

22 August 2014

Federation Centres Delivers Strong FY2014 Results

Federation Centres (FDC) is pleased to announce its results for the financial year ended 30 June 2014:

(Comparisons are with the 2013 Financial Year results unless otherwise stated.)

Financial

- Statutory Net Profit After Tax of \$441.3 million, up from \$212.7 million.
- Underlying Earnings of \$242.9 million up 8.2%.
- Balance Sheet gearing¹ of 24.1%, down from 25.5%.
- Final distributions totalling 8.2 cents per security², up from 7.5 cps in previous corresponding period.
- Total distribution attributed to FY2014 up 11.3% to 15.7 cps, an increase of 1.6 cps.
- Net tangible assets up 6.8% to \$2.37 per security.

Operational

- 63 retail assets now owned or co-owned, up from 47 assets. FDC's interest valued at \$4.7 billion.
- Occupancy rate steady at 99.5%.
- Net Operating Income growth of 2.3% compared to 2.8%.
- Positive rental growth on renewals of 3.1%, almost unchanged from 3.2%.
- Specialty Retail sales growth of 1.6% compared to 2.9% (on a moving annual turnover basis).
- Portfolio weighted average capitalisation rate 7.25%, compared to 7.46%.

Strategic

- Increased redevelopment project pipeline to \$1.3 billion (total value).
- Warnbro development to be completed early, ahead of previous financial forecasts.
- FY2014 weighted average cost of debt of 5.15%, declining to between 4.7% and 4.9% for FY2015.
- More than \$600 million of assets purchased at an average yield of over 8.2%.
- Corporate overheads reduced by 10.5%.
- New whole of business IT platform launched 1 July 2014.

Overview

Federation Centres Managing Director and CEO, Steven Sewell said: "It has been a busy year. We have delivered strong financial results through active portfolio management, continuing conservative management of our debt and a focus on operational and overhead costs. We also made good progress against our strategic objectives.

"The strength of the FY2014 results, particularly closing the year with lower overhead and financing costs, facilitated an extra distribution of 0.4 cents per security as well as the previously declared final distribution of 7.8 cents per security, making a total of 8.2 cents per security. This delivers an 11.3% uplift in distributions made in relation to the 2014 financial year compared with the prior year.

¹ Balance Sheet gearing excludes cash (Drawn Debt less cash/Total Tangible Assets less cash).

² An additional distribution of 0.4 cps has been declared and will form part of FY2015 distributions for tax purposes. The previously declared final distribution was 7.8 cps. See additional distribution timetable below.

“Underlying earnings increased by 8.2% to \$242.9 million. Statutory profit more than doubled to \$441.3 million, primarily due to asset revaluations across the predominantly sub-regional based portfolio.

“In addition to the strong return to investors, we invested in a cloud-based, scalable and flexible IT platform which is now operational across the organisation and was delivered within the expected budget and timetable.

“We continued to expand functional capability across key areas such as Leasing and Development, as well as in areas such as innovation and technology. At the same time we continued to simplify the corporate structure with the transition out of the syndicate business. Active portfolio management saw the net addition of 16 assets worth more than \$600 million, primarily purchased from the syndicate business as well as Carlingford Court which was purchased from an external party. In addition, several assets were recently contracted for disposal at attractive pricing relative to holding values.

“During the year we have efficiently managed the overall business and further improved our balance sheet strength, particularly through diversifying our sources of funding with Debt Capital Market issuance. At the same time we have invested in our people, processes and infrastructure – all with a view to cost effectively accelerate the enhancement and redevelopment of the portfolio.

“During the year 25 shopping centres were rebranded. The remainder of the centres to be rebranded will be completed by the end of November 2014.

“The \$44.3 million fall in funding costs is the result of several years of work, culminating in the latest restructure of our single debt facility into a bilateral club facility, utilising our ‘A-’ senior secured debt rating and lender demand to drive very competitive pricing. The weighted average cost of debt at 30 June 2014 was 5.15%, compared to 8.07% two years ago.

“In addition to the lower financing costs, corporate overhead costs were driven lower in the 2014 financial year with further savings targeted in the current financial year through improvement in procurement practices and technology applications.

“During FY2014 close to 90% of our people participated in our first employee engagement survey which showed a high level of engagement with the organisation’s strategic objectives. The results will be used to develop and refine culture change and other employee programs.

“As a result, Federation Centres is well placed with people, processes and systems to continue to redevelop and optimise our portfolio to better serve our retailers and local communities and maximise the returns for our investors,” he said.

Redevelopment

“After good progress on several larger scale projects, the rolling five year redevelopment pipeline has been expanded to \$1.3 billion, with the FDC share approximately \$673 million,” he said.

“A total of four projects are currently Board approved with a total value of \$288 million, with two under construction and two expected to have commenced by the end of FY2015, at Warriewood Square in New South Wales (\$84m) and Colonnades in South Australia (\$52m).

“Our first major redevelopment project from this pipeline will be completed next month at Warnbro Centre in Western Australia – and after better than expected income and substantially below budget project costs, this project is now expected to exceed previous financial forecasts.

“Construction at Cranbourne Park in Victoria is ahead of schedule and leasing deals with all anchor tenants plus key mini major retailers have been completed. The project cost has been expanded to accommodate a new mini major with the cost marginally increased to \$112.3 million with yield and IRR unchanged,” Mr Sewell said.

Outlook

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 within the range of 90% to 95% of underlying earnings, or 95% to 105% of adjusted funds from operations (AFFO).

Summary financial table:

Summary segment income statement for the year ended 30 June 2014	FY14	FY13
Extracted from Note 4 of FDC's Financial Report for the year ended 30 June 2014.		
	\$m	\$m
Direct property investment income	310.3	309.5
Syndicate investment income	11.7	22.0
Total Investment Income	322.0	331.5
Property management, development and leasing fees	14.4	12.7
Syndicate management fees	5.1	27.3
Total Income	341.5	371.5
Overheads (net of recoveries)	(40.1)	(44.8)
Financing costs	(56.7)	(101.0)
Depreciation and Amortisation	(1.8)	(1.3)
Underlying Earnings	242.9	224.4
Non-distributable items:		
Stamp duty	54.3	(27.4)
Asset revaluations	160.1	25.2
Fair value adjustments mark to market	(10.9)	(4.8)
Net profit in consolidated syndicates net of distributions	5.8	4.0
Software implementation costs	(18.4)	-
Other	7.5	(8.7)
Net Profit After Tax	441.3	212.7
Underlying earnings per security (cents)	17.0	15.8
Distributions per security (cents)	15.7	14.1

Timetable for original final distribution:

Ex-Distribution Date	26 June 2014
Record Date	30 June 2014
Payment Date	29 August 2014
Distribution Per FDC Stapled Security	7.8 cents

Timetable for additional distribution:

Ex-Distribution Date	27 August 2014
Record Date	29 August 2014
Payment Date	19 September 2014
Distribution Per FDC Stapled Security	0.4 cents

FDC Annual General Meeting

FDC's Annual General Meeting will be held at the Sofitel Melbourne on Collins, 25 Collins Street, Melbourne on 30 October 2014, commencing at 2.00 p.m. in the Fitzroy Ballroom.

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About Federation Centres (ASX: FDC)

Federation Centres (FDC) is a fully vertically integrated Australian real estate investment trust (A-REIT) specialising in the ownership and management of Australian shopping centres. With \$6.9 billion of shopping centres under management, FDC employs over 600 people with offices in Melbourne, Sydney, Brisbane and Perth. For more information, please visit the FDC website at www.federationcentres.com.au.

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Federation Centres Limited ABN 88 149 781 322 as responsible entity for:

- 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