the use of assumptions. Refer to Note 7 for details of these assumptions and the potential impact of changes to the assumptions.

4. SEGMENT INFORMATION

AASB 8 *Operating Segments* requires a 'management approach' to identifying and presenting segment information, that is, segment information is presented on the same basis as that used for internal reporting purposes. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Operating Decision Maker (which for FDC is the Chief Executive Officer and Managing Director (CEO)) in assessing performance and in determining the allocation of resources.

(a) Operating segments

Operating segments have been identified as investment activities and services business activities as follows:

(i) Investment activities

FDC has investments in direct ownership of properties in Australia, as well as in unlisted funds. The CEO reviews FDC's investments based on its percentage ownership held irrespective of whether it controls the investment or not.

(ii) Services business activities

The Group's services business generates revenue in the form of fees from two main areas: 1) property management, leasing and development; and 2) funds management. The Group provides personnel, systems and facilities to deliver these services to the shopping centres and managed funds.

The CEO monitors segment performance using segment income. Segment income for investment activities is the Group's percentage share of net operating income from properties, syndicates and other investments.

The CEO also monitors the Group's performance using underlying earnings, calculated as segment income less overheads and borrowing costs. Overheads comprise corporate office overhead costs incurred. Borrowing costs include interest expense on borrowings, interest income and amortisation of borrowing costs. Neither overheads nor borrowing costs are allocated to individual segments, but they are included in order to arrive at underlying earnings and facilitate reconciliation to the Group's net profit for the year.

Underlying earnings is a financial measure that represents the profit/(loss) under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items. The inclusion of underlying earnings as a measure of profitability of FDC provides investors with the same basis that is used internally for evaluating operating segment performance. Underlying earnings is used by the CEO to make strategic decisions and as a guide to assessing an appropriate distribution to declare.

In addition to underlying earnings, the CEO also reviews Funds from Operations (FFO) and Adjusted Funds From Operations (AFFO) in assessing the performance of the Group. FFO is the organisation's underlying and recurring earnings from its operations. This is determined by adjusting statutory net profit (under AIFRS) for certain non-cash and other items.

AFFO is determined by adjusting FFO for other cash and other items that have not been adjusted in determining FFO.

FFO and AFFO are determined in compliance with the guidelines published by the Property Council of Australia in June 2013.

(b) Accounting policies

The accounting policies used by the Group in reporting segment information are the same as those adopted by the Group in reporting statutory information, except with respect to segment income.

For the preparation of financial statements, results are consolidated and certain income streams are eliminated where the Group has control of an entity. However, operating results used for internal reporting represent equity accounted or 'ownership share' results. Direct property investment income represents FDC's ownership share of the net operating income from its investments. Services business income represents revenue generated from services provided to Retail Direct Property Syndicates and strategic alliance partners.

The adoption of new accounting standards has had no impact on the segment income statement.

4. SEGMENT INFORMATION (continued)

(c) Segment income statement

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	30.06.13 [(1)] $'000
Direct property investment income	310,317	309,491
Syndicate investment income	11,713	22,012
Investment income	**322,030**	**331,503**
Property management, development and leasing fees	14,374	12,703
Syndicate management fees	5,112	27,310
Services business income	**19,486**	**40,013**
Total segment income	**341,516**	**371,516**
Overheads, net of recoveries	(40,147)	(44,774)
Depreciation and amortisation	(1,740)	(1,348)
Borrowing costs	(56,704)	(101,044)
Underlying earnings	**242,925**	**224,350**
Non-distributable items:		
Investment property revaluations [(2)]	160,127	25,235
Reversal of stamp duty provision acquired on Aggregation	67,100	-
Fair value adjustment on financial assets carried at fair value through profit or loss	999	(5,911)
Net mark to market movements on derivatives	(11,947)	1,101
Net profits in consolidated syndicates, net of declared distributions	5,761	4,046
Stamp duty expenses	(12,841)	(27,381)
Straight-lining of rent	7,323	1,674
Software implementation costs [(3)]	(18,436)	-
Other non-distributable items [(4)]	308	(10,459)
Net profit	**441,319**	**212,655**

(1) The adoption of new accounting standards has had no impact on segment income statement underlying earnings or net profit.

(2) Includes revaluations of properties accounted for as equity accounted investments.

(3) Represents costs incurred in implementation of new enterprise-wide information technology platform, which is delivered using a Software as a Service (SaaS) model. Implementation costs incurred relate to database reconfiguration, staff training and other expenses necessary to prepare the Group to use the new system. FDC holds no proprietary rights to the software other than access to the information technology platform purchased by paying annual licence fees and therefore has not capitalised these implementation costs.

(4) Other non-distributable items for FY2013 also include the following items:

- gains from recovery of related party loans previously impaired ($16.6 million), deferred tax benefit ($2.2 million), and discount on acquisition of puttable interests ($0.5 million); and
- losses from capital transactions and selling costs ($14.9 million), and write off of deferred debt costs and break costs as a result of capital transactions ($12.5 million).

4. SEGMENT INFORMATION (continued)

(d) Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO)

The following reconciliation reflects the adjustments required from underlying earnings disclosed to FFO and AFFO.

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	30.06.13 $'000
Underlying earnings	**242,925**	**224,350**
Adjusted for:		
Amortisation of rent free periods	1,921	2,360
Funds From Operations	**244,846**	**226,710**
Adjusted for:		
Derivative and debt break costs arising from early repayment of borrowings pursuant to capital transactions	(661)	(14,262)
Maintenance capital expenditure and tenant incentives given for the period	(30,133)	(32,099)
Proceeds received from receivables previously impaired	-	16,561
Adjusted Funds From Operations before software implementation costs	**214,052**	**196,910**
Software implementation costs	(18,436)	**-**
Adjusted Funds From Operations after software implementation costs	**195,616**	**196,910**

(e) Reconciliation of total segment income to the Statement of Comprehensive Income

The following is a reconciliation of total segment income to total revenue per the Statement of Comprehensive Income. Segment income is the share of net operating income of investment properties and distributions received from managed fund investments. Therefore, to reconcile to total revenue per the Statement of Comprehensive Income, deduct the distributions received, deduct intra-group revenues, add back expenses deducted in determining net operating income from properties and add back interest revenue not included in segment income, as shown below:

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	Restated 30.06.13 $'000
Total segment income	**341,516**	**371,516**
Less:		
Net property income from equity accounted investments not shown in revenue per the Statement of Comprehensive Income	(15,480)	(38,022)
Distribution income from consolidated managed fund investments included in managed fund investment income	(9,542)	(15,590)
Intra-group services income from consolidated managed funds eliminated on consolidation	(7,584)	(18,600)
Add:		
Revenue from consolidated direct property investments that are equity accounted in segment income	-	17,368
Net expenses directly attributable to direct property investments deducted in determining direct property investment income	166,323	139,529
Property ownership revenue from consolidated managed fund investments	61,747	101,976
Interest revenue not included in segment income	9,568	10,438
Total revenue per Statement of Comprehensive Income	**546,548**	**568,615**

(f) Segment balance sheet

The CEO reviews the financial position of the Group using a segment balance sheet prepared under an alternative basis of preparation. This provides the CEO with a snapshot of FDC's actual economic interests in all of its investments, excluding interests held by external parties (classified as puttable interests) on a line by line basis.

The segment balance sheet is adjusted for the following items:

- Retail Direct Property syndicate investments are recognised as "Managed fund investments" regardless of the level of ownership held by Federation Centres. The investment value is calculated based on the ownership interest attributable to Federation Centres multiplied by the net asset value per unit for each RDP syndicate.
- Investments held in joint ventures and associates are recognised on a "look-through" or gross basis, to reflect the gross property value of the underlying investment property. Any borrowings and interest rate swap derivatives of the equity accounted investments are also grossed up and separately recorded on the segment balance sheet of FDC.

4. SEGMENT INFORMATION (continued)

(f) Segment balance sheet (continued)

Set out below is the Balance Sheet of FDC prepared in accordance with Australian Accounting Standards (statutory basis) together with the adjustments required to arrive at the segment balance sheet prepared on the alternative basis of presentation as reviewed by the CEO.

As at 30 June 2014	Statutory basis $'000	Reverse consolidation of RDP syndicates $'000	Reverse eliminations of RDP syndicates $'000	Recognise equity accounted investments at gross values $'000	Segment balance sheet $'000
Current assets					
Cash assets and cash equivalents	64,870	(7,600)	-	-	57,270
Non-current assets classified as held for sale	95,300	-	-	-	95,300
Managed fund investments	3,555	-	-	-	3,555
Receivables and other assets	40,915	(1,375)	3,431	332	43,303
Total current assets	**204,640**	**(8,975)**	**3,431**	**332**	**199,428**
Non-current assets					
Investment property	4,613,104	(314,000)	-	-	4,299,104
Equity accounted investments	106,030	-	-	150,525	256,555
Managed fund investments	2,900	-	81,777	-	84,677
Intangible assets	199,735	-	-	-	199,735
Other non-current	123,318	-	-	(117,387)	5,931
Total non-current assets	**5,045,087**	**(314,000)**	**81,777**	**33,138**	**4,846,002**
Total assets	**5,249,727**	**(322,975)**	**85,208**	**33,470**	**5,045,430**
Current liabilities					
Interest bearing liabilities	136,656	(137,492)	836	32,954	32,954
Other current	237,378	(7,945)	2,547	184	232,164
Total current liabilities	**374,034**	**(145,437)**	**3,383**	**33,138**	**265,118**
Non-current liabilities					
Interest bearing liabilities	1,177,753	-	-	-	1,177,753
Puttable interests in consolidated finite life trusts	95,382	(95,714)	-	332	-
Other non-current	13,126	(81,824)	81,825	-	13,127
Total non-current liabilities	**1,286,261**	**(177,538)**	**81,825**	**332**	**1,190,880**
Total liabilities	**1,660,295**	**(322,975)**	**85,208**	**33,470**	**1,455,998**
Net assets	**3,589,432**	**-**	**-**	**-**	**3,589,432**

4. SEGMENT INFORMATION (continued)

(f) Segment balance sheet (continued)

As at 30 June 2013	Restated Statutory basis $'000	Restated Reverse consolidation of RDP syndicates $'000	Restated Reverse eliminations of RDP syndicates $'000	Restated Recognise equity accounted investments at gross values $'000	Segment balance sheet $'000
Current assets					
Cash assets and cash equivalents	102,656	(30,448)	-	-	72,208
Non-current assets classified as held for sale	441,104	(69,750)	-	-	371,354
Managed fund investments	79,071	-	-	-	79,071
Receivables and other assets	90,138	(12,408)	41,992	-	119,722
Total current assets	**712,969**	**(112,606)**	**41,992**	**-**	**642,355**
Non-current assets					
Investment property	4,286,848	(773,924)	7,250	-	3,520,174
Equity accounted investments	119,874	(9,950)	(7,250)	151,226	253,900
Managed fund investments	3,000	(701)	262,763	-	265,062
Intangible assets	199,735	-	-	-	199,735
Other non-current	127,833	-	-	(117,388)	10,445
Total non-current assets	**4,737,290**	**(784,575)**	**262,763**	**33,838**	**4,249,316**
Total assets	**5,450,259**	**(897,181)**	**304,755**	**33,838**	**4,891,671**
Current liabilities					
Borrowings	372,940	(83,790)	10,651	-	299,801
Other current	297,402	(52,437)	29,350	428	274,743
Total current liabilities	**670,342**	**(136,227)**	**40,001**	**428**	**574,544**
Non-current liabilities					
Borrowings	1,215,196	(296,077)	(25)	32,844	951,938
Puttable interests in consolidated finite life trusts	199,173	(199,173)	-	-	-
Other non-current	2,520	(265,704)	264,779	566	2,161
Total non-current liabilities	**1,416,889**	**(760,954)**	**264,754**	**33,410**	**954,099**
Total liabilities	**2,087,231**	**(897,181)**	**304,755**	**33,838**	**1,528,643**
Net assets	**3,363,028**	**-**	**-**	**-**	**3,363,028**

5. RECEIVABLES AND OTHER ASSETS

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Debts that are individually known to be uncollectable are written off when identified. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	Restated 30.06.13 $'000
Current		
External trade receivables	23,109	21,511
Less: Impairment provision on trade receivables	(1,053)	(1,593)
Total external receivables	**22,056**	**19,918**
Related party receivables [1]	3,969	5,643
Related party accrued rollover, performance, windup and deferred RE fees	-	11,239
Related party loans [2]	-	21,238
Less: Impairment provision on related party trade receivables	(110)	(220)
Total related party loans and receivables	**3,859**	**37,900**
Prepayments and other assets	15,000	32,320
Total current receivables and other assets	**40,915**	**90,138**
Non-current		
Related party loans and receivables [3]	117,388	117,388
Total non-current receivables and other assets	**117,388**	**117,388**

(1) Mainly comprises fees recoveries and distribution receivables. These are provided on the same terms as trade receivables with non related parties.

(2) Related party loans owed by non consolidated RDP syndicates were fully repaid in the current year.

(3) Includes related party loan of $113.8 million to a joint venture arising from the novation of the external borrowings in the joint venture to FDC. All the terms and conditions of the novated borrowings remained unchanged. The loan is provided at market interest rates.

5. RECEIVABLES AND OTHER ASSETS (continued)

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the Group. These counterparties include, but are not limited to, FDC managed investment schemes, external banks, construction companies and tenants.

Procedures have been established to ensure that the Group deals only with approved counterparties and the risk of loss is mitigated.

Tenant risk assessment is performed taking into consideration the financial background of the tenant and the amount of any guarantee provided under the lease. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

Counterparty exposure is measured as the aggregate of all obligations of any single legal entity or economic entity to the Group, after allowing for appropriate set offs that are legally enforceable. The maximum exposure to credit risk at the balance date is the carrying amount of the Group's financial assets.

The Group does not hold any collateral in relation to trade or related party receivables, other than security deposits or bank guarantees as is usual in leasing agreements.

(b) Past due but not impaired

The Group considers receivables that have not been paid for 30 days after the invoice date as past due. These relate to a number of individual customers for whom there is no recent history of default. Of the $27 million trade and related party receivables outstanding, $4.8 million, which represents less than 1% of total revenue, is considered past due. FDC monitors these trade receivables that are past due and actively seeks prompt recovery. Where there are indicators that full recovery will not occur, provision is made for these amounts as disclosed in (c) below.

Related party loans that are not settled after notice of payment has been issued by the Group are considered past due. There are no material related party loans or receivables that are past due.

(c) Impairment provision

The Group has recognised a loss of $0.6 million (2013: $1.7 million) in respect of impaired trade receivables during the year ended 30 June 2014. The loss has been included in "other expenses from ordinary activities" in the Statements of Comprehensive Income.

Movements in the provision for impairment of receivables are as follows:

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	Restated 30.06.13 $'000
Opening balance at the beginning of the year	(1,813)	(17,753)
Provision for impairment recognised during the year	(558)	(1,658)
Net reversal of prior year provision	1,208	17,598
Closing balance	**(1,163)**	**(1,813)**
Comprises:		
Impairment provision on trade receivables	(1,053)	(1,593)
Impairment provision on related party receivables	(110)	(220)

6. INVESTMENTS

	Note	Federation Limited and its Controlled Entities 30.06.14 $'000	Restated 30.06.13 $'000
Included in the Balance Sheet as:			
Non-current assets classified as held for sale [(1)]		95,300	441,104
Investments accounted for using the equity method	6(a)	106,030	119,874
Investment property	6(b)	4,613,104	4,286,848
Financial assets carried at fair value through profit or loss [(2)]		6,455	82,071
		4,820,889	**4,929,897**

(1) Investment properties are classified as held for sale if FDC determines that their carrying amount will be recovered principally through sale, which is when FDC has executed an unconditional contract to sell the property before the date the financial statements are approved by the Board.

2014 represents Somerville and Springwood.

2013 represents 50% interest in Mandurah Forum, Cranbourne Park, Karingal Hub, Warriewood Square and Halls Head Central sold to ISPT under a co-ownership agreement entered on 8 February 2013, which settled on 31 July 2013, as well as 50% interest in Sunshine Marketplace sold to Challenger under a co-ownership agreement entered on 5 June 2013, which settled on 23 July 2013.

(2) Investments in other unlisted funds are recorded at the exit price as reported by the managers of the funds.

2014 comprises investments in external unlisted entities. $3.6 million of the investments carried at fair value through profit or loss are classified as current as these investments are expected to be realised within the next 12 months.

2013 comprises investments in external unlisted entities, as well as syndicate investments of RDP 4, 9, 11, 19UT, 20, 21, 23 and 34. Property assets in syndicates have been disposed in 2014 and proceeds distributed to unitholders.

The unit price is determined by the Fund Manager each six months and is published. However, given these are closed funds that cannot be actively traded, the unit price is based on the net asset value (NAV) of the fund. Given the NAV is materially impacted by changes in the underlying fair value of the investment properties held by the fund, these investments are classified as Level 3 in the fair value hierarchy under AASB 13. FDC is exposed to price risk from changes in the unit prices of these investments. An increase or decrease in the unit price by 10% would result in an increase or decrease in the fair value of these investments by $0.7 million (2013: $8.2 million).

6. INVESTMENTS (continued)

(a) Investments accounted for using the equity method

Investments in joint ventures

Joint ventures are those entities which the Group has a contractual arrangement that establishes joint control over the economic activities of the entity, based on standard market terms. These are accounted for in the Group's financial statements using the equity method and identified as investments accounted for using the equity method.

Federation Limited and its Controlled Entities

	Valuation Type	Group equity interest 30.06.14 %	Group equity interest 30.06.13 %	Carrying amount 30.06.14 $'000	Carrying amount 30.06.13 $'000	Share of net profit/(loss) 30.06.14 $'000	Share of net profit/(loss) 30.06.13 $'000
Tuggeranong Hyperdome	Directors	50.0	50.0	46,663	47,613	(550)	1,032
Victoria Gardens Shopping Centre	Independent	50.0	50.0	59,367	55,061	7,228	4,147
Emerald Village [(1)]	n/a	-	50.0	-	9,950	700	3
Emerald Market [(1)]	n/a	-	50.0	-	7,250	-	(420)
Others [(2)]	n/a	-	-	-	-	-	16,002
				106,030	**119,874**	**7,378**	**20,764**

(1) FDC acquired the remaining 50% on 20 December 2013. As a result, these properties are now consolidated.

(2) Relates to 50% investments previously held in Bankstown, Roselands and Lutwyche City that were acquired by FDC in the prior year and are now consolidated.

Movements for the year for investments accounted for using the equity method

	Notes	30.06.14 $'000	Restated 30.06.13 $'000
Opening balance at the beginning of the year		119,874	590,834
Share of net profits of associates and joint venture partnerships accounted for using the equity method		7,378	20,764
Distribution of net income from equity accounted investments		(6,272)	(24,388)
Additional investments made during the year		2,550	11,295
Acquired during the year [(1)]		17,500	312,891
Transferred to investment properties	6(b)	(35,000)	(791,522)
Closing balance		**106,030**	**119,874**

(1) 2014 amount relates to 50% interests in Emerald Market and Emerald Village.

2013 amount relates to 50% interest in Bankstown that is now consolidated following the acquisition of all the external units in CMCS 28.

6. INVESTMENTS (continued)

(a) Investments accounted for using the equity method (continued)

Summarised financial information for material investments accounted for using the equity method

	Federation Limited and its Controlled Entities			
	30.06.14 $'000 Victoria Gardens	30.06.14 $'000 Tuggeranong Hyperdome	30.06.13 $'000 Victoria Gardens	30.06.13 $'000 Tuggeranong Hyperdome
Investment properties	185,500	330,000	177,800	330,000
Interest bearing liabilities - current	(66,000)	-	-	-
Interest bearing liabilities - non-current	-	(234,760)	(66,000)	(234,760)
Other net assets/(liabilities)	(766)	(1,914)	(1,678)	(14)
Net assets	**118,734**	**93,326**	**110,122**	**95,226**
Total income	18,377	31,316	16,623	30,857
Aggregate net profits after income tax	14,456	(1,100)	8,294	2,064
Interest expense	4,019	14,945	4,028	15,348
Receivables from investment accounted for using the equity method	1,965	119,471	2,065	117,683

Associates have no contingent liabilities or material expenditure commitments.

Information shown above is 100% of the assets, liabilities, income and expense of the investments accounted for using the equity method.

(b) Investment property

The Group's investment properties are initially measured at cost including transaction costs. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Group.

Subsequent to initial recognition, investment properties are revalued to fair value, except for investment properties under development. Investment properties under development are measured at the last fair value prior to commencement of the development plus development costs incurred to date. Once the development is practically completed, the investment property is measured at fair value. Changes in fair values are recorded in the Statement of Comprehensive Income in the period in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently retired from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Investments in joint operations

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

6. INVESTMENTS (continued)

(b) Investment property (continued)

Federation Limited and its Controlled Entities

	FDC Interest	Shopping Centre Type	Valuation Type	30.06.14 $'000	30.06.13 $'000
Bankstown Central [1]	50%	Regional	Independent	297,500	284,300
Colonnades [1]	50%	Regional	Independent	145,000	153,000
Galleria [1]	50%	Regional	Directors	347,500	341,500
Roselands [1]	50%	Regional	Independent	175,113	166,897
The Glen [1]	50%	Regional	Directors	215,800	215,750
West End Plaza [3]	100%	Sub-regional	Independent	55,450	55,450
Armidale Central	100%	Sub-regional	Independent	41,500	39,000
Arndale Central	100%	Sub-regional	Directors	152,500	140,000
Belmont Village [2]	100%	Sub-regional	Directors	39,300	39,300
Box Hill Central	100%	Sub-regional	Independent	188,000	169,000
Brandon Park [2]	100%	Sub-regional	Directors	115,800	114,200
Buranda Village	100%	Sub-regional	Directors	34,750	33,300
Burnie Plaza	100%	Sub-regional	Directors	18,000	17,000
Carlingford Court [1]	50%	Sub-regional	Directors	92,250	-
Cranbourne Park [1]	50%	Sub-regional	Directors	62,750	62,750
Goulburn Plaza	100%	Sub-regional	Directors	52,250	50,000
Gympie Central	100%	Sub-regional	Independent	70,000	63,800
Karingal Hub [1]	50%	Sub-regional	Independent	103,125	93,150
Karratha City [1]	50%	Sub-regional	Independent	53,660	47,925
Kurralta Central [2]	100%	Sub-regional	Directors	34,500	32,300
Lavington Square	100%	Sub-regional	Directors	57,000	59,000
Maddington Central [3]	100%	Sub-regional	Directors	100,000	97,050
Maitland Hunter Mall [3]	100%	Sub-regional	Directors	12,600	12,000
Mandurah Forum [1]	50%	Sub-regional	Directors	141,500	128,150
Mildura Central	100%	Sub-regional	Directors	102,500	90,500
Mornington Central	100%	Sub-regional	Directors	61,500	55,000
Mount Gambier Central	100%	Sub-regional	Independent	29,000	30,000
Nepean Village	100%	Sub-regional	Directors	133,250	115,500
Somerville [4]	100%	Sub-regional	n/a	-	38,500
Springwood [4]	100%	Sub-regional	n/a	-	48,000
Sunshine Marketplace [1][3]	50%	Sub-regional	Independent	48,750	46,000
Taigum Square	100%	Sub-regional	Independent	86,200	79,500
Toombul	100%	Sub-regional	Directors	220,000	215,000
Toormina Gardens [1]	50%	Sub-regional	Directors	35,500	32,750
Tweed Mall [3]	100%	Sub-regional	Directors	80,000	85,000
Warriewood Square [1]	50%	Sub-regional	Independent	75,000	70,154
Warwick Grove	100%	Sub-regional	Directors	154,000	132,500
Carried forward				**3,631,548**	**3,453,226**

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6. INVESTMENTS (continued)

(b) Investment property (continued)

	FDC Interest	Shopping Centre Type	Valuation Type	Federation Limited and its Controlled Entities 30.06.14 $'000	Restated 30.06.13 $'000
Brought forward				**3,631,548**	**3,453,226**
Westside Plaza	100%	Sub-regional	Independent	36,000	35,500
Whitsunday Central	100%	Sub-regional	Directors	53,000	47,545
Wodonga Plaza	100%	Sub-regional	Independent	47,000	46,000
Emerald Village [3]	100%	Convenience	Independent	20,500	-
Emerald Market [3]	100%	Convenience	Independent	14,600	-
Albany Brooks Garden	100%	Convenience	Independent	25,000	25,000
Dianella Plaza	100%	Convenience	Directors	61,750	57,000
Flinders Square	100%	Convenience	Directors	28,250	23,500
Glenorchy Central [3]	100%	Convenience	Directors	18,550	18,200
Goldfields Plaza	100%	Convenience	Independent	23,000	21,000
Halls Head Central [1]	50%	Convenience	Independent	16,550	17,150
Hilton Plaza [2]	100%	Convenience	Directors	18,400	18,000
Katherine Oasis	100%	Convenience	Independent	26,000	25,000
Kalamunda Central [2]	100%	Convenience	Directors	30,000	25,400
Lennox Village [1][3]	50%	Convenience	Directors	27,250	24,000
Lutwyche City	100%	Convenience	Directors	56,250	52,000
Milton Village	100%	Convenience	Directors	20,000	18,250
Meadow Mews [3]	100%	Convenience	Independent	41,500	38,100
Monier Village [3]	100%	Convenience	Independent	17,000	11,200
North Shore Village	100%	Convenience	Directors	19,600	18,500
Oakleigh Central [3]	100%	Convenience	Directors	46,550	44,200
Oxenford Village [3]	100%	Convenience	Independent	24,500	23,000
Terrace Central [3]	100%	Convenience	Independent	29,000	25,500
Stirlings Central [2]	100%	Convenience	Directors	42,000	32,300
The Gateway [2]	100%	Convenience	Directors	34,000	30,400
Victoria Park Central	100%	Convenience	Independent	22,200	21,750
Warnbro Centre	100%	Convenience	Directors	53,000	53,000
Warrnambool North	100%	Convenience	Independent	13,200	12,300
Woodlands Village [3]	100%	Convenience	Independent	12,250	14,450
Indooroopilly Central [3]	100%	Bulky goods	Directors	51,000	46,900
				4,559,448	4,278,371
Development projects and construction in progress					
Cranbourne Park [1]				15,498	1,251
Warnbro Centre				29,581	1,291
Other development projects and construction in progress				8,577	5,935
				53,656	8,477
Total				**4,613,104**	**4,286,848**

Footnotes on page 74

6. INVESTMENTS (continued)

(b) Investment property (continued)

Footnotes from pages 72 and 73:

(1) Represents FDC's 50% ownership in a joint operation. The other 50% of the property is held by an external party.

(2) Owned through consolidated Retail Direct Property syndicates.

(3) Acquired from RDP syndicate during the period.

(4) Transferred to non-current assets held for sale as FDC has executed an unconditional contract of sale with an external party.

Movements for the year of investment property

		Federation Limited and its Controlled Entities	
	Note	30.06.14 $'000	Restated 30.06.13 $'000
Opening balance at the beginning of the year		4,286,848	3,920,491
Acquisition of investment property		88,500	188,223
Stamp duty capitalised on acquisition of investment property		4,864	10,246
Disposal of interests in investment property		-	(463,608)
Investment properties arising from acquisition of syndicates		-	162,869
Transferred from equity accounted investments	6(a)	35,000	791,522
Transferred to non-current assets classified as held for sale		(95,300)	(441,354)
Capital expenditure during the year		114,290	84,105
Property revaluation increment for directly owned properties		176,635	44,573
Stamp duty written off on acquisition of investment property		(4,864)	(10,246)
Straight-lining of rent adjustment		7,131	163
Tenant allowance amortisation		-	(136)
Closing balance		**4,613,104**	**4,286,848**

Fair value of investment property

Directors assess the fair value of property investments at each reporting period with a combination of independent and Directors' valuations. It is the policy of FDC that each property is independently valued by members of the Australian Property Institute at least once every year unless the property is held for development.

The Board of Directors of FDC reviews the valuations and determines that they are appropriate. The valuation method used in determining fair value is the income capitalisation approach. Fair value determined using this approach is compared against recent market transactions of similar properties, adjusted for any factors specific to the actual property, that have occurred during the period. An additional test using the discounted cash flow approach is performed to corroborate the fair value adopted.

Investment properties are categorised as Level 3 in the fair value hierarchy given the two key inputs into the capitalisation approach, being assessed market net income and the capitalisation rate are unobservable. Assessed market net income is based on market rental income for leasable space, less forecast property operating costs. The capitalisation rate is based on property return or yield expectations if the property was to be sold. The capital value calculated is then adjusted for forecast tenant allowances, incentives and capital expenditure in the next 12 months to arrive at the fair value of the property.

6. INVESTMENTS (continued)

(b) Investment property (continued)

Fair value of investment property (continued)

The fair value of investment properties calculated using the capitalisation approach is sensitive to changes in the capitalisation rates and market net income. A significant movement in each of these assumptions (together or in isolation) would result in a change in the fair value of the investment property.

The effect of a 10 bps increase in capitalisation rates, keeping all other inputs constant, will have the following impact on the FDC portfolio:

Shopping Centre Type	Total value [1] $'000	Weighted average capitalisation rate	Effect of 10 bps increase in capitalisation rate $'000	Impact to NTA $
Regional	1,180,913	6.35%	18,420	0.01
Sub-regional	2,781,335	7.42%	37,227	0.03
Convenience and bulky goods	738,900	8.15%	9,005	0.01
Total portfolio [1]	4,701,148	7.27%	64,652	0.05

[1] Includes Tuggeranong Hyperdome and Victoria Gardens Shopping Centre. Excludes Cranbourne Park and Warnbro Centre which are currently under development; and Springwood and Somerville which have been valued based on the binding sales contract.

7. INTANGIBLE ASSETS

The intangible assets of FDC is Goodwill, representing the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired controlled entity/associate at the date of acquisition. Goodwill represents the acquired value of the Services Business, which provides property management, development, leasing and funds management services to the Group and various managed funds.

Goodwill is allocated to the Group's cash generating units (CGUs), as presented below.

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**30.06.13 [1] $'000**
Funds management	82,523	82,523
Property, leasing and development	117,212	117,212
Total Goodwill	**199,735**	**199,735**

[1] The adoption of new accounting standards has had no impact on comparatives.

Goodwill has an indefinite life and is tested for impairment annually in June or more frequently if events or changes in circumstances indicate that it might be impaired.

At 30 June 2014, the recoverable amount is based on the fair value less costs of disposal of goodwill, which has been calculated using a discounted cash flow model, using assumptions that would ordinarily be made by market participants. A comparison of recent market transactions of similar intangible assets has been undertaken.

The fair value of goodwill calculated is considered as Level 3 in the fair value hierarchy as it is determined using unobservable inputs into the discounted cash flow model, being forecast net cashflows from managing the Group funds under management (FUM) using internal management contract rates less expenses allocated to management of the FUM. The cash flows were projected based on detailed FY2015 budgets, forecasts to FY2019 and an extrapolation to FY2024 with growth rates of between 2% and 3%. A cash flow projection of 10 years is considered suitable to appropriately factor into the forecast horizon changes in the risk profile of cash flows associated with some of the Group's consolidated funds.

7. INTANGIBLE ASSETS (continued)

Cash flows were discounted using pre-tax discount rates of between 10% and 12% with riskier cash flows attracting higher discount rates. The discount rates applied reflect a base weighted average cost of capital (WACC) of approximately 8% adjusted for both activity risk and FUM retention risk as described below:

- Activity risk reflects the risks associated with the nature of the service provided (e.g. property management, leasing, development or funds management); and
- FUM retention risk reflects the risk profile (high, medium or low) adopted for the Group's FUM from which services income is derived. The ranking of high, medium and low, which has been applied to the cashflows derived from each income stream, reflects the risk that the income stream will not be achieved.

As at 30 June 2014, this amount supports the carrying amount and no impairment has been recognised, and no reasonably possible changes in significant assumptions would give rise to an impairment of goodwill.

8. INTEREST BEARING LIABILITIES

Interest bearing liabilities are initially recognised based on the net proceeds received, which equals fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**Restated 30.06.13 $'000**
Bank loans	1,029,235	1,598,453
Australian Medium Term Notes	300,000	-
Deferred debt costs and discount on Notes issue (1)	(14,826)	(10,317)
Total interest bearing liabilities	**1,314,409**	**1,588,136**
Classified as follows		
Current	136,656	372,940
Non-current	1,177,753	1,215,196

(1) Comprises the unamortised value of borrowing costs on establishment, refinance or restructure of debt facilities plus discounts arising on Notes issue. These costs are deferred on the Balance Sheet, and released to the Statement of Comprehensive Income using the effective interest rate method. The amortisation is included in borrowing costs.

(a) Financing arrangements

The Group has access to the following lines of credit:

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**Restated 30.06.13 $'000**
Total facilities available	1,992,900	1,819,853
Facilities utilised at the end of the year	1,329,235	1,598,453
Total facilities not utilised at the end of the year	**663,665**	**221,400**

8. INTEREST BEARING LIABILITIES (continued)

(b) Defaults on debt obligations

At 30 June 2014, the Group had no defaults on debt obligations. (2013: None)

(c) Breaches of lending covenants

At 30 June 2014, the Group had no breaches of lending covenants. (2013: None)

(d) Assets pledged as security

Security provided is standard for loans of this nature including mortgages over real property, mortgages over shares and units in each property owner, fixed and floating charges and guarantees.

(e) Hedging policy for interest rate risk

FDC's interest rate risk arises from its variable interest rate borrowings. Policies and limits are implemented in respect of the use of derivative instruments to hedge the cash flows subject to interest rate risks. The proportion of hedging reduces with term to maturity. FDC's hedging policy has been approved by the Board and is monitored by management and regularly reported to the Board. FDC's hedging policy does not permit derivatives to be entered into for speculative purposes.

(f) Liquidity risk

FDC is exposed to liquidity risk primarily from its interest bearing liabilities. FDC actively manages this risk by maintaining sufficient capacity under its current facilities to meet the needs arising from the Board approved short term and medium term business strategy, securing and maintaining borrowing facilities from different sources (e.g. Banks, Australian and foreign capital markets), and reducing the amount of borrowings that mature or facilities that expire in any one year.

The contractual maturity of interest bearing liabilities, and the interest payment profile are shown below. Estimated interest payments are calculated based on the forward interest rate prevailing at year end.

30 June 2014	**Federation Limited and its Controlled Entities**				
	Less than 1 year $'000	**1 to 3 years $'000**	**Greater than 3 years $'000**	**Total $'000**	**Carrying amount $'000**
Bank loans [1]	137,000	780,000	112,235	1,029,235	1,017,646
Australia Medium Term Notes [1]	-	-	300,000	300,000	296,763
Estimated interest payments on borrowings	52,149	65,576	53,573	171,298	n/a
Estimated net derivative cash outflow	6,379	7,182	228	13,789	13,221
Total contractual outflows	**195,528**	**852,758**	**466,036**	**1,514,322**	**n/a**

Restated 30 June 2013	**Federation Limited and its Controlled Entities**				
	Less than 1 year $'000	**1 to 3 years $'000**	**Greater than 3 years $'000**	**Total $'000**	**Carrying amount $'000**
Bank loans [1]	373,400	748,253	476,800	1,598,453	1,588,136
Estimated interest payments on borrowings	58,391	102,165	10,898	171,454	n/a
Estimated net derivative cash outflow	4,580	1,630	-	6,210	5,591
Total contractual outflows	**436,371**	**852,048**	**487,698**	**1,776,117**	**n/a**

[1] The contractual cashflows of interest bearing liabilities excludes amortisation of deferred debt costs and discounts on Notes issue.

8. INTEREST BEARING LIABILITIES (continued)

(g) Borrowing costs

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

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

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**Restated 30.06.13 $'000**
Interest expense	71,040	122,187
Amortisation of borrowing costs	4,766	11,855
Less: capitalised borrowing costs	(1,588)	(1,638)
	74,218	**132,404**

(h) Interest rate risk

The Group manages its cash flow interest rate risk exposure by using floating-to-fixed interest rate swaps. Under the terms of floating-to-fixed interest rate swaps, the Group agrees to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to an agreed notional principal amount.

As at the balance date, the Group (which includes consolidated RDP syndicates) had the following exposure to cash flow interest rate risk:

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**Restated 30.06.13 $'000**
Total interest bearing liabilities	1,314,409	1,588,136
Add: Deferred debt costs	14,826	10,317
Less: Fixed rate borrowings	(407,025)	(196,625)
Variable rate borrowings	922,210	1,401,828
Less: Related party loan receivables at variable rate	(117,387)	(21,238)
Net variable rate borrowings exposed to cash flow interest rate risk at 30 June	**804,823**	**1,380,590**
Less: borrowings repaid in post year-end [(1)]	-	(336,728)
Representative net variable rate borrowings exposed to cash flow interest rate risk	804,823	1,043,862
Less: Notional principal of outstanding interest rate swap contracts [(2)]	(692,793)	(557,787)
Representative net variable rate borrowings exposed to cash flow interest rate risk after effect of interest rate swaps	**112,030**	**486,075**

(1) Represents borrowings repaid in July 2013 following the settlement of the disposal of 50% interests in 5 properties to ISPT in 2014. Repayment is deducted to provide the representative cashflow interest rate exposure of FDC for the year, noting that the hedges associated with the repaid borrowings were closed out in June 2013. These borrowings will not be redrawn.

(2) The fair value of these derivative instruments is disclosed in Note 20.

8. INTEREST BEARING LIABILITIES (continued)

(h) Interest rate risk (continued)

Sensitivity to interest rates

A shift in the forward interest rate curve of +/- 25 bps, assuming the net exposure to cash flow interest rate risk as at 30 June 2014 remains unchanged for the next 12 months, will increase/decrease the Group's cash interest cost for the next 12 months by $0.3 million (2013: $1.2 million). This sensitivity analysis should not be considered a projection.

(i) Fair value

As at 30 June 2014, FDC's debt has a fair value of $1,340 million (2013: $1,609 million).

The difference between the carrying amount at amortised cost and fair value is due to fixed rate borrowings held. The fair value of fixed rate borrowings is calculated by discounting the contractual cashflows using the yield to maturity or prevailing market discount rates for market fixed interest debt instruments, with similar terms, maturity and credit quality. Had the fixed debt been recognised at fair value, these would have been classified as Level 2 under the fair value hierarchy as the market discount rates used are indirectly observable.

9. PAYABLES AND OTHER LIABILITIES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period 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.

A payable is recognised for the amount of any distribution declared, determined or publicly recommended by the Directors on or before the end of the reporting period but not distributed at balance date.

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**Restated 30.06.13 $'000**
Trade payables	29,634	13,318
Accrued expenses	60,312	63,093
Accrued interest	2,687	5,125
Distributions payable [(1)]	113,375	118,584
Other liabilities	5,590	9,907
Payables and other liabilities	**211,598**	**210,027**

[(1)] Comprises distributions payable to FDC securityholders and distributions payable to puttable interests in finite life trusts.

At 30 June 2014, the carrying value of payables and other liabilities approximated their fair value. All payables are due and payable within the next three months.

10. PROVISIONS

Provisions comprise liabilities arising from employee benefits such as leave pay and long service leave, as well as provisions for stamp duty for which the amount or timing of the settlement is uncertain as it is outside the control of FDC.

Short term employee benefits are recognised as a liability when the employee has rendered the service and measured as the undiscounted amount of short term employee benefits expected to be paid in exchange for that service.

Other long term employee benefits are recognised and measured using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods.

Where the provisions are not expected to be settled wholly before 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 discount rate used to determine the present value reflects current market assessments of the time value of money and risks specific to the liability. Any increase in the provision arising from the passage of time is recognised in borrowing costs.

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	Restated 30.06.13 $'000
Current		
Employee benefits	8,622	8,061
Provision for stamp duty	16,388	78,768
Total current provisions	**25,010**	**86,829**
Non-current		
Employee benefits – long service leave	675	975
Total non-current provisions	**675**	**975**

The movements for the year in the provision for stamp duty are as follows:

	30.06.14 $'000	Restated 30.06.13 $'000
Opening balance at the beginning of the year	78,768	78,867
Stamp duty provided during the year	12,841	27,381
Stamp duty paid during the year	(8,121)	(27,480)
Reversal of stamp duty provision acquired at Aggregation	(67,100)	-
Closing balance	**16,388**	**78,768**

11. PUTTABLE INTEREST IN CONSOLIDATED FINITE LIFE TRUSTS

Puttable interests in consolidated finite life trusts represent those instruments that can be redeemed by the holder at the cessation of the trust and are essentially non-controlling interests in Retail Direct Property (RDP) syndicates consolidated by the Group.

Puttable interests in consolidated finite life trusts represent the non-controlling interest in managed investment schemes consolidated by the Group. It should be noted that the entitlement of these holders is solely to the residual equity of the individual trusts concerned, pari passu with the interest held by the Group.

(a) Puttable interests comprise the following investments:

			Federation Limited and its Controlled Entities	
	Properties held	**% ownership [1]**	**30.06.14 $'000**	**30.06.13 $'000**
RDP 5	Belmont Village, Kurralta Central	35.8	25,052	24,553
RDP 6	Brandon Park	61.0	24,526	24,659
RDP 14	Stirlings Central, Kalamunda Central	32.4	32,145	28,983
RDP 18	The Gateway, Hilton Plaza	50.2	13,659	12,244
Other [2]	Various	Various	-	108,734
			95,382	**199,173**

(b) Movement for the current year comprises the following:

Opening balance	199,173	188,010
Increase in puttable interests arising from the acquisition of additional units in RDP syndicates that resulted in gain of control	-	12,603
Decrease in puttable interests arising from acquisition of additional units in consolidated RDP syndicates	(113,484)	-
Net profit attributable to puttable interests	18,350	17,987
Distribution paid/payable to puttable interest	(8,657)	(19,427)
Closing balance	**95,382**	**199,173**

(1) FDC's look through ownership interest in the syndicate

(2) Represents interest in various RDP syndicates that were acquired by FDC during the year. There was no gain or loss on acquisition of puttable interests recognised, as cash consideration paid was the same as share of net assets acquired.

(c) Fair value

At 30 June 2014, the fair value of puttable interests in consolidated finite life trusts is $95.4 million (2013: $199.1 million). The difference between the carrying amount and fair value arises from the fair valuation of any fixed rate debt in the trusts that are otherwise carried at amortised cost. The fair valuation of fixed rate debt is described in Note 8(i). Had the puttable interests been recognised at fair value, the fair value would be categorised as Level 3 under the fair valuation hierarchy given the significant impact of the investment property valuation (which has been described in Note 6(d)).

(d) Contractual commitments

FDC has a contractual obligation to acquire externally held units in RDP 14 under its Flexible Exit Mechanism obligation, which will result in a cash outflow in the next six months of $32 million.

As part of the strategy to wind up the syndicate business by December 2014, FDC may seek to acquire the externally held units in RDP 5, RDP 6 and RDP 18, which will result in a further cash outflow of approximately $63 million. This will occur if unitholders of the syndicates approve the introduction of a liquidity mechanism to accelerate the purchase of their units by FDC.

12. INCOME TAXES

Current and deferred taxes are recognised in accordance with applicable accounting standards. Income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities.

FDC comprises three stapled trusts (FCT 1, FCT 2 and FCT 3) and one company (FL), and their controlled entities. All FDC entities are domiciled in Australia and fall within the jurisdiction of the Australian Taxation Office.

(a) FDC tax position

FCT 1, FCT 2 and FCT 3 and their controlled entities (the Trusts)

Under current Australian income tax legislation FCT 1, FCT 2 and FCT 3 and their controlled trust entities (the Trusts) are not liable to Australian income tax, including capital gains tax, provided that members are presently entitled to the income of the Trusts as determined under the trusts' constitutions. As a result, FDC has zero income tax expense recognised in respect of the Trusts' profit as the tax obligations are distributed to unitholders of the Trusts. Distributions declared are subject to income tax in the hands of unitholders.

FL and its controlled entities

FL and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. FL, as the head entity in the tax consolidated group, accounts for its own current and deferred tax amounts.

In addition to its own current and deferred tax amounts, FL also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. Where appropriate, deferred tax assets and liabilities are offset as permitted by accounting standards.

FL has no current tax expense or deferred tax assets or liabilities recognised as it incurred tax losses for the period and has other unutilised deductible temporary differences.

(b) Numerical reconciliation of tax expense per the statutory income tax rate to income tax expense recognised

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**Restated 30.06.13 $'000**
Profit before income tax expense	**441,319**	210,416
Income tax expense calculated at 30% (2013: 30%)	(132,396)	(63,125)
Effect of Trust accounting income [1]	141,721	67,119
Deferred tax assets not recognised [2]	(6,826)	(1,249)
Other movements	(2,499)	(506)
Income tax benefit	**-**	**2,239**

[1] As all Trust income to which unitholders are presently entitled has been distributed, the Trusts are not liable to income tax.

[2] Unrecognised deferred tax assets are $8.1 million (2013: $1.2 million). These have not been recognised as it is not probable that future taxable profit will arise in FL to offset these deductible temporary differences.

12 INCOME TAXES (continued)

(c) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables and payables in the Balance Sheet. Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, that is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

13. CONTRIBUTED EQUITY

	Federation Limited and its Controlled Entities	
	30.06.14 Number '000	**30.06.13[(1)] Number '000**
Number of stapled securities issued:		
Opening balance at the beginning of the year	1,427,642	1,340,723
Issue of FDC securities on settlement of Class Action True-up Securities on 31 July 2012	-	86,669
Other securities issues	-	250
Closing balance	**1,427,642**	**1,427,642**
	30.06.14 $'000	**30.06.13[(1)] $'000**
Paid up capital		
– Ordinary	**3,657,240**	**3,657,240**

[(1)] The adoption of new accounting standards has had no impact on comparatives.

Ordinary stapled securities

An ordinary stapled security comprises one share in FL, and one unit in each of FCT 1, FCT 2 and FCT 3. Ordinary stapled securities entitle the holder to participate in distributions and the proceeds on winding up of the Group or Trusts 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, preference units or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Capital risk management

FDC's capital management strategy is to maintain a stable debt and capital structure that will provide consistent returns and flexibility to pursue value adding activities. This will be achieved through maintaining a conservative target gearing ratio between 25% and 35%, retaining an investment grade credit rating, adopting a prudent distribution payout ratio and applying disciplined capital allocation strategies that drive returns for securityholders.

14. EARNINGS/(LOSS) PER SECURITY

Basic earnings per security is determined by dividing the net profit after income tax attributable to securityholders of the Group, excluding any costs of servicing equity other than ordinary securities, by the weighted average number of stapled securities and their equivalents outstanding during the reporting period, adjusted for bonus elements in securities issued during the year.

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary securities and the weighted average number of securities assumed to have been issued for no consideration in relation to dilutive potential ordinary securities.

The following net profit/(loss) amounts are used in the numerator in calculating earnings per stapled security:

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**Restated 30.06.13 $'000**
Net loss attributable to securityholders of Federation Limited	(30,726)	(11,499)
Net profit attributable to securityholders of Federation Centres	441,319	212,655

The weighted average number of securities used in the denominator is as follows:

	Federation Limited and its Controlled Entities	
	30.06.14 Number '000	**30.06.13 Number '000**
Weighted average number of securities used in calculation of basic earnings/(loss) per security	1,427,642	1,420,119
Adjusted for weighted average number of performance rights granted	7,032	5,267
Weighted average number of securities used in calculation of diluted earnings/(loss) per security	**1,434,674**	**1,425,386**

15. NET TANGIBLE ASSET BACKING

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	**30.06.13 [(1)] $'000**
Net assets attributable to securityholders of Federation Centres	3,589,432	3,363,028
Less: Intangible assets	(199,735)	(199,735)
Net tangible assets attributable to securityholders of Federation Centres	**3,389,697**	**3,163,293**
	Number '000	**Number '000**
Number of securities outstanding at the end of the period	1,427,642	1,427,642
	$	**$**
Net tangible asset backing per security	**2.37**	**2.22**

[(1)] The adoption of new accounting standards has had no impact on comparatives.

16. EMPLOYEE BENEFITS EXPENSES

		Federation Limited and its Controlled Entities	
		30.06.14	30.06.13
		$'000	$'000
Salaries and wages		52,996	58,764
Defined contribution superannuation expense		5,629	4,925
Share-based payments expense [1]	17(b)	5,304	4,148
		63,929	**67,837**

[1] Comprises share-based expense arising from the short term performance reward payment (PRPS) and long term performance reward payment (PRPL) plans.

Included in employee benefits expenses are the following amounts relating to key management personnel:

	Federation Limited and its Controlled Entities	
	30.06.14	30.06.13
Short-term employee benefits	9,734	9,964
Post-employment benefits	252	233
Other long-term employee benefits	11	250
Termination benefits	646	872
Share-based payments	3,265	2,567
	13,908	**13,886**

17. SHARE-BASED PAYMENTS

Certain executives were awarded with Group securities under the Long Term Performance Reward Payment Plan (PRPL). The fair value of the securities granted is determined at the grant date and recognised as an expense in the Statement of Comprehensive Income with a corresponding increase in the share-based payment reserve component of equity, over the vesting period.

The fair value at grant date is determined using a recognised option pricing model that takes into account the exercise price, the term of the option, the security price at grant date and expected price volatility of the underlying security, the expected dividend yield and the risk free interest rate for the term of the option.

During the period, to strengthen the overall alignment of the interest of all FDC employees to that of FDC securityholders, FDC incurred share-based payment expenses from:

- A third grant of performance rights to a select number of senior management under the FDC Senior Executive Performance Rights Plan (the Plan) – the FY2014 grant
- The first grant of the PRPS deferred into FDC securities
- $1,000 worth of FDC securities granted to all other employees under the Exempt Employee Securities Plan.

FDC Senior Executive Long Term Performance Reward Payment (PRPL)

(a) Plan description

The Plan (previously called the Long Term Incentive Plan) is designed to align executives' interests with those of securityholders by incentivising participants to deliver long term shareholder returns. Under the Plan, participants are granted performance rights that have dual performance measures whereby a portion of the rights granted have a relative Total Securityholder Return (TSR) vesting hurdle and the remaining portion have an underlying Earnings Per Security (uEPS) and/or Return On Equity (ROE) vesting hurdle. For the purposes of Plan assessment, each performance measure operates independently of the other. The vesting hurdles must be satisfied at the end of the performance period for the rights to vest.

Details of the plan are included in the Remuneration Report.

17. SHARE-BASED PAYMENTS (continued)

(a) Plan description (continued)

Salient features of each grant currently on foot are:

<table>
<tr><th>Grant year</th><th>FY2014</th><th>FY2013</th><th>FY2012</th></tr>
<tr><td>Performance periods</td><td>3 years
1 July 2013 to 30 June 2016.</td><td>3 years
1 July 2012 to 30 June 2015.</td><td>2 years 7 months
1 December 2011 to 30 June 2014.</td></tr>
<tr><td>Holding lock</td><td>12 months after performance period</td><td colspan="2">Nil</td></tr>
<tr><td>Allocation method</td><td>Face value</td><td colspan="2">Fair value</td></tr>
<tr><td>Performance hurdles</td><td>40% TSR / 60% uEPS and ROE</td><td colspan="2">50% TSR / 50% uEPS</td></tr>
<tr><td>TSR comparator Group</td><td>S&P/ASX 200 A-REIT Index excluding Westfield Group.</td><td colspan="2">S&P/ASX 200 A-REIT Index.</td></tr>
<tr><td>Vesting scale – TSR</td><td>
<table>
<tr><th>Percentile ranking</th><th>Percentage vesting</th></tr>
<tr><td>≤ 51st</td><td>0%</td></tr>
<tr><td>between 51st and 75th</td><td>51% to 100%</td></tr>
<tr><td>≥ 75th</td><td>100%</td></tr>
</table>
</td><td colspan="2">
<table>
<tr><th>Percentile ranking</th><th>Percentage vesting</th></tr>
<tr><td>< 50th</td><td>0%</td></tr>
<tr><td>= 50th</td><td>50%</td></tr>
<tr><td>between 50th and 74th</td><td>51% to 100%</td></tr>
<tr><td>≥ 75th</td><td>100%</td></tr>
</table>
</td></tr>
<tr><td>Vesting scale – uEPS/ROE</td><td>
<table>
<tr><th>Target achieved</th><th>Percentage vesting</th></tr>
<tr><td>95%</td><td>25%</td></tr>
<tr><td>Between 95% and 105%</td><td>Between 25% and 99%</td></tr>
<tr><td>≥ 105%</td><td>100%</td></tr>
</table>
</td><td>
<table>
<tr><th>Target achieved</th><th>Percentage vesting</th></tr>
<tr><td>< 100%</td><td>0%</td></tr>
<tr><td>100%</td><td>50%</td></tr>
<tr><td>101%</td><td>75%</td></tr>
<tr><td>≥ 102%</td><td>100%</td></tr>
</table>
</td><td>
<table>
<tr><th>Target achieved</th><th>Percentage vesting</th></tr>
<tr><td>98%</td><td>50%</td></tr>
<tr><td>99%</td><td>70%</td></tr>
<tr><td>100%</td><td>80%</td></tr>
<tr><td>101%</td><td>90%</td></tr>
<tr><td>102% and above</td><td>100%</td></tr>
</table>
</td></tr>
</table>

17. SHARE-BASED PAYMENTS (continued)

(b) Grants during the period

	Federation Limited and its Controlled Entities			
	2014	2014	2013	2013
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening balance at 1 July	6,512,644	Nil	3,008,937	-
Forfeited during the period	(528,149)	Nil	(163,001)	-
Granted during the year	1,745,398	Nil	3,666,708	Nil
Vested during the year	(65,739)	Nil	-	-
Closing balance at 30 June	**7,664,154**	**Nil**	**6,512,644**	**Nil**
Exercisable at 30 June	Nil		Nil	
Weighted average remaining contractual life	1.53		2.1 years	

(c) Fair value and pricing model

The weighted average fair value of the performance rights granted during the year was as follows:

	Federation Limited and its Controlled Entities	
	2014	2013
	$	$
Performance Rights with relative TSR hurdle	1.01	1.07
Performance Rights with underlying EPS hurdle	1.87	1.81

The fair value of performance rights granted under the Plan is estimated at the date of grant using a Monte Carlo Simulation Model taking into account the terms and conditions upon which the performance rights were granted. The model simulates the FDC security price, TSR and the comparator group TSRs to the vesting date using the Monte Carlo Simulation technique. The simulation is repeated numerous times to produce a distribution of payoff amounts. The performance rights fair value is taken as the average payoff amount calculated, discounted back to the valuation date.

In valuing the performance rights, a number of assumptions were used as shown in the table below:

Grant dates	9 December 2013	15 November 2013
Distribution yield (%)	7%	7%
Risk-free interest rate (%)	3%	3%
Volatility of FDC securities (%)	27%	27%
Holding lock adjustment (%)	8%	8%
Security price at measurement date ($)	2.30	2.42

Distribution yield is based on FDC's expected annual distribution rate over the next three years. As FDC was established upon Aggregation in December 2011, there are no historical distribution payments to date. However, a distribution yield of 6% to 7% per annum is not inconsistent with the historical distribution yields of listed property trusts.

The risk free interest rate adopted is based on government bond yields (with a duration consistent with the life of the performance right) sourced from the Reserve Bank of Australia as at the grant dates of the performance rights.

17. SHARE-BASED PAYMENTS (continued)

(c) Fair value and pricing model (continued)

The volatility assumptions are derived having regard to a detailed analysis of historical total security return volatility (i.e. standard deviation) and the implied volatilities of exchange traded options. The implied volatilities fluctuate significantly over time and vary depending on the option considered. However, a sensitivity of the volatility assumptions using a wide range of volatility assumption values will not have a material impact on the fair value of the performance rights calculated.

The fair value of the performance rights with the TSR hurdle is lower than the performance rights with the Underlying EPS hurdle because the valuation of the TSR performance rights incorporates the probability of achieving market conditions whereas the valuation of EPS performance rights does not. This results in a lower fair value for TSR performance rights when compared to EPS performance rights.

FDC Senior Executive Short Term Performance Reward Payment (PRPS)

The PRPS has replaced the Short-Term Incentive (STI) program. Under the PRPS, an amount of the total grant during the year is deferred into equity for 24 months in the case of the Chief Executive Officer and Managing Director, 18 months for other members of the Executive Committee, and 12 months for other senior executives. As this deferred portion is paid in FDC securities, it is recognised as part of share based payment expenses.

Total share based payment expense for the year

The following expenses were recognised during the year relating to share-based payments described above:

	Federation Limited and its Controlled Entities	
	2014 **$'000**	**2013** **$'000**
Long term Performance Reward Plan	3,480	3,562
Deferred Short term Performance Reward Plan paid using FDC securities	1,356	-
Other share based payment expenses [1]	468	575
Total	**5,304**	**4,137**

[1] Mainly relates to the fair value of the shares issues to employees under the Exempt Employee Securities Plan

18. CASH FLOW INFORMATION

Cash assets and cash equivalents include cash in bank and term deposits.

The reconciliation of profit/(loss) after tax to net cash inflow from operating activities is as follows:

		Federation Limited and its Controlled Entities	
	Notes	30.06.14 $'000	Restated 30.06.13 $'000
Net profit after tax		441,319	212,655
Exclude non-cash items and cash flows under investing and financing activities:			
Property revaluation increment for directly owned properties	6(b)	(176,635)	(44,573)
Stamp duty written off on acquisition of investment property		4,864	10,246
Other stamp duty paid		7,977	17,135
Share of net profits of associates and joint venture partnerships accounted for using the equity method	6(a)	(7,378)	(20,764)
Distribution of net income from equity accounted investments	6(a)	6,272	24,388
Fair value adjustment on financial asset at fair value through profit or loss		(999)	5,825
Movement in net assets attributable to puttable interests in consolidated finite life trusts		18,350	17,987
Net movements on mark to market of derivatives		11,541	(752)
Share-based payment expense	17(b)	3,948	4,137
Straight line rent		(7,131)	(163)
Reversing stamp duty on Aggregation		(67,100)	-
Other non cash items [1]		(538)	5,405
Movement in working capital:			
Decrease in trade and other receivables		19,794	7,512
Decrease in trade and other payables		(9,254)	(18,523)
Net cash inflow from operating activities		**245,030**	**220,515**

[1] Included in FY2013 other non-cash items are deferred debt costs and break costs written off, fair value of debt amortisation, tax benefit, loss on capital transactions and bad debts recovered.

19. REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditors of the Group or its related practices.

	Federation Limited and its Controlled Entities 30.06.14 $	Federation Limited and its Controlled Entities Restated 30.06.13 $
Assurance services		
(a) Audit services		
Ernst & Young Australian firm:		
– Audit and review of financial reports and other audit work under the *Corporations Act 2001*	1,299,515	1,722,115
Moore Stephens Australian firm:		
– Audit and review of financial reports and other audit work under the *Corporations Act 2001*	96,000	156,700
Total remuneration for audit services	**1,395,515**	**1,878,815**
(b) Other assurance services		
Ernst & Young Australian firm	277,790	275,665
Total remuneration for other assurance services	**277,790**	**275,665**
Total remuneration for assurance services	**1,673,305**	**2,154,480**
(c) Taxation services		
Ernst & Young Australian firm:		
– Taxation compliance services, including review of company income tax returns	230,000	185,000
Moore Stephens Australian firm:		
– Taxation compliance services, including review of company income tax returns	69,400	68,073
Total remuneration for taxation services	**299,400**	**253,073**

20. FINANCIAL RISK MANAGEMENT

This note details the requirements of AASB 7 *Financial Instrument Disclosures*, which mandates disclosures regarding only financial assets and financial liabilities. As a result, these disclosures, in particular the sensitivity analysis, do not take into account movements in non-financial assets such as investment property and investments accounted for using the equity method.

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to manage its exposures to interest rate risk, whenever possible.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board and subject to periodic review. Group Treasury identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. Group Treasury reports to the Board at least quarterly on the Group's derivative and debt positions and compliance with policy.

The Group holds the following financial instruments:

		Federation Limited and its Controlled Entities	
	Notes	30.06.14 $'000	Restated 30.06.13 $'000
Financial assets			
Cash and cash equivalents		64,870	102,656
Financial assets carried at fair value through profit or loss	6	6,455	82,071
Receivables and other assets	5	158,303	207,526
		229,628	**392,253**
Financial liabilities			
Interest bearing liabilities	8	1,314,409	1,588,136
Payables and other liabilities	9	211,598	210,027
Puttable interests in consolidated finite life trusts	11	95,382	199,173
Derivative financial instruments – interest rate swaps		13,221	2,091
		1,634,610	**1,999,427**

(a) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, unit prices and interest rates, will affect future cash flows or the fair value of financial instruments.

(i) Cash flow Interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and borrowings issued at fixed rates that are measured at fair value expose the Group to fair value interest rate risk. Group policy is to manage cash flow interest rate risk by fixing rates on variable rate debt.

The Group's ability to adhere to this policy is subject to credit limits being available to enter into derivative contracts.

Where available, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under the terms of interest rate swaps, the Group agrees to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The sensitivity to interest rate risk of the Group's floating rate assets and liabilities is illustrated in Note 8(h).

20. FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(ii) Fair value interest rate risk

As at the balance date, the Group has exposure to fair value interest rate risk from holding interest rate swaps, which are necessary to execute its hedging strategy in line with the Group's Risk Management Policy. Fair values are estimated using valuation techniques, including use of recent arm's length market transactions, reference to current fair value of another instrument that is substantially the same or discounted cash flow techniques. Valuation methodologies use observable inputs, mainly interest rates and interest rate curves, and therefore interest rate swaps have been classified as Level 2 in the fair value hierarchy.

The impact that a 25 basis point (bps) (i.e. +0.25%/-0.25%) linear shift in interest rates on the Group's post-tax profits and equity (excluding retained profits) would be an increase of $5.9 million (2013: $7.7 million) or a decrease of $6.0 million (2013:$7.4 million). The sensitivities have been reassessed by management during the financial year in light of the current interest rate curve. This should not be considered a projection.

(iii) Foreign exchange risk

The group is not exposed to foreign exchange risk for the year ended 30 June 2014.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. For FDC, liquidity risk mainly arises from interest bearing liabilities (refer Note 8(f)). The group also has liquidity risk from other financial liabilities such as trade payables and puttable interests in consolidated finite life trusts. The contractual maturities have been disclosed in Note 8 and Note 11 respectively. The exposure arising from these is managed by constant monitoring of the three month operating cash inflows and outflows and ensuring that cash balances in the business do not fall below predefined thresholds. As necessary, FDC draws on its current facilities to meet any obligations that cannot be settled by operational cash inflows.

21. PARENT ENTITY INFORMATION

(a) Parent entity

In preparing the consolidated accounts of FDC, AASB 10 requires a parent to be identified for FDC. FL has been identified as the parent of FDC on the basis that the Directors and management of FDC are employed by FL and its subsidiaries, and the financial and operating policies of FDC are governed by FL.

(b) Financial information

The financial information presented below represents that of FL only and is not comparable to the consolidated results of FL, as presented in the Statements of Comprehensive Income or Balance Sheets.

	Federation Limited	
	30.06.14 $'000	**30.06.13[(1)] $'000**
Statement of Comprehensive Income information		
Net loss attributable to securityholders of the parent entity	(31,716)	(12,467)
Comprehensive income information		
Total comprehensive loss attributable to securityholders of the parent entity	**(31,716)**	**(12,467)**
Balance Sheet information		
Current assets	108,963	103,310
Total assets	422,196	389,755
Current liabilities	(111,271)	50,614
Total liabilities	(481,688)	421,030
Equity attributable to securityholders of the parent entity:		
Contributed equity	-	-
Share based payment reserve	7,940	4,460
Accumulated losses	(67,432)	(35,735)
	(59,492)	**(31,275)**

[(1)] The adoption of new accounting standards has had no impact on parent entity information.

(c) Related party transactions

The parent had the following transactions and balances with related parties during the year:

- FL had related party loan receivables from syndicates for $40.4 million, no impairment was recognised. (2013: $71.4 million)
- FL borrows from FCT 1, FCT 2 and FCT 3 on an unsecured basis. The balance outstanding at 30 June 2014 is $370.4 million (2013: $370.4 million). The interest payable on the borrowings for the year ended 30 June 2014 is $29.9 million. (2013: $28.2 million)
- FL has amounts payable to its subsidiaries of $61.5 million. (2013: $31.6 million)

As some of the above transactions and balances are with other entities that are consolidated in the Group, the effects of such related party transactions have been eliminated in the consolidated accounts of the Group.

(d) Contingent liabilities

With the exception of matters disclosed in Note 25, FL does not have any contingent liabilities as at 30 June 2014. (2013: $nil)

(e) Contractual capital commitments

FL does not have any contractual capital commitments as at 30 June 2014 (2013: $nil).

21. PARENT ENTITY INFORMATION (continued)

(f) Guarantees

FL is a guarantor under the syndicated debt facility held by Federation Centres Finance Pty Ltd (formerly known as CRL Finance Holdings Pty Ltd).

Bank guarantees of $10 million each have been arranged by FL in order for three of the Group's Responsible Entities to meet their financial obligations under their Australian Financial Services Licences.

Bank guarantees totalling $4.9 million have been arranged by the Group to guarantee obligations relating to the corporate office leased at 35 Collins Street, Melbourne Victoria and the state office in New South Wales.

22. RELATED PARTY DISCLOSURES

(a) Parent entity

For accounting purposes, as discussed in Note 21(a), the parent entity of the Group is FL.

(b) Domicile

The Company is domiciled and incorporated in Australia.

(c) Information on related party transactions and balances

(i) Related party loans and interest bearing borrowings

Loan receivable and interest bearing borrowings from related parties are disclosed in the table below:

	30.06.14 $'000	Restated 30.06.13 $'000
Related party loans		
Retail Direct Property 4	-	18,758
Retail Direct Property 21	-	2,480
Tuggeranong Hyperdome	113,800	113,800
	113,800	**135,038**

(ii) Related party receivables

Trade receivables from related parties are disclosed in the table following in section (iii).

An impairment assessment is undertaken each financial year by examining the financial position of the related party to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

Outstanding related party trade receivables balances at year end are unsecured and settlement occurs in cash. Interest is charged on an arm's length basis on amounts greater than 90 days outstanding. The Group does not hold any collateral in relation to related party receivables.

22. RELATED PARTY DISCLOSURES (continued)

(c) Information on related party transactions and balances (continued)

(iii) Related party revenue

The Group has earned fees from related parties as set out in the table below.

30 June 2014	Property management $'000	Development and leasing $'000	Funds management $'000	Total $'000	Amount included in receivables $'000
Wholly owned RDP syndicates	1,287	175	2,522	3,984	10
Non-wholly owned RDP syndicates	1,313	724	2,651	4,688	-
Tuggeranong Hyperdome	-	-	-	-	2,083
Victoria Gardens Shopping Centre	773	-	-	773	1,965
Emerald Village	99	-	2	101	-
Other related parties	5	4	66	75	152
Total	**3,477**	**903**	**5,241**	**9,621**	**4,210**

(d) Ownership interests in significant controlled entities

All entities other than those below are wholly owned subsidiaries as at 30 June 2013 and 30 June 2014.

	Group entity interest 30.06.14 %	Group entity interest 30.06.13 %
Retail Direct Property 5	36.34	36.34
Retail Direct Property 6	61.06	61.06
Retail Direct Property 10	100.00	47.77
Retail Direct Property 10 Unit Trust	100.00	31.47
Retail Direct Property 12	100.00	58.09
Retail Direct Property 12 Unit Trust	100.00	49.84
Retail Direct Property 14	52.02	52.02
Retail Direct Property 14 Unit Trust	27.98	27.98
Retail Direct Property 15	100.00	50.52
Retail Direct Property 15 Unit Trust	100.00	40.39
Retail Direct Property 18	61.07	61.07
Retail Direct Property 18 Unit Trust	67.84	67.84
Retail Direct Property 25	100.00	68.60
Retail Direct Property 26	100.00	86.31
Retail Direct Property 27 Investment Trust	100.00	60.01
Retail Direct Property 27 Property Trust	100.00	79.70
Retail Direct Property 30	100.00	57.08
Retail Direct Property 37	100.00	55.73

23. COMMITMENTS

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Federation Limited and its Controlled Entities	
	30.06.14 $'000	Restated 30.06.13 $'000
Capital expenditure:		
- Capital expenditure projects [(1)]	136,990	15,546

[(1)] Includes Federation Development Pty Ltd, a wholly-owned entity of FDC, which has undertaken to act as agent on behalf of FDC managed vehicles. FDC will initially incur the capital expenditure, but expects to recoup 100% of these costs from the FDC managed vehicles.

24. OPERATING LEASES

The property of the Group is leased to third party tenants under operating leases at balance date. Lease terms vary between tenants and some leases include percentage rent payments. Future minimum rental revenues under non-cancellable operating leases at balance date are as follows:

	Federation Limited and its Controlled Entities	
	30.06.13 $'000	Restated 30.06.13 $'000
Receivable:		
- Within one year	373,529	368,660
- Later than one year but not later than five years	943,359	972,926
- Later than five years	611,058	622,291
	1,927,946	**1,963,877**

These amounts do not include percentage rentals which depend upon retail sales performance, and recovery of outgoings.

25. CONTINGENT LIABILITIES

(a) Contingent commitments

FDC is a co-investor in some of its managed funds. In recognition of the potential liquidity requirements of co-investors in its unlisted managed funds, FDC has provided exit mechanisms to investors at the then net asset backing of the relevant fund.

Retail Direct Property syndicates managed by FDC have fixed investment periods. The constitutions of certain syndicates provide investors in those syndicates with a Flexible Exit Mechanism (FEM). Towards the end of the investment period, the constitutions provide that the FEM must be triggered or the Responsible Entity may choose to terminate the syndicate if in the best interest of investors.

This FEM entitles investors to put (sell) their units in the syndicate to FDC at the then net asset value. In the 12 months to 30 June 2015, FDC may be obligated to acquire up to $32 million of externally owned units in syndicates (based on 30 June 2014 net asset backing).

26. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

(a) Restructure of bank facilities in August 2014

In FDC's ongoing review of its debt strategy, FDC has entered into new banking arrangements with its incumbent lenders resulting in the replacement of the syndicated facility with a club style banking structure. Under these arrangements, FDC can negotiate volume, tenor and price on a bilateral basis, while the facility terms are governed by common provisions applicable to all participating lenders.

Following on from the second bond issuance in May 2014 under the AMTN, FDC was also able to reduce its core banking limits from $1.555 billion to $1.405 billion (a reduction of $150 million equivalent to the A$ bond face value), comprising:

- $555 million maturing August 2015;
- $250 million maturing August 2016;
- $200 million maturing August 2017;
- $200 million maturing August 2018; and
- $200 million maturing August 2019.

There was also a reduction in financial covenants (a decrease in number of covenants which have substantially the same or better thresholds).

(b) Increase to second half-year distribution declared

On 22 August 2014, the Directors increased the second half-year distribution by 0.4 cents to 8.2 cents per security. This brings the full year distribution declared to 15.7 cents per security ($224 million).

Except for the matters discussed above, no other matter or circumstance has arisen in the interval between 30 June 2013 and the date hereof that has significantly affected or may significantly affect:

(i) the Group's operations in current and future financial years, or

(ii) the results of those operations in current and future financial years, or

(iii) the Group's state of affairs in current and future financial years.

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes of Federation Centres (the Group) set out on pages 49 to 97 are in accordance with the *Corporations Act 2001*, including:

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

   (ii) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date; and

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

(c) The financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Bob Edgar

Chairman

Signed in Melbourne, 22 August 2014

Building a better working world

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Independent auditor's report to the members of Federation Limited

Report on the financial report

We have audited the accompanying financial report of Federation Centres (the 'Group'), which comprises the consolidated balance sheets as at 30 June 2014, the consolidated statements of comprehensive income, the consolidated statementsof changes in equity and the consolidated cash flow statements for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising Federation Limited (the 'Company') and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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Opinion

In our opinion:

a. the financial report of Federation Centres is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1 (a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 17 to 46 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Federation Centres for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

B R Meehan
Partner
Melbourne
22 August 2014

Appendix 4E

Financial Report

Name of entity

Federation Limited including **Federation Centres Trust No. 1**,
Federation Centres Trust No. 2 and **Federation Centres Trust No. 3.**

ABN or equivalent company reference	Half yearly *(tick)*	Final *(tick)*	Financial year ended ('current period')
Federation Limited 90 114 757 783		ü	**30 June 2014** (Previous corresponding period: 30 June 2013)

Results for announcement to the market

	30.06.14 $'000	30.06.13 $'000	Change $'000	% Change
Revenue	546,548	568,615	(22,067)	(3.9)
Net profit attributable to securityholders of Federation Centres	441,319	212,655	228,664	107.5
Underlying earnings [1]	242,925	224,350	18,575	8.3

Please refer to the Review of operations within the Directors' report for commentary on the results.

[1] Underlying earnings is a financial measure that represents the profit/(loss) under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items. The inclusion of underlying earnings as a measure of profitability of Federation Limited provides investors with the same basis that is used internally for evaluating operating segment performance. Underlying earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare. A reconciliation of Federation Limited's statutory profit/(loss) to underlying earnings is provided in Note 4 Segment Information of Federation Limited's 30 June 2014 full year financial report.

Dividends (distributions)	Amount per security (distribution from Trust)	Amount per security (dividend from Company)	Record date for determining entitlements to the dividend (in the case of a trust, distribution)
Full year distribution	7.5 cents 7.8 cents 0.4 cents	-	31 December 2013 30 June 2014 29 August 2014
Previous corresponding period	6.6 cents 7.5 cents	-	31 December 2012 28 June 2013

Control gained over entities having material effect

Name of entity (or group of entities)	N/A
Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired	N/A
Date from which such profit has been calculated	N/A
Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A

Loss of control of entities having material effect

Name of entity (or group of entities)	N/A
Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	N/A
Date to which the profit (loss) has been calculated	N/A
Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	N/A
Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control	N/A

Dividends (in the case of a trust, distributions)

Date the dividend (distribution) is payable	29 August 2014 19 September 2014
Record date to determine entitlements to the dividend (distribution) (i.e., on the basis of proper instruments of transfer received by 5.00 pm if securities are not CHESS approved, or security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules if securities are CHESS approved)	30 June 2014 29 August 2014
If it is a final dividend, has it been declared?	Yes

Amount per security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Final dividend:			
Current year			
Distribution from Trust	8.2¢	-¢	-¢
Dividend from Company	-¢	-¢	-¢
Total distribution	8.2¢	-¢	-¢
Previous year			
Distribution from Trust	7.5¢	-¢	-¢
Dividend from Company	-¢	-¢	-¢
Total distribution	7.5¢	-¢	-¢
Interim dividend:			
Current year			
Distribution from Trust	7.5¢	-¢	-¢
Dividend from Company	-¢	-¢	-¢
Total distribution	7.5¢	-¢	-¢
Previous year			
Distribution from Trust	6.6¢	-¢	-¢
Dividend from Company	-¢	-¢	-¢
Total distribution	6.6¢	-¢	-¢

Total dividend (distribution) per security (interim plus final)

	Current year	Previous year
Ordinary securities	15.7¢	14.1¢
Preference securities	-¢	-¢

There are no dividend or distribution reinvestment plans currently in operation.

Details of aggregate share of profits (losses) of associates and joint venture entities

Group's share of associates' and joint venture entities':	**Current year $A'000**	Previous year $A'000
Profit (loss) from ordinary activities before tax	**7,378**	**20,764**
Income tax on ordinary activities	**-**	
Profit (loss) from ordinary activities after tax		**20,764**
Extraordinary items net of tax	**7,378**	**-**
Net profit (loss)		**20,764**
Adjustments	**7,378**	**-**
Share of net profit (loss) of associates and joint venture entities	**7,378**	**20,764**

Material interests in entities which are not controlled entities

The economic entity has an interest (that is material to it) in the following entities. *(Where the interest was acquired or disposed of during either the current or previous year, the date of acquisition ("from dd/mm/yy") or disposal ("to dd/mm/yy") is shown below.)*

a) Ownership Interests in Significant Associates accounted for using the equity method of accounting

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss)	
	Current period	Previous corresponding period	**Current period**	Previous corresponding period
	%	%	**$A'000**	$A'000
Bankstown Central [1]	**n/a**	**n/a**	**-**	**4,982**
Lutwyche City [2]	**n/a**	**n/a**	**-**	**1,200**
Roselands [1]	**n/a**	**n/a**	**-**	**9,820**
Tuggeranong Hyperdome	**50%**	**50%**	**(550)**	**1,032**
Victoria Gardens Shopping Centre	**50%**	**50%**	**7,228**	**4,147**

[1] Proportionately consolidated from 28 June 2012

[2] Consolidated from 17 December 2012

Compliance statement

This report is based on accounts to which one of the following applies.

(Tick one)

þ	The accounts have been audited.	¨	The accounts have been subject to review
¨	The accounts are in the process of being audited or subject to review.	¨	The accounts have *not* yet been audited or reviewed

Sign here:

Date: 22 August 2014

Print name: Bob Edgar (Chairman)