



**FEDERATION**  
CENTRES

**Annual Report 2014**

## 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 more than 600 people and has offices in Melbourne, Sydney, Brisbane and Perth. For more details of the business operations of Federation Centres, please see page 38.

FDC is a stapled group comprised of Federation Limited, Federation Centres Trust No. 1, Federation Centres Trust No. 2 and Federation Centres Trust No. 3.

Federation Limited ABN: 90 114 757 783

Federation Centres Limited ABN: 88 149 781 322

## Contents

2	Chairman's review
4	Chief Executive Officer's review
6	Our performance
8	Strategic agenda
9	National portfolio review
10	Victoria & Tasmania
13	New South Wales & ACT
14	Western Australia
16	Queensland
17	South Australia & Northern Territory
19	Development
20	Leasing
23	People & Culture
24	Sustainability
26	Board of Directors
28	Executive Committee
30	Corporate Governance
36	Directors' Report
47	Remuneration Report (Audited)
74	Auditor's Independence Declaration
75	Financial Statements
123	Directors' Declaration
124	Independent Auditor's Report
126	Summary of Securityholders
127	Glossary
129	Corporate Directory

## DISCLAIMER

This report contains forward-looking statements, including statements, indications and guidance regarding future earnings, distributions and performance. The forward-looking statements are based on information available to Federation Centres as at the date of this report. These forward-looking statements are not guarantees or predictions of future results or performance expressed or implied by the forward-looking statements and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of Federation Centres. The actual results of Federation Centres may differ materially from those expressed or implied by these forward-looking statements, and you should not place undue reliance on such forward-looking statements. Except as required by law or regulation (including the ASX Listing Rules), we undertake no obligation to update these forward-looking statements.





## Our Ethos

At Federation Centres, we believe in **partnering** with our stakeholders to provide engaging **consumer experiences** for **our local communities**.

At the heart of **our success** is our team at **Federation Centres** who are passionate about delivering on **our brand promise** and helping to drive sustainable returns for our investors.

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**Assets under management**  
\$ billion

\$6.9bn

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**Number of leases**  
More than

4,600

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**Annual retail sales**  
\$ billion

\$8.7bn

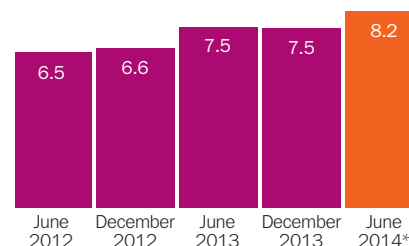
# Chairman's review

FY2014 has been a year of excellent progress against the strategic agenda, which encompassed rebranding, redevelopment and a range of activities to improve operational performance.



## Distributions per security

cents



Federation Centres delivered a strong financial performance for FY2014 and made excellent progress against the Group's overall strategic agenda.

Underlying earnings increased by 8.2% to \$242.9 million in FY2014, with the Group recording a net profit of \$441.3 million, more than double the previous year's figure. The distribution for the full year of 15.7 cents was up 11.3% from 14.1 cents in the prior year.

Our strong financial performance was achieved despite continued volatility in key economic drivers, such as retail sales and consumer confidence, and subdued overall economic growth during the year. Although retail sales in Australia rose overall, there were significant differences in performance between each of the states. The overall figures also showed month-on-month volatility rather than a consistent trend.

Federation Centres' financial performance reflected the underlying quality of the total managed portfolio of 70 predominantly supermarket-anchored regional, sub-regional and convenience centres. Valued at \$6.9 billion, the portfolio has a bias towards non-discretionary spending.

The depreciation of the Australian dollar moderated the impact of online sales competition. Unfortunately, domestic retailers remain at a disadvantage in relation to the Goods and Services Tax (GST), which is charged on sales through domestic retailers but not on online sales of imported goods below \$1,000.

Within the total managed portfolio, Federation Centres owned or co-owned 63 centres, with a value of \$4.7 billion at the end of the financial year.

Federation Centres improved its funding profile significantly. A total of \$300 million was raised on debt capital markets (DCM) during the year, comprising \$150 million of six-year debt and a further \$150 million of seven-year debt. Both issues were rated A- by Standard & Poor's.

The debt funding program, which diversifies funding sources, has several important benefits. By establishing a DCM presence, Federation Centres reduced its reliance on shorter-term bank funding that tends to be for a maximum term of five years. Debt capital market funding is available for increasingly longer terms at attractive rates.

Spreading the maturity profile of debt funding over a longer timeframe, with smaller amounts maturing each year, also reduces future funding risk. It is our medium-term objective to match our funding profile to the long-term nature of the management and ownership of shopping centres.

The balance sheet of the Group remains very strong, with gearing at 24.1%, which is slightly below our target range of 25% to 35%. This provides us with the flexibility to take full advantage of development opportunities in the portfolio and to fund ongoing acquisitions from the syndicate business.

Our balance sheet and funding positions are consistent with the objective of the Board and Management team to deliver stable and growing returns to investors.

Following the name change to Federation Centres in 2013, the rebranding of centres is nearing completion and is within the expected timeframe and significantly below the expected budget.

Another important change this year was the introduction of non-financial factors, such as sustainability, diversity and employee engagement, alongside traditional financial measures within this report (see pages 6 and 7). We believe the success of business as a whole depends on both financial and non-financial measures. The move towards more holistic reporting is consistent with the commitment we have to sound, ongoing relationships with the communities we serve, our retailers and other key stakeholders.

During the year, Mr Peter Day, who has served as a Director since October 2009, retired from the Board. Peter played a crucial role in the restructuring process that ultimately led to the formation of Federation Centres. On behalf of the Board, I would like to thank Peter for his significant contribution.

Following Peter's decision to retire, Ms Wai Tang was appointed as a Non-executive Director. Wai has a wealth of retail industry experience at both senior executive and board level. I am sure Wai will be a valuable addition to the Board.

I would also like to thank our people for their efforts across the Federation Centres business in delivering these results.

**BOB EDGAR**  
Chairman

\* The strength of the FY2014 results facilitated an additional distribution of 0.4 cents per security as well as the previously declared final distribution of 7.8 cents per security. Details page 43.



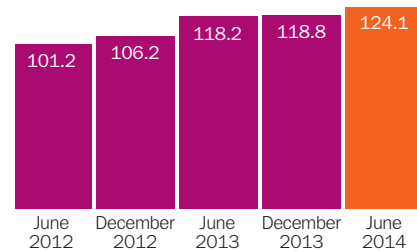
# Chief Executive Officer's review

Increased returns to securityholders, combined with continued investment in our centres, systems and people, were the hallmarks of the progress made during FY2014.



## Underlying earnings

\$million



In FY2014, Federation Centres delivered sound operating results; improved our portfolio of shopping centres through strategic capital recycling; progressed the redevelopment and refurbishment of our properties; and simplified and improved the efficiency of our business. All in all this is pleasing progress.

Trading conditions for retailers improved modestly during the year but were not without challenges.

Federation Centres' portfolio performed well, with occupancy maintained at the near-full level of 99.5%, and organic net operating income was up 2.3% on the previous year.

Annual retail sales at properties in Federation Centres' portfolio increased by 0.7% for FY2014. Sales growth was driven by supermarkets, which recorded a 1.1% increase in moving annual turnover. Specialty sales also improved with an increase of 1.6%. These categories represent more than 75% of total sales in our centres.

The Warnbro Centre redevelopment in Western Australia was completed shortly after the end of the financial year, and the Cranbourne Park redevelopment in Victoria is on schedule to be completed in the third quarter of 2015.

These are the first redevelopments in a \$1.3 billion dollar redevelopment pipeline.

Projects at Warriewood Square in New South Wales and Colonnades in South Australia have Board approval to commence in FY2015. Proposals for other projects expected to commence in FY2015 are progressing well.

In addition to the redevelopments, a large number of retailer fitout upgrades were completed to bring

the latest and, in some instances, newly-launched store formats of well-known brands to our centres.

The Federation Centres owned and co-owned portfolio increased from 47 centres to 63 during the year as a result of the purchase of Carlingford Court in Sydney in co-ownership with a major superannuation fund, as well as the ongoing acquisition of centres from the syndicate business.

As part of a decision to wind up the syndicate business, Federation Centres will seek to continue to acquire assets that meet our portfolio criteria. The majority of this activity is expected to be completed during the first half of FY2015.

Our portfolio is actively managed to meet our strategic equity returns objectives; as a result, several properties were disposed of during the year, with the proceeds recycled into the redevelopment pipeline.

The roll-out of an enterprise-wide information technology platform – a major initiative that will replace many legacy systems, improve our management information and reduce complexity – was a major investment in improved business efficiency.

Cost optimisation is the second important area where efficiency opportunities were a focus of programs to improve processes and supplier tender arrangements.

The growth potential and opportunities available within our portfolio require investment in our people, and we have continued to build the capability of our teams in the areas of leasing, procurement, development, safety and finance during the year.

This combination of investment in our centres, as well as in retail tenancy design, delivery and fitout, and in our people provides the foundation for a continued lift in sales productivity across the portfolio and ultimately, enhanced returns for our investors.

There were several changes to the Executive Committee during the year. I would like to thank Dimitri Kiriacoulacos, General Counsel and Executive General Manager Corporate Development, and Paul Belcher, Deputy Chief Financial Officer and Executive General Manager Finance, for their substantial contributions to the Group. We wish them well for the future.

New appointments to the Executive Committee were Peter Coroneo as Executive General Manager Leasing and Carolyn Reynolds as General Counsel. Both have extensive experience in their respective areas (See pages 28 and 29) and have proven to be valuable additions to the senior leadership team.

I would like to thank our investors for their support of Federation Centres, and I would also like to thank our consumers, our retailers and our committed and enthusiastic team of people right across the country for the success and growth of the business during the past year.

### STEVEN SEWELL

Chief Executive Officer  
and Managing Director

# Our performance

In FY2014 our performance highlights include both financial and non-financial measures. This approach recognises that there is a range of factors that demonstrate the performance of an organisation and make it a sound and well-managed business.



## Financial

- Statutory net profit more than doubled to \$441.3 million
- Underlying earnings up 8.2%
- Organic net operating income growth of 2.3%
- Distributions made in relation to FY2014 delivered an 11.3% uplift from 14.1 cents to 15.7 cents. Details page 43.



## Strategic

- Active portfolio management including:
  - developments at several key assets;
  - the purchase of Carlingford Court in New South Wales; and
  - the disposal of non-core centres
- Implementation of a new, scalable information technology platform
- Portfolio rebranding near completion
- Sustainability measures included in procurement and tenancy fitout guidelines
- National community partnerships established with The Smith Family, The Song Room and the Property Industry Foundation





## People & Leadership

- Strong levels of engagement and alignment recorded in inaugural employee survey
- Leasing and Development team talent recruitment
- Inaugural graduate program intake
- Diversity Forum and associated programs to support diversity in our workplaces
- Enhanced talent and reward frameworks aligned with business objectives



## Operational Excellence

- Occupancy levels sustained and improved overall rent growth
- Sales underpinned by non-discretionary bias
- Debt management strategy implemented to diversify, smooth and extend maturity profile
- National presence leveraged to improve procurement processes
- Stable safety record maintained

# Strategic agenda

Our strategic vision is to be a leading Australian retail REIT, creating sustainable returns for our investors.

## Our strategic drivers

### ORGANIC INCOME GROWTH

Continue to manage our portfolio to maximise sales productivity for our retailers, support sales growth, maintain high occupancy levels and, as a result, drive net operating income.

### REDEVELOPMENT AND PORTFOLIO MANAGEMENT

Focus on unlocking the redevelopment, refurbishment and tenancy remixing opportunities throughout the portfolio and consider the strategic positioning of the portfolio to ensure the mix of assets is aligned to best deliver value.

### OPERATIONAL EFFICIENCIES

Invest in Federation Centres' systems, infrastructure and processes to create operational efficiency and reduce cost.

### FINANCING INITIATIVES

Manage gearing and funding arrangements to create the flexibility and capacity for Federation Centres to undertake the strategic agenda of the Group. Develop funding sources that are diverse, match the long-term nature of the asset base and have well-balanced annual funding requirements to reduce risk.

### CORPORATE READINESS

Simplify the business structure and continue to build and strengthen the Federation Centres' talent base to facilitate growth. Invest in our digital strategy to enhance the experience at our shopping centres, delivering improved customer engagement and increased retailer productivity.

### STAKEHOLDER ENGAGEMENT AND SUSTAINABILITY

Take into account the importance of engagement with all stakeholders and the sustainable development of our business as contributors to achieving our strategic vision to deliver value for our securityholders.



# National portfolio review

The rebranding of our centres is well advanced.

Federation Centres owns, co-owns and manages a national portfolio of 70 shopping centres with a total value of \$6.9 billion.

Well known Australian retail brands are the key retailers in the portfolio. The top ten retailers, which represent 30% of total income, are Woolworths, Coles, Kmart, Big W, Target, Myer, Terry White Chemists, Priceline, The Reject Shop and Commonwealth Bank.

The owned or co-owned portfolio, which is well diversified by type of centre with a good geographical spread, maintained its historically high occupancy rate during the year. The portfolio is typically supermarket anchored in well-established catchments.

During the year, the majority of Federation Centres' shopping centres by value were rebranded. The rebranding of the remaining centres will be completed by the end of 2014.

A total of 15 assets were acquired from Retail Direct Property syndicates during the year, involving transactions totalling \$516 million, although due to existing Federation Centres' holdings in the syndicates, the cash outlay was only \$131 million. The average acquisition yield of 8.43% on syndicate assets was accretive to Group earnings. Only seven properties worth \$314 million remain in four syndicates, with Federation Centres' interest totalling \$80 million.

The strategic purchase of Carlingford Court in New South Wales from an external party for \$177 million also took place during the year via a 50% co-ownership arrangement with a major Australian superannuation fund. This took total purchases for the year to \$693 million, of which Federation Centres' share was \$605 million.

To ensure the portfolio is aligned with Federation Centres' strategic vision and redevelopment plans, several centres were divested during the period. The centres sold or announced for sale during the year were Somerville, Springwood and Arndale (Federation Centres); and Kiama, Woodcroft and Seven Hills (syndicate centres).

Annual retail sales growth was 0.7%,<sup>1</sup> with supermarkets and specialties driving the performance while mini majors made a modest contribution. The department store and discount department store categories recorded a decline in sales, consistent with industry-wide results for these categories.

1. In FY2013 Wesfarmers and Woolworths reported 53 weeks of sales. The sales growth for the current period has been adjusted to exclude this additional week from the prior period.



In FY2014, 25 centres across five states were renamed in line with the new brand strategy. More than 1,100 signs were either replaced or newly installed and a further 2,000 signs were removed or debranded. In all, rebranding involved over 25,000 manhours by contractors and project managers.

# Victoria & Tasmania

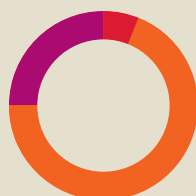
Redevelopment, rebranding and refurbishment across the portfolio made it a busy year.

## Key statistics

Owned/Co-owned Shopping Centres	16
Ownership Value	\$1.1 billion
% of Portfolio	24%
No. of Retailers	1,136
GLA ('000 sqm)	344.6
No. of Managed Centres	19

## Type of centre

- Regional 1
- Sub-regional 11
- Convenience 4



## Number of Federation Centres team members in Victoria & Tasmania

329

In Victoria, Federation Centres manages a portfolio of 16 retail centres, comprising one regional centre, 12 sub-regional centres and three convenience centres. All are in well established communities in metropolitan or regional areas.

Federation Centres wholly owns eight of the 16 centres, five centres are co-owned on a 50/50 basis, and three centres are managed on behalf of Retail Direct Property syndicates.<sup>1</sup>

Annual retail sales for the owned and co-owned portfolio were \$1.7 billion. Retail sales growth for the year to 30 June was 0.4%, which was slightly below the average of the total portfolio.

The owned and co-owned portfolio occupancy rate was 99.4% for the year. This was slightly below Federation Centres' national portfolio average.

The Victorian owned and co-owned portfolio was valued at \$1.6 billion, with Federation Centres' share totalling \$1.0 billion. During the year, all 13 owned and co-owned retail centres improved in value by a total of \$74 million.

Apart from the \$112.3 million redevelopment at Cranbourne Park, which commenced during FY2014 and is on schedule to be completed in the third quarter of 2015, there was a focus on working with retailers to introduce a range of latest, or newly-launched, store formats.

Federation Centres' wholly-owned centres are Box Hill Central (North and South precincts), Mildura Central, Mornington Central, Wodonga Plaza, Oakleigh Central and Warrnambool. The sub-regional centre, Somerville, was sold after the end of the financial year.

The Glen, which is the largest asset in the Victorian portfolio and Federation Centres' fourth largest investment overall, is co-owned with the Perron Group.

The other co-owned assets are all sub-regional centres. They are (co-owner in brackets): Karingal Hub and Cranbourne Park (ISPT), Victoria Gardens (Salta) and Sunshine Marketplace (Challenger).

The properties that are managed on behalf of Retail Direct Property syndicates are the sub-regional centres Belmont Shopping Village and Brandon Park and convenience centre The Gateway Shopping Village.

In Tasmania, Federation Centres wholly owns the sub-regional centre Burnie and the convenience centres Glenorchy and Meadow Mews.

1. Federation Centres will seek to continue acquiring assets and transitioning out of the majority of the syndicate business.





The largest shopping centre in the Victorian portfolio is The Glen, which is co-owned with the Perron Group.



The new tenancy fitout of Sumo Salad at Victoria Gardens was typical of the focus on high-quality design outcomes. Other tenancy improvements included the bakery Bon Bons at Box Hill and Gazman and Optus at The Glen.





Carlingford Court was purchased during the year in a co-ownership arrangement with a major superannuation fund. Federation Centres is responsible for management and development of the centre.



Students from 55 New South Wales schools designed and decorated 64 rhino calf sculptures to raise awareness and funding of Taronga Zoo's world-leading black rhino breeding program. As the official education partner, Federation Centres displayed the colourful rhino calves at six centres across the state.



# New South Wales & ACT

In NSW six centres, including both regional centres, are in the Sydney metropolitan area with the remaining centres located in well-established regional communities.

In New South Wales, Federation Centres owns a portfolio of 15 retail centres, comprising two regional centres, 11 sub-regional centres and two convenience centres.

Federation Centres wholly owns nine of the 15 centres, and six centres are co-owned on a 50/50 basis.

Annual retail sales for the owned and co-owned portfolio were \$2.3 billion. Retail sales growth for the year to 30 June was 2.8%, which was above the average of the total portfolio and reflects the stronger retail figures in New South Wales compared to the national average.

The owned and co-owned portfolio occupancy rate was 99.7% for the year, which was above Federation Centres' national portfolio average, reflecting the strength of the overall portfolio in New South Wales.

The total owned and co-owned portfolio was valued at \$1.9 billion, with Federation Centres' share totalling \$1.2 billion. During the year, 12 of the 15 owned and co-owned retail centres improved in value by a total of \$42 million, excluding Carlingford Court, which was acquired during the year. This was offset by lower valuations for Tweed and Lavington, which have faced increased competition in their catchment areas.

The sub-regional centre Carlingford Court was acquired for \$177 million in co-ownership with a major superannuation fund (see picture opposite). The centres Maitland Hunter Mall, Lennox, Tweed

Supermarket, Raymond Terrace and Albury were acquired from Retail Direct Property syndicates during the year and now form part of the owned and co-owned portfolio.

Federation Centres' wholly-owned centres are Albury, Armidale, Goulburn, Lavington Square, Maitland Hunter Mall, Nepean Village, Raymond Terrace, Tweed and Westside.

The two regional centres, Bankstown Central and Roselands, are co-owned with fund manager Challenger. There were small tenancy remix redevelopment projects completed at both these centres during the year. At Bankstown, an additional 3,800 square metres of lettable area was created through a rooftop conversion that added mini majors, including Rebel Sport. At Roselands, a JB HiFi store and new specialty shops were added.

The remaining co-owned portfolio in New South Wales comprises three sub-regional centres and one convenience centre. They are (co-owner in brackets): Carlingford Court (major superannuation fund), Toormina Gardens (Challenger), Warriewood Square (ISPT) and convenience centre Lennox (Challenger). The Lennox centre was expanded to accommodate Dan Murphy's and new specialty shops.

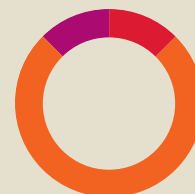
In the Australian Capital Territory, Federation Centres co-owns the Tuggeranong Hyperdome but does not manage this sub-regional centre.

## Key statistics

Owned/Co-owned Shopping Centres	16
Ownership Value	\$1.4 billion
% of Portfolio	29%
No. of Retailers	1,418
GLA ('000 sqm)	455.2
No. of Managed Centres	15

## Type of centre

- Regional 2
- Sub-regional 12
- Convenience 2



## Number of Federation Centres team members in New South Wales

119

# Western Australia

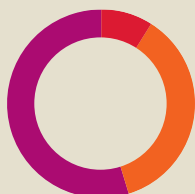
The Warnbro Centre redevelopment was completed shortly after financial year end. It was fully leased and began trading on schedule.

## Key statistics

Owned/Co-owned Shopping Centres	11
Ownership Value	\$1.0 billion
% of Portfolio	22%
No. of Retailers	865
GLA ('000 sqm)	257.0
No. of Managed Centres	13

## Type of centre

- Regional 1
- Sub-regional 4
- Convenience 6



## Number of Federation Centres team members in Western Australia

82

In Western Australia, Federation Centres manages a portfolio of 13 retail centres, comprising one regional centre, four sub-regional centres and eight convenience centres. The portfolio is located across the Perth metropolitan area and key regional locations.

Federation Centres wholly owns seven of the 13 centres, four centres are co-owned on a 50/50 basis, and two centres are managed on behalf of Retail Direct Property syndicates.<sup>1</sup>

Annual retail sales for the owned and co-owned portfolio were \$2.0 billion. Retail sales growth for the year to 30 June was 0.8%. This increase was an excellent result as prior year figures were boosted by the introduction of Sunday trading. In addition, there was a slowdown in the mining sector that affected economic activity.

The owned and co-owned portfolio occupancy rate was 99.8% for the year, which was above Federation Centres' national portfolio average and is consistent with the portfolio's strong sales performance.

The total owned and co-owned portfolio was valued at \$1.6 billion, with Federation Centres' share totalling \$1.0 billion. During the year, nine of the 11 owned and co-owned retail centres improved in value by a total of \$89 million.

Improvements to the portfolio during the year included the \$39.4 million redevelopment at Warnbro Centre, completed shortly after the end of FY2014; the addition of 18 specialty shops at Stirlings Central; and a focus on working with retailers to introduce a range of latest, or newly-launched, store formats.

Federation Centres' wholly-owned portfolio comprises the sub-regional centres Maddington and Warwick Grove and the convenience centres Albany, Dianella, Flinders, Victoria Park and Warnbro Centre.

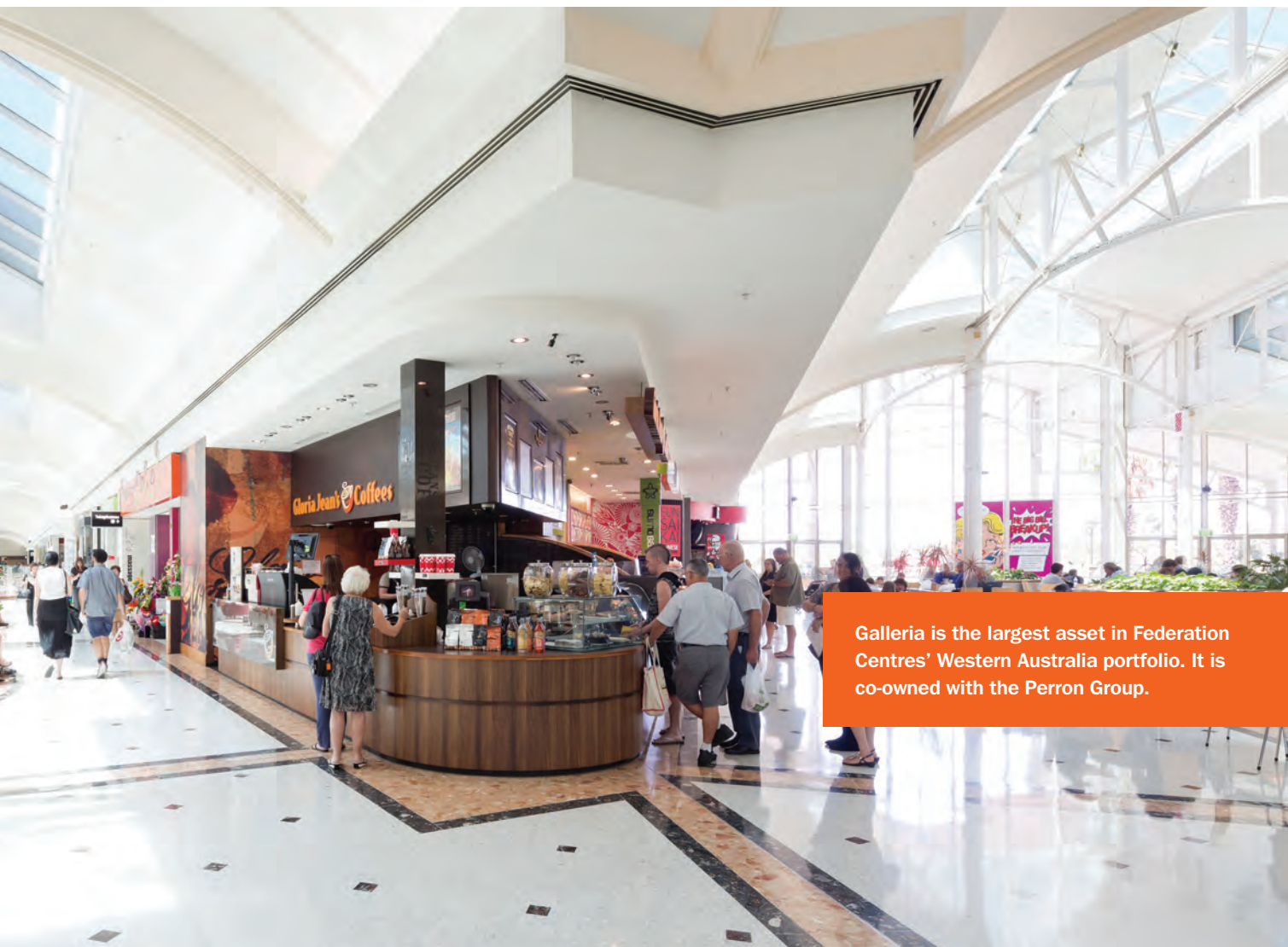
Galleria, which is the largest asset in the Western Australian portfolio, is also Federation Centres' largest investment overall and represents 7% of the total portfolio. It is co-owned with the Perron Group.

The other co-owned assets (co-owner in brackets) are: the two sub-regional centres Karratha (Challenger) and Mandurah (ISPT) and the convenience centre Halls Head Central (ISPT).

The two convenience centres Kalamunda and Stirlings Central are managed on behalf of Retail Direct Property syndicates.

1. Federation Centres will seek to continue acquiring assets and transitioning out of the majority of the syndicate business.





Galleria is the largest asset in Federation Centres' Western Australia portfolio. It is co-owned with the Perron Group.



In Western Australia, a number of new fitouts were completed during the year, including the latest format for Betts for Her at Galleria (pictured). Other fitout improvements included The Coffee Club at Kalamunda, and Michael Hill, The Athletes Foot and Specsavers at Stirlings Central.

# Queensland

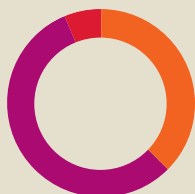
A new Aldi store and specialty shops at Monier Village were part of the improvements in Queensland during the year.

## Key statistics

Owned/Co-owned Shopping Centres	16
Ownership Value	\$0.8 billion
% of Portfolio	17%
No. of Retailers	663
GLA ('000 sqm)	213.9
No. of Managed Centres	17

## Type of centre

- Sub-regional 6
- Convenience 9
- Bulky goods 1



## Number of Federation Centres team members in Queensland

64

In Queensland, Federation Centres manages a portfolio of 17 retail centres, comprising seven sub-regional, one bulky goods and nine convenience centres.

Federation Centres wholly owns 16 of the 17 centres. The Paradise Centre is managed on behalf of an external party following its sale by Federation Centres.

The owned portfolio occupancy rate was 99.2% for the year, slightly below Federation Centres' national portfolio average, reflecting the recent acquisition of Retail Direct Property assets that have had little investment to support the positioning of these centres. The performance of these acquired assets also reduced annual sales which fell by 1.9% to \$1.2 billion for the year.

The owned portfolio was valued at \$776 million. During the year, 14 of the owned centres improved in value by a total of \$49 million.

Improvements to the portfolio included the addition of new specialty shops and an Aldi store at Monier Village.

Federation Centres' portfolio comprises Toombul, the largest asset in the Queensland portfolio and the third largest asset in the overall Federation Centres' portfolio, as well as the other sub-regional centres of Buranda Village, Gympie Central, Taigum Square and Whitsunday. The sub-regional centre Springwood was sold after the end of the financial year.

The owned convenience centres are Emerald Market, Emerald Village, Goldfields Plaza, Lutwyche City, Milton, Monier Village, North Shore, Oxenford and Woodlands. The wholly-owned bulky goods centre is Indooroopilly.



Hearing the dinosaurs roar in an interactive prehistoric land and fossicking for fossils proved to be a memorable school holiday experience for children visiting BBC Earth's *Walking with Dinosaurs* at our Toombul centre.



# South Australia & Northern Territory

Colonnades in South Australia won the national competition to host Jamie's Ministry of Food in FY2015.

In South Australia, Federation Centres manages a portfolio of five retail centres, comprising one regional centre, three sub-regional centres and one convenience centre.

The regional centre Colonnades is the largest asset in the South Australian portfolio and is co-owned with the Perron Group. Federation Centres wholly owns the two sub-regional centres Mount Gambier and Arndale. During the year, a decision was taken to dispose of Arndale, with the sale process underway.

The sub-regional centre Kurralta and convenience centre Hilton are managed on behalf of Retail Direct Property syndicates.<sup>1</sup>

Annual retail sales for the owned and co-owned portfolio were \$484 million. Retail sales growth for the year to 30 June was -6.0%, which was below the average of the total portfolio largely due to subdued retail trading conditions in South Australia compared to the national average.

The owned and co-owned portfolio occupancy rate was 99.1% for the year.

The total owned and co-owned portfolio was valued at \$472 million, with Federation Centres' share totalling \$327 million. During the year, the total portfolio value increased slightly with Arndale driving valuation growth.

In the Northern Territory, Federation Centres wholly owns a convenience centre at Katherine.

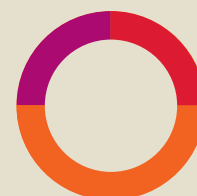
1. Federation Centres will seek to continue acquiring assets and transitioning out of the majority of the syndicate business.

## Key statistics

Owned/Co-owned Shopping Centres	4
Ownership Value	\$0.4 billion
% of Portfolio	8%
No. of Retailers	363
GLA ('000 sqm)	130.4
No. of Managed Centres	6

## Type of centre

- Regional 1
- Sub-regional 2
- Convenience 1



## Number of Federation Centres team members covering South Australia & Northern Territory

39



Colonnades beat a field of 170 applicants across Australia to host Jamie's Ministry of Food pop-up kitchen. Due to open in November, the pop-up kitchen will operate for 12 months.





Work progresses on the \$112.3 million redevelopment at Cranbourne Park in Victoria which is scheduled to be completed in the third quarter of 2015. The centre, co-owned with industry super fund ISPT, will include a new Target store, a relocated Coles supermarket, more than 55 new shops, a gym, a business centre and increased parking.



During the year, five smaller projects with a total value of approximately \$28 million provided good returns through tenancy remixing and the addition of new specialty stores. At Stirlings Central in Western Australia, 18 new specialty stores were added. In Queensland, Monier Village was improved with an Aldi store and new specialty stores. In New South Wales, at Bankstown Central, a rooftop conversion allowed the addition of a gym and mini major stores, including Rebel Sport; at Roselands, JB Hi-Fi was added along with new specialty stores; and at Lennox, Dan Murphy's and new specialty stores were added.

# Development

Development opportunities within the Federation Centres' portfolio will involve investment of \$1.3 billion.

Significant progress was made with the redevelopment of Federation Centres' portfolio in FY2014. The works undertaken during the year represented the start of work on a redevelopment pipeline that is expected to continue for several years and involve \$1.3 billion in redevelopment projects. In FY2014, the focus was on two larger projects at Cranbourne Park in Victoria and Warnbro Centre in Western Australia, as well as five smaller tenancy remixing initiatives.

Cranbourne Park is co-owned with industry super fund ISPT and is located in one of Australia's high-growth areas. The Cranbourne Park redevelopment represents an investment of \$112.3 million. Building works commenced in January 2014 and are scheduled to be completed in the third quarter of 2015. Once completed, the centre will have undergone a complete transformation. Improvements to the existing centre include new formats for Kmart and Coles, as well as a range of new specialty retailers and new flooring, ceiling and skylights to ensure a seamless integration with the new development. The new development includes 55 new specialty stores, a new Target and three large format stores for national retail chains, as well as increased community space and car parking.

The Warnbro Centre \$39.4 million redevelopment was completed in September 2014, after this financial year ended. The centre has almost doubled in size with key features including a new format Big W, 28 specialty retail stores, a casual dining precinct and increased fashion retail offerings. The centre customer experience has been enhanced with new granite flooring, upgraded amenities and additional parking.

Projects at Warriewood Square in New South Wales and Colonnades in South Australia have Board approval to commence, and proposals for other projects expected to commence in FY2015 are progressing well. Larger-scale projects at The Glen in Victoria and Mandurah Forum in Western Australia are well advanced in the planning stage.

The significant opportunity to improve sales productivity through redevelopment, tenancy remixing and refurbishment of existing centres in our portfolio has been supported by recruitment to ensure we have the right team in place. During the year we continued to strengthen the development team in the hubs of Perth, Sydney and Melbourne. The success of the initial projects undertaken in FY2014 has laid sound foundations for the larger projects in subsequent years.

## Development pipeline

### Under construction – 2 projects

Warnbro Centre, WA	\$39.4m
Cranbourne Park, VIC	\$112.3m

### Board approved – 2 projects

Warriewood Square, NSW	\$83.8m
Colonnades, SA	\$51.8m

### Future projects – 6 projects

Halls Head Central, WA	\$60m
Victoria Gardens, VIC	\$20m
Sunshine, VIC	\$90m
The Glen, VIC	\$300m
Mandurah Forum, WA	\$250m
Galleria, WA	\$300m

**Total development pipeline** **\$1.3 billion**

**FDC share** **\$673 million**



# Leasing

During FY2014, the Leasing team's capability was strengthened to support development and retailer store refurbishment activities.

## Leasing transactions completed\*

1,112

## Completed store fitouts

356

The leasing team was strengthened and streamlined in FY2014 to support increased activity associated with redevelopment and refurbishment, as well as tenancy remixing, and the related design and delivery opportunities within the Federation Centres' portfolio. The restructure took into account the significant challenges and changes in the leasing environment.

Peter Coroneo, formerly Head of Leasing at QIC Properties, was appointed as Executive General Manager Leasing for Federation Centres. Following Peter's appointment, the leasing team structure was changed to align with the regional structure of the development team.

The newly-formed team of Regional Leasing Managers includes both people with existing deep knowledge of Federation Centres' portfolio and key recruits from other leading industry players. Apart from a new regional leasing structure, there was a move to create specific areas of capability to develop an end-to-end, in-house leasing function. This included dedicated teams in the areas of lease administration, retail design and tenancy delivery; and once again, the teams formed were drawn both from the existing internal talent pool and external recruitment.

Retailers responded positively to leasing team activities to enhance centres with fitout upgrades. The latest and, in some cases, newly-launched store formats were introduced across the portfolio for such brands as Millers, Ice Fashion, Optus, EB Games, Michael Hill, The Athletes Foot and Specsavers. Leasing results were positive, with 1,112\* leasing transactions completed for FY2014. The additional available space at the recently completed Wambro Centre redevelopment was fully leased, with over 80% of leases taken up by strong national retail brands. Cranbourne Park has also attracted strong interest for new leases.

Overall rental rate growth improved during the year to 2.5%, driven by an improved spread for new leases. Convenience and sub-regional leasing spreads remained resilient due to the exposure to non-discretionary retail categories. Lease renewals represented the majority of lease transactions, with a retention rate of 72%. Renewed leases represented 9.0% of total portfolio specialty rental income.

With leasing team resources and structure now in place to provide an end-to-end national in-house leasing function, Federation Centres has the right support to undertake the next important stage of redevelopment and retailer store refurbishment activity.

\* Relates to total managed portfolio and includes project leasing transactions.





Bankstown Central secured the first new concept Millers store in Australia, which has been well received by consumers.



Federation Centres increased the focus on retailer store refurbishment during the year. As part of this, Federation Centres' website now provides customers with updates on store format changes.





Federation Centres' first Graduate Program commenced in January 2014 with five graduates. Over an 18 month period, the graduates are exposed to a range of work experiences in the business. Four graduates have been recruited for 2015.



### Professional Practice

Leading our industry in the way we do business



### Passionate Collaboration

Working together with shared purpose and belief



### Proactive Innovation

Being responsive, intuitive and adaptive



### Responsible & Accountable

Doing what we say to deliver on promises



### Resilient Endurance

Tackling challenges to create sustainable solutions

# People & Culture

At Federation Centres, we aspire to having a great and engaging culture that enables us to attract and retain high-performing people.

## HIGH-PERFORMING WORKPLACE

Central to our commitment to developing our people are two major frameworks – talent and reward – built around the five critical behavioural competencies (see page 22) aligned with Federation Centres' Ethos, Values, Performance and Behaviours, which have continued to be rolled out across the organisation this year. Last year, in our first year as Federation Centres, we introduced new key processes and reviewed and strengthened existing processes to create a robust management system to support our people in the workplace.

We reinvigorated our performance management system, as referenced in the Remuneration Report, and now have a mandatory scorecard cascade process with mid-year and end-of-year performance reviews linked to calibrated reward outcomes. In August 2013, we established a 'Hall of Fame' where 291 of our people were recognised for their service to the company; and in April 2014, we launched the inaugural Excellence Awards to recognise exceptional contribution to the organisation. Our first four Excellence Award winners were represented from the following departments: Leasing, Development and Asset Strategy, and Property Operations.

In FY2014, 89% of our people participated in our first employee engagement survey. The next steps for management involve distilling the priorities from the results and developing action plans for implementation. Delivering on these

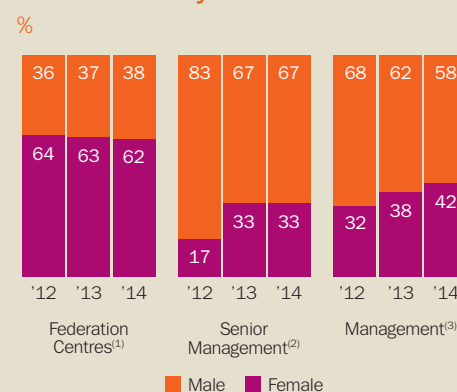
plans will ensure Federation Centres evolves as an even better place to work.

In April 2014, as a result of earlier feedback on a flexibility and carer survey, we introduced purchased additional annual leave. Eligible employees may purchase up to a maximum of four weeks' additional annual leave each financial year, in one week blocks. In May 2014, we introduced our volunteering leave program, which gives employees two days' paid leave each year for community work. Enhancements to parental leave were also announced. Initiatives to improve the health and wellbeing of our people have become an integral part of our workplace. This year we offered free annual flu vaccinations and health initiatives, such as the 10,000 Steps Challenge, which involves encouraging employees to walk 10,000 steps a day.

## DIVERSITY IN THE WORKPLACE

We value diversity in all its forms. Diversity in background, gender, age, skills, experiences and thought adds richness to the contributions our people make to the business. We articulate our commitment to a diverse workplace in our Diversity and Inclusion Strategy and through regular Diversity Forums chaired by our CEO and Managing Director. In FY2014, gender diversity has continued to improve across the organisation (see chart right). We report our workplace gender profile to the Workplace Gender Equality Agency on an annual basis. This data is made available to employees and securityholders.

## Gender diversity



(1) Comprises directors, full-time and part-time employees.

(2) Senior management is defined as the Executive Committee and their direct reports.

(3) Management is defined as the Executive Committee, Executive Committee direct reports and their senior direct reports.



# Sustainability

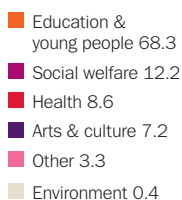
At Federation Centres, we want sustainability to be part of the way we work and interact with our stakeholders.

Federation Centres has developed a sustainability framework that builds on our Ethos and embraces the business and all stakeholders to create a sustainable working and shopping environment.

In FY2014 the focus has been on embedding the framework across the organisation through employee inductions, team briefings and leader training. We want sustainability to be part of the way we work and interact with our stakeholders.

## Community spending\*

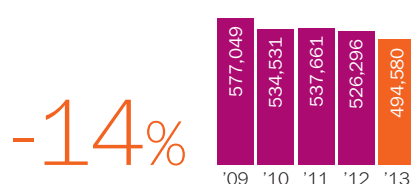
%



\* London Benchmarking Group (LBG) subject focus areas supported by Federation Centres in FY2013.

## Energy use\*

Gj



\* National Greenhouse and Energy Reporting (NGER) data used but modified to remove all centres that have been sold.

## SAFETY

Safety is an all important consideration for Federation Centres. In FY2014, we enhanced our team to strengthen the safety culture across the organisation, and the team now reports directly to the CEO and Managing Director.

We have a holistic approach to safety, and this includes building safety considerations into all stages of developments from design through to construction and management. For example, as part of the Warnbro Centre redevelopment, we upgraded the flooring to a tile that reduces the potential for slips. Defibrillators are now installed at staffed centres, and emergency and crisis management training has been completed by employees at all centres.

The Shopping Centre Council of Australia's newly-formed safety working group provides yet another level of input to our safety efforts.

## COMMUNITY

The community is a stakeholder critical to our success, and we will continue to develop programs to ensure we engage and understand community aspirations.

In January 2014, as part of Federation Centres' first anniversary celebrations, we launched National Community Partnerships with The Song Room, The Smith Family and the Property Industry Foundation. These partnerships are focused on helping disadvantaged children and youths to reach their potential. In FY2014, we launched our volunteering leave program, which gives employees two days' paid leave each year for community work; and we sought independent assessment of our community contribution by adopting the global London Benchmarking Group (LBG) standard for measuring and benchmarking corporate community investment. In the first year of assessment, our community contribution was \$856,423.

## ENVIRONMENT

Our aim is to minimise our impact on the environment by lifting environmental performance and efficiency in the way we manage our centres. From FY2009 to FY2013, we reduced our energy use by 14% and reduced our Scope 1 and 2 greenhouse gas emissions by 8.4% across the centres we still own. We have set targets of a 5% energy reduction and a 5% waste to landfill reduction for FY2015. Waste audits are being conducted across the portfolio.

We also implemented projects to reduce waste to landfill, including a project at Box Hill Central that diverted over 140 tonnes of organic waste in FY2014. Sustainability initiatives that are part of our redevelopment program include the selection of energy efficient design and solar cells at Warnbro Centre and Cranbourne Park.



Federation Centres has supported MS Australia since 2011 through donations raised from gift wrapping in our shopping centres during the pre-Christmas period. Across three years around \$170,000 has been raised to help provide specialist programs for people with MS and those supporting them. In 2013, 18 of our centres were involved, with 15 Federation Centres employees assisting with the gift wrapping.



When a local resident suggested Meadow Mews introduce a book swap cabinet, the Tasmanian centre took it one step further and opened a free community book swap library in a vacant shop. Within days of opening, the library was stocked with 2,500 books courtesy of residents. Working on an honesty system, the library has lifted the community feeling at the centre.



# Board of 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, Linfox Armaguard 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 Centres 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 for 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 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 executive 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**  
BAppSc, MBA, 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



# Executive Committee



**STEVEN SEWELL**  
BSc

**Chief Executive Officer and Managing Director**

Please see page 26 for Mr Sewell's biography.



**PETER CORONEO**

**EGM Leasing**

Peter Coroneo joined Federation Centres in July 2013 and oversees both project leasing and ongoing leasing for the Group's portfolio as EGM Leasing.

Peter brings more than 25 years' national and international experience in the property industry to Federation Centres, with deep experience in real estate investment management, development and retail leasing. Previously, Peter held senior roles at QIC Properties, including Head of Leasing and Chief Operating Officer, and at LaSalle Investment Management.



**COLLEEN HARRIS**  
BEd (Sci)

**EGM People and Culture**

Colleen Harris joined Federation Centres in August 2012 with responsibility for all aspects of people and culture across the Group.

Colleen has more than 18 years' experience in human resources with a focus on the design and implementation of talent, performance and reward frameworks that are linked to individual and business performance. Her industry experience encompasses advertising, financial services, gaming, hospitality and entertainment and includes senior roles with National Australia Bank and Crown Limited.



**TOM HONAN**  
BEd, MBA

**Chief Financial Officer**

Tom Honan joined Federation Centres in May 2013 as Chief Financial Officer.

Tom has more than 25 years in the finance industry in Australia and the United States, serving most recently as Chief Financial Officer with Transurban Group. Other previous roles include Chief Financial Officer at Computershare, Director of Finance, Asia Pacific at Nike Inc and senior executive positions at Price Waterhouse and Exxon/Mobil.



**KERRIE LAVEY**  
BA, MIB, GAICD

**EGM Corporate Communications**

Kerrie Lavey joined Federation Centres in August 2012, and her role encompasses group communications, external communications, marketing, government relations, investor services and sustainability.

Kerrie has more than 20 years' experience in corporate communications and corporate governance across a number of industries, including manufacturing, mining, investment banking, international trade and property. She previously held senior positions at Amcor Limited, the Macquarie Group and BHP Billiton. She is a government-appointed member of the Alpine Resorts Co-ordinating Council.



**CAROLYN REYNOLDS**  
BA (Juris), LLB (Hons),  
MCommrcLaw

**General Counsel**

Carolyn Reynolds joined Federation Centres in May 2014 as General Counsel.

Carolyn was a partner at law firm Minter Ellison from July 2003 and has more than 20 years' experience as a commercial litigation and corporate lawyer. This includes extensive legal work on property and major entertainment complex related activities associated with the Marina Bay Sands Integrated Resort in Singapore.

Carolyn has also acquired diverse experience relating to boards, gained from her legal work and involvement with not-for-profit organisations such as Ovarian Cancer Australia, Glenorchy Art and Sculpture Park and the Moreland Community Legal Centre.



**JONATHAN TIMMS**  
BEd, MBA

**EGM Development and Asset Strategy**

Jonathan Timms joined Federation Centres in September 2012 and is responsible for driving the redevelopment pipeline, as well as overseeing the asset strategy for all Federation Centres' properties.

Jonathan has more than 20 years' experience in the property industry in both Australia and overseas, specialising in retail property. Previously Jonathan was President of Tesco's China Property Company and involved with a large-scale mall development program. His other senior roles in asset management and development included 10 years with AMP Capital.



**MARK WILSON**  
Dip Acc

**EGM Property Operations**

Mark Wilson is responsible for shopping centres owned and managed by Federation Centres. He joined the Group in 1997 and has more than 20 years' experience in the retail and property industry, including retail and property-related roles at Coles Myer.

While at Federation Centres, Mark has served in various roles, including Chief Investment Officer and Chief Operating Officer for the Group's former US operations.



# Corporate Governance

The Board of Federation Centres (FDC) operates under a set of well-established corporate governance policies that comply with the principles and requirements of the *Corporations Act 2001* (Cth) (the Act) and the ASX.

The Board is committed to ensuring that its policies, charters and practices reflect a high standard of corporate governance. The Board reviews and, as necessary, updates its corporate governance charters and policies as the corporate governance environment and good practice evolve and believes they satisfy all of the recommendations of the ASX Corporate Governance Council (CGC). Details of these charters and policies are available in the Governance section of the Federation Centres website at [www.federationcentres.com.au](http://www.federationcentres.com.au).

This statement outlines the main corporate governance practices in place during the reporting period and sets out compliance with the CGC Corporate Governance Principles and Recommendations (2nd edition with 2010 amendments) (the Principles).

## Federation Centres

Federation Centres is a 'stapled' vehicle that currently combines a company, Federation Limited (FL), with three trusts – Federation Centres Trust No. 1 (FCT 1), Federation Centres Trust No. 2 (FCT 2) and Federation Centres Trust No. 3 (FCT 3) (each a trust and together the Trusts) – and is collectively known as FDC or the Group. The Trusts are managed investment schemes that are registered under the Act. Federation Centres Limited, a wholly-owned subsidiary of FL, is currently the Responsible Entity (the RE) of the Trusts.

## THE BOARD

### Composition

Federation Limited (FL) is managed by a Board of Directors, who are accountable to the securityholders and stand for re-election at least once every three years. All Directors of FL are also Directors of the RE. References to the Board or to the Board of FDC in the Corporate Governance section of this Annual Report are references to the Boards of FL and the RE.

The Board currently consists of eight members, whose details are set out on pages 26 and 27. Over the reporting period, the Board has consisted of the following members:

- Bob Edgar (Chair – appointed December 2011);
- Steven Sewell (Managing Director and CEO – appointed CEO in February 2012 and MD in July 2012);
- Peter Day (appointed October 2009, retired February 2014);
- Clive Appleton (appointed December 2011);
- Tim Hammon (appointed December 2011);
- Charles Macek (appointed December 2011);

- Fraser MacKenzie (appointed October 2009);
- Debra Stirling (appointed December 2011); and
- Wai Tang (appointed May 2014).

The qualifications, experience, Committee responsibilities of Directors, and other directorships held by them are set out on pages 26 and 27 of this Annual Report.

Board composition and the independence of Directors are determined using the principles adopted in the Board Charter and having regard to the Principles. All Directors, other than Steven Sewell, Managing Director and CEO, are independent Non-executive Directors. The current Chair, Bob Edgar, is an independent Non-executive Director. All Directors, independent or otherwise, are required to act in the best interests of the Group and to exercise unfettered and independent judgement.

The Board has considered Recommendation 2.1 of the Principles in assessing the independence of each Director but has not adopted any particular materiality threshold. The Board has formed the view that all of the Non-executive Directors are independent. In considering Charles Macek's independence, the Board has formed the view that Mr Macek is independent, even though he is a Director of Wesfarmers and Wesfarmers enters into leasing arrangements with FDC. The Board has reached this conclusion on the basis that individual leasing decisions at both FDC and Wesfarmers are generally determined at a managerial level rather than Board level and that the FDC Board's role in relation to leasing arrangements is limited to one of oversight and governance. Wesfarmers accounts for 14.8% of rental income for the Group. In addition, the Board and its committees have protocols in place to ensure that, for any matter where any Director may be in a position of conflict, the Director does not participate in the matter.

### ✓ Recommendations 2.1, 2.2, 2.3, 2.4 and 2.6 of the Principles.

### Primary duties and obligations

The primary duties and obligations of the Board include:

- protection of securityholders' interests;
- exercising all due diligence and vigilance in carrying out their duties, in protecting the rights and interests of securityholders, and in performing their functions and exercising their powers under the constitutions of the Trusts and FL in the best interests of all securityholders;
- ensuring that the affairs of FL and the Trusts are carried on and conducted in a proper and efficient manner;
- developing strategic direction for Federation Centres;
- establishing goals for management, and monitoring the achievement of those goals;

- day-to-day operations of FL and the Trusts, including:
  - ongoing management, research and selection of property investments and disposals;
  - preparation of all notices and reports to be issued to securityholders and ensuring securityholders are kept informed of relevant information in a timely manner;
  - keeping or causing to be kept proper books of account; and
  - ensuring that the financial report is audited annually by an independent registered auditor and that a financial report and the auditor's report is available each year to securityholders.

### Board Membership and Commitment

The FDC Board Charter states that it should comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. In accordance with Recommendation 2.6, information on each Director, including their skills, experience and expertise and term of office, is disclosed in the Board of Directors section on pages 26 and 27.

At times of Board renewal, external consultants are briefed to source potential Board candidates who demonstrate an appropriate level of diverse skills, background and experience to complement and enhance the existing Board composition. The Board seeks to achieve a mix of skills and diversity that includes corporate management, retail property investment and management, finance and operational experience. The Board also aims to have an appropriate balance of males and females.

The FDC Board fully supports diversity and inclusion and has oversight of key diversity-related objectives. While there is a strong organisational commitment to a broader diversity and inclusion agenda, the progress of which will be facilitated through FDC's Diversity Forums, the Board has set measurable objectives in accordance with the Principles on gender diversity. The Board will annually assess both the objectives and the progress being made towards their achievement.

### ✓ Recommendation 2.6 of the Principles.

### Board Remuneration

The structure and mix of remuneration for Non-executive Directors differs from that of Executive Directors and senior executives. Non-executive Directors do not receive any retirement benefits, other than superannuation. Details of Director remuneration are set out in the Remuneration Report section of this Annual Report.

### ✓ Recommendations 8.3 and 8.4 of the Principles.

### Board Roles, Responsibilities and Delegation

The Board is responsible for planning and overseeing the business and affairs of the Group for the benefit of securityholders. The Board is accountable to those securityholders for the performance of the Group. Full details of the responsibilities and functions reserved for the Board are set out in the Board Charter, which can be accessed on FDC's website. The Board has delegated responsibility for the day-to-day operation and administration of the Group to the CEO and Executive Committee (EC) but maintains responsibility for strategic direction and governance of the Group. This includes responsibility for reviewing, ratifying and monitoring systems of risk management and internal control and ethical and legal compliance, for approving major capital expenditure, acquisitions and divestitures and for monitoring capital management. The Board monitors the performance of the Group, EC and senior management and ensures that a formal performance review and executive resources review is conducted each year to assess such performance. This process has been undertaken during the past year.

### ✓ Recommendations 1.1, 1.2 and 1.3 of the Principles.

### Director Education

The Group has adopted a process to educate Directors about the nature of the Group's business, including current issues, the corporate strategy and the expectations of the Group concerning Directors' performance. Directors of the Group also have the opportunity to visit the properties of the Group and meet with management to gain a better understanding of business operations.

### Independent Professional Advice

Under the terms of the Constitutions of FL and the Trusts, each Director has the right to seek independent professional advice at the expense of the Group. However, prior approval of the Chair is required, and approval is not to be unreasonably withheld.

### ✓ Recommendation 2.6 of the Principles.

### Board Committees

The Board has established committees to assist with the implementation of its corporate governance practices. The Board committees are:

- Audit and Risk Committee;
- Nomination Committee; and
- Remuneration and HR Committee.



# Corporate Governance

The table below shows the membership of the Board committees over the reporting period.

	Bob Edgar	Clive Appleton	Peter Day*	Tim Hammon	Charles Macek	Fraser MacKenzie	Debra Stirling	Wai Tang*
Non-executive Director	✓	✓	✓	✓	✓	✓	✓	✓
Audit and Risk Committee		✓	✓			Chair	✓	✓
Nomination Committee	Chair	✓	✓	✓	✓	✓	✓	✓
Remuneration and HR Committee		✓		✓	Chair		✓	

\* Peter Day retired from the Board in February 2014, and Wai Tang was appointed to the Board in May 2014.

Attendance of committee members at meetings is included in the Board of Directors section set out on page 46 of this Annual Report.

The activities of the Board committees are reviewed below. Each has a written charter and operating procedures that are reviewed on a regular basis.

## Audit and Risk Committee

The Board has adopted an Audit and Risk Committee Charter that sets out the objectives, responsibilities and functions of the committee in relation to audit and risk matters. The Charter can be accessed on FDC's website.

In accordance with the Principles, the committee is currently comprised of four members, all of whom are independent Non-executive Directors, and the Chair of the Committee is not the Chair of the Board. Until his retirement in February 2014, Peter Day was also a member of the committee.

The committee has the responsibility and authority for recommending the appointment, reappointment or replacement of the external auditor. In considering appointment or reappointment of the external auditor, the committee reviews the performance and experience of the incumbent auditor and engagement partner, including their continuing independence. For rotation and succession of audit and review partners, the committee will have regard to the experience, ability and independence of the proposed audit and review partners and the approach to managing the transition. The committee may also consider undertaking a tender process.

The Chief Executive Officer, Chief Financial Officer, General Manager Risk and Compliance, Group Internal Audit Manager and External Auditor attend Audit and Risk Committee meetings by invitation. In addition, the Committee meets regularly with the External Auditor and separately with the Internal Auditor, in both cases without the presence of management. The committee regularly reports to the Board in respect of matters within its responsibilities.

In accordance with Recommendation 4.4, details of the members of the Audit and Risk Committee are set out in the

Board of Directors section above, and attendance of committee members is set out at page 46 in the Directors' Report section of this Annual Report.

## ✓ Recommendations 4.1, 4.2, 4.3 and 4.4 of the Principles.

### Nomination Committee

The Board has adopted a Nomination Committee Charter that sets out the objectives, responsibilities and functions of the committee. The Charter can be accessed on FDC's website. In accordance with the Principles, the committee is comprised of all of the independent Non-executive Directors, and the Chair of the Committee is the Chair of the Board, who is also independent.

The Nomination Committee is responsible for establishing criteria for Board membership, reviewing Board membership, and identifying and nominating Directors.

Details of the members of the Nomination Committee are set out in the Board of Directors section above, and attendance of committee members is set out at page 46 in the Directors' Report section of this Annual Report.

## ✓ Recommendations 2.4 and 2.6 of the Principles.

### Remuneration and HR Committee

The Board has adopted a Remuneration and HR Committee Charter that sets out the objectives, responsibilities and functions of the committee. This charter can be accessed on FDC's website.

In accordance with the Principles, the committee is currently comprised of four members, all of whom are independent Non-executive Directors.

The Remuneration and HR Committee has responsibility for determining the remuneration arrangements of senior executives and the Non-executive Directors. In doing so, the committee has recourse to independent consultants and market surveys. The committee also has responsibility for advising the Board with regard to general remuneration principles for all Group employees and oversees the annual performance review process for the CEO and senior executives.

The committee also advises the Board with regard to management programs in use to optimise the contributions of our people to support and further corporate objectives, particularly for succession and development planning, attraction and retention, performance management, diversity, culture and engagement programs.

The Group's Remuneration Policy is set out within the Remuneration Report section in this Annual Report.

In accordance with Recommendation 8.4, details of the members of the Remuneration and HR Committee are set out in the Board of Directors section above, and attendance of committee members is set out at page 46 in the Directors' Report section of this Annual Report.

#### ✓ Recommendations 8.1, 8.2 and 8.4 of the Principles.

##### Evaluation of Board Performance

The Board supports the principle of regular reviews of both whole of Board (including committees) and individual Director performance and effectiveness. Such reviews include a review of individual Director performance and the contribution that each Director has made and is able and expected to make. These reviews would be conducted by a combination of internal and external reviews, coordinated by the Chairman.

A formal review of the performance of the Board, its Committees and Directors was conducted during the reporting period, in accordance with the above process.

#### ✓ Recommendation 2.5 of the Principles.

##### DIVERSITY AND INCLUSION POLICY STATEMENT

FDC strives to create a diverse and inclusive workplace, reflective of the extensive diversity of the communities in which we operate.

A diverse and inclusive work environment that values employee difference in all its forms provides balance of perspective and can be a source of competitive advantage. Embracing and supporting a range of diversity initiatives is critical for FDC to successfully attract and retain the talented people in our industry and establish FDC as an 'employer of choice'. Developing an inclusive work environment where diversity of thought, background and experience is valued leads to greater insight, allowing FDC to more effectively meet the needs of an increasingly diverse retailer, customer and investor base.

FDC believes in holding all employees accountable for creating and maintaining a diverse and inclusive culture.

#### ✓ Recommendations 3.2 and 3.5 of the Principles.

##### Gender Diversity Objectives

The Board of FDC set the following objectives with regard to gender diversity for FY2014 and FY2015:

- Continue to conduct quarterly Diversity Forums to capture cross company views about diversity issues and ensure traction with the implementation of the FDC Diversity and Inclusion Action Plan.
- Implement the flexibility policy and guidelines and provide training to people leaders to ensure the number of people working flexibly increases, and the retention of talented people is achieved.
- Conduct biannual pay equity analysis and implement strategies to address and pay equity gaps.
- Maintain the number of women in management<sup>1</sup> roles at a minimum of 40% to between 45% and 50% by the end of FY2015.
- Attract diverse talent to the organisation through the FDC recruitment policy. From FY2014, endeavour to ensure there is at least one female on each shortlist and a gender balanced interview panel for all appointments. Of the available vacancies, ensure 50% are filled by women by the end of FY2015.

<sup>1</sup> Management is defined for this purpose as Executive Committee, Executive Committee direct reports and their senior direct reports.

Over the past 12 months there has been continued focus on diversity at FDC. Progress in 2014 includes:

- Diversity Forums continue to be held at least quarterly with the objective of capturing views on diversity related issues and influencing diversity related change. The Diversity Forums have been instrumental in the achievement of significant traction on diversity within FDC over the past year.
- FDC's flexible working policy and working from home guidelines were released in February 2014. Information sessions were held for people leaders across the business to equip them to respond effectively to flexible work requests. A positive response to these initiatives has seen an uplift in the number of people at all levels taking advantage of flexible working. This has been confirmed by our first employee engagement survey where 71% of respondents strongly agreed that their people leader supports the work arrangements that fit their circumstances.
- A pay equity analysis was undertaken in FY2013 and is scheduled to be repeated in FY2015. The FY2013 analysis did not highlight any significant pay equity issues, although we do have a greater number of males in senior roles than females.



# Corporate Governance

- The number of women in management roles has increased in FY2014 from 38% as at June 2013 to 42% as at the end of June 2014. During the year we have made several female appointments to senior management roles and actively promoted several high potential women from within FDC. The focus on increasing the number of women in management roles is supported by our Talent Framework and associated targeted development opportunities. Refer also to page 23 of this report.
- FY2014 has seen our internal recruitment function encourage gender diversity in short lists and gender balance in interview panels leading to a diverse range of talent being attracted to the organisation. Internal and external talent identification and mapping has also been conducted to ensure we focus on identifying and developing talent.

## ✓ Recommendations 3.3 and 3.4 of the Principles.

### RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board and management recognise that effective risk management and internal controls are an integral part of sound management practice and good corporate governance as they improve decision making and enhance outcomes and accountability. The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with Section 295A of the Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

## ✓ Recommendations 7.3 and 7.4 of the Principles.

The Board is responsible for the overall risk management and internal control framework of the Group, which includes the following activities.

### Material Risk Register

The Board and management recognise that FDC must have a robust risk management framework in which material risks are proactively identified, communicated and managed. The Material Risk Register is an effective management tool that is used to identify and communicate material risks. It is updated on a regular basis and is reported to the EC and the Board via the Audit and Risk Committee. It is also used to monitor material risks and risk treatment strategies. The Material Risk Register covers broad risk categories including business continuity, strategic objectives, financial, people, health, safety and welfare, environmental, reputation, infrastructure, assets and systems, legal and regulatory. During the reporting period, management has reported to the Board as to the effectiveness of FDC's management of its material business risks.

## ✓ Recommendations 7.1, 7.2 and 7.4 of the Principles.

### Internal Audit

The Internal Audit function provides independent objective assurance and makes recommendations to assist the Group in improving its internal control framework. It also tests compliance with internal controls. The Audit and Risk Committee reviews and approves the risk based Strategic Internal Audit Program each financial year. The committee also reviews the outcomes of internal audits performed to ensure that appropriate actions are taken to treat identified risks.

### Managed Investments Compliance Plan

The Managed Investments Compliance Plan applies to all of the registered managed investment schemes in the Group, including FCT 1, FCT 2 and FCT 3, and provides a framework to review and monitor the investment risk for investors in those schemes. The General Manager Risk and Compliance is responsible for performing reviews of the Group's compliance with the provisions of the compliance plan.

### Continuous Disclosure

The Board has adopted a Disclosure and External Communications Policy to ensure that all securityholders have equal and timely access to the Group's information and has established comprehensive processes and procedures to ensure that all market sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Act and the ASX Listing Rules. All information provided to the ASX is posted to the Group's website.

The policy reflects the matters listed in Box 5.1 of the Principles. In particular, FDC operates an internal decision making regime with respect to its disclosure obligations. This regime includes the operation of a Disclosure Committee, comprised of senior executives from the Group, who have the primary responsibility regarding FDC's disclosure obligations. Under the policy, FDC has developed a guide to assist the Group's officers and employees to understand FDC's continuous disclosure obligations. The policy also deals with disclosures to and communications with the media and disclosures to and communications with analysts and investors.

## ✓ Recommendations 5.1 and 5.2 of the Principles.

### Financial Reporting

There is a comprehensive budgeting system with an annual budget approved by the Board. Monthly actual results are reported against budget, and revised forecasts for the year are prepared regularly. The Group reports to securityholders on a six monthly basis.

### Employee Quality and Integrity

The Group has developed people and culture policies and procedures to promote and provide guidance on integrity, accountability and responsible decision making. All Directors and employees are expected to act with the utmost integrity and objectivity and to endeavour at all times to enhance the reputation and performance of the Group. Formal performance reviews are conducted biannually for all employees.

The Board has adopted a Code of Conduct that sets out the standards of behaviour expected from all employees. In addition, the Group's Whistleblower Policy ensures that concerns regarding unethical, unlawful or improper conduct may be raised without fear of reprisal. Under this policy, employees are encouraged to report any genuine matter or behaviour that they honestly believe contravenes the Group's Code of Conduct or policies or the law.

✓ **Recommendations 3.1 and 3.5 of the Principles.**

**Conflicts of Interest**

In accordance with the Act and FDC policies, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with the interests of the Group. The Group has adopted a Conflicts of Interest and Related Party Transactions Policy to assist Directors to disclose potential conflicts of interest.

**Dealings in Securities**

The Board has adopted an Employee Trading in Securities Policy. The policy prohibits Directors and employees from dealing in securities while in possession of market sensitive information and requires all trading to be in accordance with the procedures set out in the Employee Trading in Securities Policy. In accordance with the provisions of the Act and the ASX Listing Rules, Directors advise the ASX of any transactions conducted by them in the Group's securities. In accordance with the requirements of the Listing Rules, a copy of the Employee Trading in Securities Policy has been lodged with ASX and released to the market. It is also available on FDC's website.

Where any FDC Directors hold securities under any FDC employee incentive plans that are unvested or otherwise remain 'at risk', the Employee Trading in Securities Policy prohibits those Directors from entering into a transaction relating to those securities if the transaction operates to limit the economic risk of those holdings. This prohibition applies prior to the vesting and exercising of those securities or, once vested and exercised, while the securities are otherwise held subject to restrictions under the relevant employee incentive plan. Other than Steven Sewell, no FDC Director has such securities or performance rights under any FDC employee incentive plan.

✓ **Recommendations 3.1 and 8.4 of the Principles.**

**Investor Communications**

The Board has adopted an Investor Communications Policy designed to ensure investors are fully informed about all major developments in the operations of the Group. The Group has a dedicated Investor Services team to manage investor enquiries on a daily basis.

Information is communicated to securityholders in a number of ways. The Annual General Meeting provides an opportunity for investors to ask questions, express views and respond to Board proposals. The Group's external auditor attends the Annual General Meeting to answer any questions about the conduct of the audit and the content and preparation of the audit report. The Board encourages investors to access the Annual Report online to assist with the Group's commitment to the environment, as well as being more cost efficient for the organisation. A printed copy of the Annual Report will only be sent to those investors who have elected to receive it. Otherwise, investors will be notified when the Annual Report is available to be accessed online. The FDC website is regularly updated with announcements and key financial information.

✓ **Recommendations 6.1 and 6.2 of the Principles.**



# 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 26 to 27 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	Retail Direct Property 34 <sup>(1)</sup>	31.2	Emerald Village (QLD)	100%	20.5	10.25%
31 March 2014	Retail Direct Property 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%
<b>Total</b>		<b>130.8</b>			<b>515.7</b>	

(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.



# Directors' Report

## (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<sup>(1)</sup> shopping centres as at 30 June 2014.

(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.

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 <sup>(1)</sup>	2.3%	2.8%
Occupancy	99.5%	99.5%
No. of Leasing Transactions	759	710
Leasing Spread – Renewals <sup>(1)</sup>	3.1%	3.2%
Annual Retail Sales Growth <sup>(2)</sup>	0.7%	3.3%
Specialty Occupancy Cost	14.6%	14.7%

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

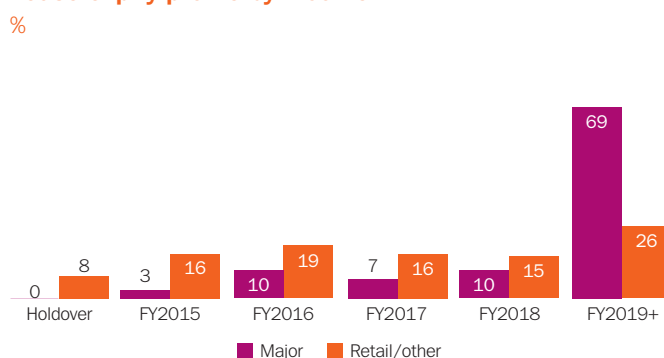
(2) Calculated based on Shopping Centre Council of Australia (SCCA) guidelines.

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.

### Lease expiry profile by income



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	Terry White Chemists	Specialty	14	1.1
8	Priceline Pharmacy	Specialty	22	1.1
9	The Reject Shop	Mini Major	20	1.0
10	Commonwealth Bank	Specialty	30	0.8
<b>Top 10 Total</b>			<b>213</b>	<b>30.7</b>

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<sup>(1)</sup>

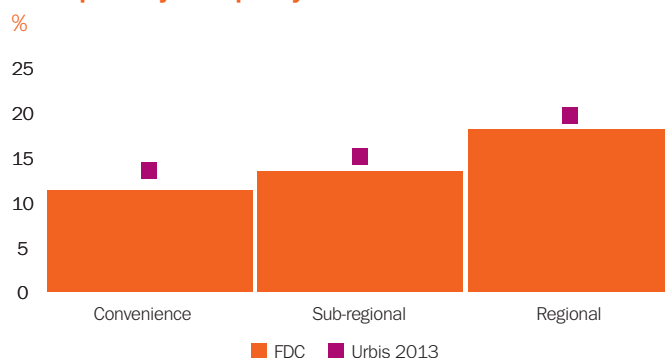
Category	Annual Sales (\$m)	% of portfolio sales	MAT Change <sup>(2)</sup>
Supermarkets	3,292.8	41%	1.1%
Specialties	2,966.0	37%	1.6%
Discount Department Stores	1,060.4	13%	(2.9%)
Mini Majors	606.1	7%	0.5%
Department Stores	171.0	2%	(1.2%)
<b>Portfolio Total</b>	<b>8,096.3</b>	<b>100%</b>	<b>0.7%</b>

(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<sup>(1)</sup> benchmark average across the three main centre types. Management of these costs remains an ongoing focus of FDC.

### FDC specialty occupancy costs



(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.

# Directors' Report

## Financial performance<sup>(1)</sup>

### 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 \$m	30 June 2013 \$m	Variance \$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
<b>Total income</b>	<b>341.5</b>	<b>371.5</b>	<b>(30.0)</b>
Overheads and depreciation (net of recoveries)	(41.9)	(46.1)	4.2
Borrowing costs	(56.7)	(101.0)	44.3
<b>Underlying earnings</b>	<b>242.9</b>	<b>224.4</b>	<b>18.5</b>
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
<b>Statutory net profit</b>	<b>441.3</b>	<b>212.7</b>	<b>228.6</b>

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

(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<sup>(1)</sup> 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 \$m	30 June 2013 \$m	Increase/ (decrease) \$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)
<b>Total assets</b>	<b>5,045.4</b>	<b>4,891.7</b>	<b>153.7</b>
Interest bearing liabilities	1,210.7	1,251.7	(41.0)
Other liabilities	245.3	277.0	(31.7)
<b>Total liabilities</b>	<b>1,456.0</b>	<b>1,528.70</b>	<b>(72.7)</b>
<b>Net assets</b>	<b>3,589.4</b>	<b>3,363.0</b>	<b>226.4</b>
<b>NTA per security (\$)</b>	<b>2.37</b>	<b>2.22</b>	<b>0.15</b>

(1) Interest bearing liabilities less cash and cash equivalents divided by total tangible assets less cash and cash equivalents.

# Directors' Report

## Redevelopment and Asset Strategy

With adequate balance sheet capacity secured, FDC continues with its development pipeline. Four projects totalling \$288 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. The additional distribution will form part of FY2015 distributions for tax purposes.

## 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
<b>General risks of retail property investment</b>		
<p>Overall depressed market conditions in national and local economies which impact:</p> <ul style="list-style-type: none"> <li>the ability to attract new tenants to fill lease expiries;</li> <li>consumer shopping trends such as the online and offshore shopping;</li> <li>local real estate conditions;</li> <li>changes in levels of competition.</li> </ul> <p>Any one or a combination of the above will result in reduced rental income and widening of cap rates.</p>	<p>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.</p> <p>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.</p>	<p>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.</p> <p>Diversification of the portfolio to include appropriate mix of discretionary and non-discretionary exposure.</p> <p>Redevelopment of centres to promote positive customer experience and therefore increase foot traffic.</p>
<b>Property development risk</b>		
<ul style="list-style-type: none"> <li>Construction not being completed on time or on budget;</li> <li>Proposed leasing terms not being achieved;</li> <li>Maintaining existing occupancy levels during construction and leasing new space on completion;</li> <li>Funding being available for new development;</li> <li>Obtaining required permits, licences or approvals and timing of receipt of such approvals;</li> <li>Industrial disputes affecting timing;</li> <li>Customers lost to competitors during development phase may not return.</li> </ul>	<p>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.</p> <p>In the event a proposed project does not proceed, pre-development costs may need to be written-off.</p>	<p>FDC has assembled a strong development team with significant experience in retail development.</p> <p>FDC undertakes rigorous feasibility studies and due diligence for all potential development projects including the utilisation of third-party expertise.</p> <p>FDC secures pre-commitments from major tenants prior to any development being undertaken.</p>



# Directors' Report

Risk description	Potential impact	How managed
<b>Co-ownership agreements</b>		
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.	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.
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.		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.
From time to time, major decisions will be required associated with redevelopment, refurbishment, refinancing, or sale of the properties themselves or adjoining land.		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.
<b>Tenant default</b>		
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.	<ul style="list-style-type: none"> <li>FDC maintains a diverse portfolio of tenants; and</li> <li>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.</li> </ul>

## 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 38 to 44). 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**

Please refer to pages 26 and 27 of this report.

**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 72.

**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.

# Directors' Report

## 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 <sup>(1)</sup>	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 <sup>(2)</sup>	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.



**CHARLES MACEK**

Chairman, Remuneration and HR Committee

# Remuneration Report (Audited)

## CONTENTS

## PAGE NUMBER

<b>Section 1</b>	
Overview	48
<b>Section 2</b>	
Key management personnel	51
<b>Section 3</b>	
Governance	53
<b>Section 4</b>	
Executive KMP remuneration framework	54
<b>Section 5</b>	
Non-executive Director remuneration	70

## 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:

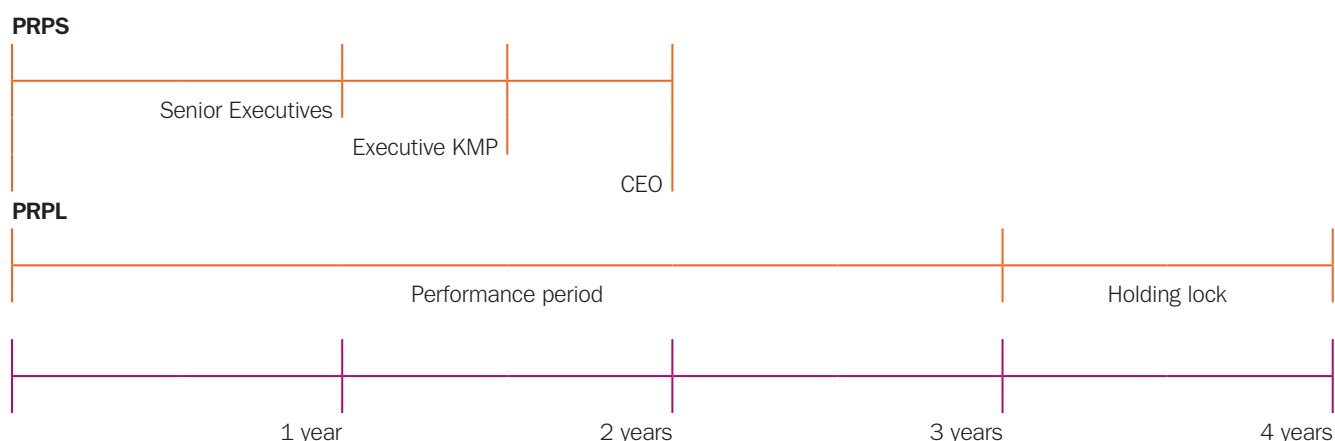
**A. Short-term PRP (PRPS):**

- 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.



# Remuneration Report (Audited)

## 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.

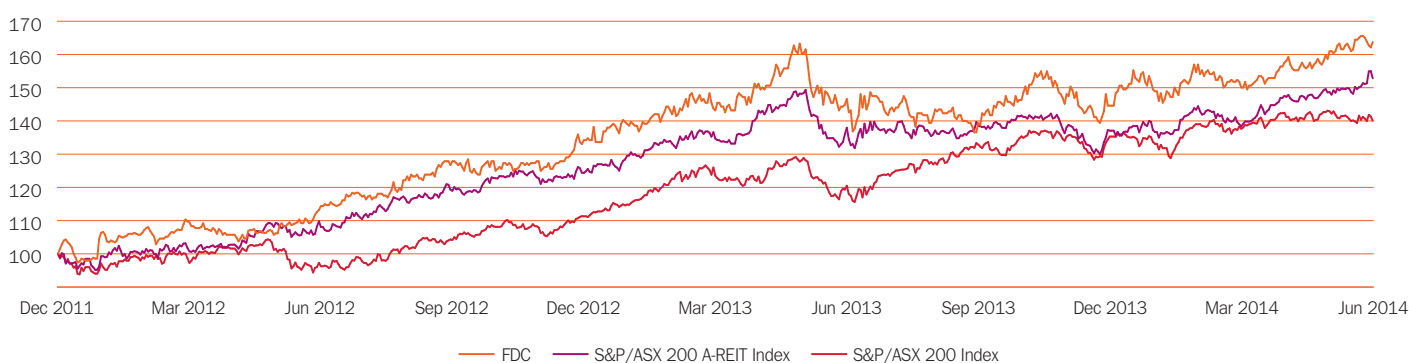
## Link to FY2014 financial performance

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 <sup>(1)</sup>	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 <sup>(1)</sup>	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 <sup>(2)</sup>	General Counsel
Jonathan Timms	Executive General Manager Development and Asset Strategy
Mark Wilson	Executive General Manager Property Operations

#### Former

Dimitri Kiriacoulacos <sup>(3)</sup>	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.

# Remuneration Report (Audited)

## 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 <sup>(1)</sup>	Director Member, Audit and Risk Committee Member, Nomination Committee

### Former

Peter Day <sup>(2)</sup>	Director Member, Audit and Risk Committee Member, Nomination Committee
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(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](http://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.

# Remuneration Report (Audited)

## 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<sup>(1)</sup>**

	Fixed	At risk	
	Total fixed remuneration	PRPS <sup>(2)</sup>	PRPL
<b>Current Executive KMP</b>			
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%
<b>Former Executive KMP</b>			
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)**

<b>PRPS (formerly STI)</b>	
<b>Definition and objective</b>	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.
<b>Participation</b>	All permanent employees, including Executive KMP.
<b>PRPS opportunity</b>	<ul style="list-style-type: none"><li>• For the CEO, the PRPS opportunity at a target level of performance is 125% of TFR.</li><li>• For other Executive KMP, the PRPS opportunity at a target level of performance is between 50% and 75% of TFR.</li></ul> <p>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.</p>
<b>Performance period</b>	<p>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.</p> <p>Where an Executive KMP commenced or ceased employment during the year, their PRPS was evaluated and paid on a pro-rata basis.</p>
<b>Payment method</b>	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.
<b>Grant date</b>	Payments are expected to be made in early September 2014 after finalisation of the FY2014 audited financial statements.
<b>Link with performance (through a combination of Group and individual objectives)</b>	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).



# Remuneration Report (Audited)

**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
<b>Group financial</b>	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
<b>Individual objectives, including strategic and people leadership</b>	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 \$288 million 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%

# Remuneration Report (Audited)

**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.

**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 <sup>(1)</sup> (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.

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

**PRPS (continued)**

**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 <sup>(1)</sup>
<b>Current Executive KMP</b>				
Steven Sewell	125%	375%	2,767,188	64%
Peter Coroneo <sup>(2)(3)</sup>	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 <sup>(4)</sup>	50%	150%	Not applicable	
Jonathan Timms	75%	225%	536,250	37%
Mark Wilson	65%	195%	475,475	35%
<b>Former Executive KMP</b>				
Dimitri Kiriacoulacos <sup>(2)</sup>	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.



# Remuneration Report (Audited)

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

<b>PRPL (formerly LTI)</b>	
<b>Objective</b>	To ensure that securityholder and Executive KMP interests are aligned and to retain and incentivise executives over the longer term.
<b>Definition/equity instrument</b>	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.
<b>Participation</b>	Executive KMP.
<b>PRPL opportunity</b>	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**

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

PRPL (continued)		
	Current (PRPL)	Previous (LTI)
<b>Performance periods</b>	<p>Performance period of three years from 1 July 2013 to 30 June 2016.</p> <p>Holding lock of 12 months after performance period.</p> <p>Restriction period is four years in total.</p> <p>Testing occurs within 14 days of Group results for FY2013 and subsequent grants.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>FY2012 grant: 5 December 2011 to 30 June 2014</li> <li>FY2013 grant: 1 July 2012 to 30 June 2015.</li> </ul> <p>Testing occurs within 30 days of Group results for the FY2012 grant and within 14 days of Group results for the FY2013 grant.</p>
<b>Allocation method</b>	Face value	Fair/accounting value
<b>Performance hurdles</b>	<p>Allocations of performance rights will be tested against two performance hurdles:</p> <ul style="list-style-type: none"> <li>40% will be subject to the achievement of a relative total securityholder return (TSR) performance hurdle; and</li> <li>60% will be tied to the achievement of underlying EPS and Group ROE growth targets.</li> </ul> <p>Each hurdle will be measured independently at the end of the performance period.</p>	<p>Allocations of performance rights will be tested against two performance hurdles:</p> <ul style="list-style-type: none"> <li>50% will be tied to the achievement of a relative total securityholder return (TSR) performance hurdle; and</li> <li>50% will be tied to the achievement of an underlying EPS performance hurdle.</li> </ul> <p>Each hurdle will be measured independently at the end of the performance period.</p>
<b>Rationale for performance hurdles</b>	<p>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.</p> <p>Underlying EPS and ROE were adopted as the internally focused measures.</p> <p>Underlying EPS is a key driver of Federation Centres' capacity to pay distributions, which is typically a primary objective for investors in the S&amp;P/ASX 200 A-REIT Index.</p> <p>The new ROE measure was introduced to ensure alignment with Federation Centres' long-term strategy regarding capital management and redevelopment.</p>	<p>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.</p> <p>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&amp;P/ASX 200 A-REIT Index.</p>

# Remuneration Report (Audited)

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

PRPL (continued)																					
	Current (PRPL)		Previous (LTI)																		
Externally focused performance measure	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.		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 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.		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.		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:		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>		Relative TSR percentile ranking	Percentage of relative TSR performance rights that may vest	At 51st percentile or below	0%	Between 51st and 75th percentile	Progressive pro-rata vesting from 51% on a straight-line basis	75th percentile or above	100% (i.e. maximum amount under the Plan)	<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>		Relative TSR percentile ranking	Percentage of relative TSR performance rights that may vest	Less than the 50th percentile	0%	At the 50th percentile	50%	Between 50th and 75th percentile	Progressive pro-rata vesting from 50% on a straight-line basis	75th percentile or above
Relative TSR percentile ranking	Percentage of relative TSR performance rights that may vest																				
At 51st percentile or below	0%																				
Between 51st and 75th percentile	Progressive pro-rata vesting from 51% on a straight-line basis																				
75th percentile or above	100% (i.e. maximum amount under the Plan)																				
Relative TSR percentile ranking	Percentage of relative TSR performance rights that may vest																				
Less than the 50th percentile	0%																				
At the 50th percentile	50%																				
Between 50th and 75th percentile	Progressive pro-rata vesting from 50% on a straight-line basis																				
75th percentile or above	100% (i.e. maximum amount under the Plan)																				

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

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.	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.																								
	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.	Performance rights subject to the underlying EPS hurdle will vest in accordance with the following scale:																								
	The following outlines the vesting parameters in more detail.	<table><tr><th>Percentage of underlying EPS target achieved</th><th>Percentage of underlying EPS performance rights to vest</th></tr><tr><td colspan="2">FY2013 grant</td></tr><tr><td>less than 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% and above</td><td>100%</td></tr><tr><td colspan="2">FY2012 grant</td></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>	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%
	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%																									
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:																										
<ul style="list-style-type: none"><li>25% of performance rights will vest if growth in both underlying EPS and ROE is 95% of the business plan.</li></ul>																										
<ul style="list-style-type: none"><li>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.</li></ul>																										
<ul style="list-style-type: none"><li>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.</li></ul>																										
	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.																									



# Remuneration Report (Audited)

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

<b>PRPL (continued)</b>	
<b>Rights attaching to performance rights</b>	<p>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.</p> <p>There is no retesting of the performance rights. Any performance rights that do not vest at the end of the performance period will lapse.</p>
<b>Forfeiture of performance rights</b>	<p>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:</p> <ol style="list-style-type: none"> <li>1. Resigns, or is terminated for poor performance;</li> <li>2. Deals (or purports to deal) with their performance rights in contravention of the Plan Rules or Offer Letter; or</li> <li>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.</li> </ol> <p>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.</p> <p>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.</p>
<b>Change of control</b>	<p>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.</p>
<b>Linking PRPL outcomes with Group performance</b>	<p>No PRPL performance rights vested in FY2014.</p> <p>The FY2012 LTI grant will be tested at the completion of FY2014 and, based on current analysis, greater than 90% is expected to vest.</p> <p>As required by the Corporations Act, the performance metrics as per page 50 sets out Federation Centres' performance during FY2012, FY2013 and FY2014 in Australian dollars (five-year historical performance information not being available).</p>

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

**PRPL (continued)**

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

	Performance condition <sup>(1)</sup>	Number of performance rights granted <sup>(2)</sup>	Grant date	Fair value of rights on grant date <sup>(3)(4)</sup> (\$)
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
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.

# Remuneration Report (Audited)

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

**PRPL (continued)**

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

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

	Opening	Granted during the year	Forfeited	Vested	Closing
<b>Current Executive KMP</b>					
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
<b>Total</b>	<b>3,260,938</b>	<b>1,515,903</b>	<b>-</b>	<b>(19,072)</b>	<b>4,757,769</b>
<b>Former Executive KMP</b>					
Dimitri Kiriacoulacos <sup>(1)</sup>	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 <sup>(1)</sup>
	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
<b>Financial (45%)</b>	Achieve target underlying EPS, ROE and operating metrics (including distributions per security and underlying earnings).	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.
	Complete debt restructure and explore ownership options for core assets and extension of joint venture structures.	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.
	Achieve target management expense ratio (MER).		
<b>Leadership and operational excellence (25%)</b>	Lead, manage and grow an effective and engaged leadership team to ensure Federation Centres delivers on targets.	A highly effective leadership team and optimal organisational structure are critical to ensuring Federation Centres is well positioned to deliver on its critical initiatives.	Achieved – expected level of performance achieved.
	Create sustainable value and competitive advantage through organisational effectiveness (structure, culture, brand, and systems).	Set benchmarks in engagement and alignment for future performance measurement.	Managed implementation of information technology platform and assessment of organisational structure and team capability, brand, values and systems to the satisfaction of the Board.
	Embed engagement and alignment benchmarks across Federation Centres.	Streamline processes and increase operating efficiency.	
	Deliver pilot and user acceptance of information technology platform by June 2014.		
<b>Strategic (30%)</b>	Complete asset strategy for each individual asset and assess feasible developments.	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.
	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.		



# Remuneration Report (Audited)

## TOTAL REMUNERATION

**Table 5: Total Executive KMP remuneration for FY2014 and FY2013**

			Short-term benefits		
			PRPS <sup>(1)</sup>		
Executive KMP	Period	Base salary (\$)	cash (\$)	Non-monetary <sup>(2)</sup> (\$)	Other <sup>(3)</sup> (\$)
Current Executive KMP					
Steven Sewell	FY2014	1,142,392	1,383,594	13,048	58,333
	FY2013	880,019	1,282,500	2,364	100,000
Peter Coroneo <sup>(8)(9)</sup>	FY2014	236,897	120,470	2,380	-
	FY2013	-	-	-	-
Colleen Harris	FY2014	368,025	273,488	5,499	-
	FY2013	301,252	285,503	3,542	-
Tom Honan <sup>(10)</sup>	FY2014	766,007	541,407	4,987	-
	FY2013	105,070	-	197	-
Kerrie Lavey	FY2014	406,483	106,357	16,381	-
	FY2013	328,090	238,819	2,423	-
Carolyn Reynolds <sup>(8)</sup>	FY2014	39,001	-	152	-
	FY2013	-	-	-	-
Jonathan Timms	FY2014	646,762	268,125	7,696	-
	FY2013	553,466	375,219	21,501	29,609
Mark Wilson	FY2014	670,287	237,738	10,345	-
	FY2013	679,718	463,750	9,387	-
Subtotal Current Executive KMP	FY2014	4,275,854	2,931,179	60,488	58,333
	FY2013	2,847,615	2,645,791	39,414	129,609
Former Executive KMP					
Michael Benett <sup>(11)</sup>	FY2014	-	-	-	-
	FY2013	116,658	77,671	668	-
Gerard Condon <sup>(11)</sup>	FY2014	-	-	-	-
	FY2013	212,559	134,714	4,665	-
Dimitri Kiriacoulacos <sup>(11)(12)</sup>	FY2014	501,658	367,451	7,732	-
	FY2013	527,260	395,500	3,915	-
Marlon Teperson <sup>(11)</sup>	FY2014	-	-	-	-
	FY2013	593,089	458,836	13,158	97,325
Total	FY2014	4,777,512	3,298,630	68,220	58,333
	FY2013	4,297,181	3,712,512	61,820	226,934

(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.

Other long-term benefits		Share-based payments		Post-employment		Total (\$)
Leave entitlements <sup>(4)</sup> (\$)	Special Bonus Plan <sup>(5)</sup> (\$)	Performance rights <sup>(6)</sup> (\$)	PRPS Deferred <sup>(7)</sup> (\$)	Superannuation contributions (\$)	Termination benefits (\$)	
-	-	950,158	426,608	17,775	-	3,991,908
-	-	807,704	-	16,470	-	3,089,057
-	-	12,429	44,574	10,912	-	427,662
-	-	-	-	-	-	-
-	-	109,743	101,190	17,775	-	875,720
-	-	80,751	-	12,353	-	683,401
-	-	114,984	200,320	17,775	-	1,645,480
-	-	9,658	-	2,745	-	117,670
-	-	96,448	39,352	17,775	-	682,796
-	-	69,087	-	13,725	-	652,144
-	-	-	-	1,481	-	40,634
-	-	-	-	-	-	-
-	-	235,087	99,206	17,775	-	1,274,651
-	-	186,625	-	13,725	-	1,180,145
11,016	-	480,769	87,963	17,775	-	1,515,893
11,212	233,333	435,464	-	16,470	-	1,849,334
11,016	-	1,999,618	999,213	119,043	-	10,454,744
11,212	233,333	1,589,289	-	75,488	-	7,571,751
-	-	-	-	-	-	-
1,725	-	60,546	-	4,118	372,116	633,502
-	-	-	-	-	-	-
3,516	-	272,169	-	7,482	500,000	1,135,105
-	-	266,183	-	16,150	645,791	1,804,965
-	-	250,093	-	16,470	-	1,193,238
-	-	-	-	-	-	-
-	-	394,428	-	14,389	-	1,571,225
11,016	-	2,265,801	999,213	135,193	645,791	12,259,709
16,453	233,333	2,566,525	-	117,947	872,116	12,104,821

(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 period he was an Executive KMP.

# Remuneration Report (Audited)

## 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 <sup>(1)</sup> (\$)
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**

		Short-term benefits		Post-employment benefit <sup>(1)</sup>	
	Period	Fees (\$)	Committee fees (\$)	Superannuation contributions (\$)	Total fees (\$)
Non-executive Director					
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 <sup>(2)</sup>	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 <sup>(3)</sup>	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 appointed on 30 May 2014.

(3) Peter Day retired on 28 February 2014.



# Remuneration Report (Audited)

## 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						
		Board fees	Non-monetary	Superannuation	Total FDC	Total Board fees
Non-executive Director	Period	(\$)	benefits (\$)	contributions (\$)	fees (\$)	(CMCS, RREL and FDC) (\$)
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
<b>Directors</b>					
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
<b>Total</b>	<b>278,358</b>	-	<b>20,000</b>	<b>(69,812)</b>	<b>228,546</b>
<b>Executive KMP</b>					
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 74.

### 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

# Auditor's Independence Declaration

To the Directors of Federation Limited



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Melbourne VIC 3001

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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.

A handwritten signature in blue ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'B R Meehan'.

B R Meehan  
Partner  
Melbourne  
22 August 2014

# Financial Report

## Contents

76	Statements of Comprehensive Income
77	Balance Sheets
79	Statements of Changes in Equity
80	Cash Flow Statements
81	Notes to and forming part of the consolidated financial statements
81	1. Summary of significant accounting policies
83	2. Adoption of new accounting standards
86	3. Significant accounting estimates, judgements and assumptions
86	4. Segment information
90	5. Receivables and other assets
92	6. Investments
99	7. Intangible assets
100	8. Interest bearing liabilities
103	9. Payables and other liabilities
104	10. Provisions
105	11. Puttable interest in consolidated finite life trusts
106	12. Income taxes
107	13. Contributed equity
108	14. Earnings/(loss) per security
108	15. Net tangible asset backing
109	16. Employee benefits expenses
109	17. Share-based payments
113	18. Cash flow information
114	19. Remuneration of auditors
115	20. Financial risk management
116	21. Parent entity information
118	22. Related party disclosures
120	23. Commitments
120	24. Operating leases
121	25. Contingent liabilities
122	26. Events occurring after the end of the reporting period
123	Directors' declaration
124	Independent auditor's report



# Statements of Comprehensive Income

for the year ended 30 June 2014

		Federation Limited and its Controlled Entities	
	Notes	2014 \$'000	Restated <sup>(1)</sup> 2013 \$'000
<b>REVENUE</b>			
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
<b>Total Revenue</b>		<b>546,548</b>	<b>568,615</b>
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)	-
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>		<b>441,319</b>	<b>210,416</b>
Income tax benefit	12	-	2,239
<b>NET PROFIT AFTER TAX<sup>(2)</sup></b>		<b>441,319</b>	<b>212,655</b>
Attributable to:			
Federation Limited securityholders		(30,726)	(11,499)
Other stapled entities of Federation Centres		472,045	224,154
<b>NET PROFIT ATTRIBUTABLE TO SECURITYHOLDERS OF FEDERATION CENTRES</b>		<b>441,319</b>	<b>212,655</b>
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	2014 \$'000	Restated <sup>(1)</sup> 2013 \$'000	Restated <sup>(1)</sup> 2012 \$'000
<b>CURRENT ASSETS</b>				
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
<b>Total current assets</b>		<b>204,640</b>	<b>712,969</b>	<b>414,383</b>
<b>NON-CURRENT ASSETS</b>				
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
<b>Total non-current assets</b>		<b>5,045,087</b>	<b>4,737,290</b>	<b>4,870,055</b>
<b>TOTAL ASSETS</b>		<b>5,249,727</b>	<b>5,450,259</b>	<b>5,284,438</b>
<b>CURRENT LIABILITIES</b>				
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
<b>Total current liabilities</b>		<b>374,034</b>	<b>670,342</b>	<b>411,619</b>
<b>NON-CURRENT LIABILITIES</b>				
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
<b>Total non-current liabilities</b>		<b>1,286,261</b>	<b>1,416,889</b>	<b>1,525,203</b>
<b>TOTAL LIABILITIES</b>		<b>1,660,295</b>	<b>2,087,231</b>	<b>1,936,822</b>
<b>NET ASSETS</b>		<b>3,589,432</b>	<b>3,363,028</b>	<b>3,347,616</b>

(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	2014 \$'000	Restated <sup>(1)</sup> 2013 \$'000	Restated <sup>(1)</sup> 2012 \$'000
<b>EQUITY</b>				
<b>Equity attributable to securityholders of Federation Limited</b>				
Contributed equity		-	-	-
Share-based payment reserve		7,940	4,460	898
Accumulated losses		(67,779)	(37,053)	(25,554)
<b>Total equity attributable to securityholders of Federation Limited</b>		<b>(59,839)</b>	<b>(32,593)</b>	<b>(24,656)</b>
<b>Equity attributable to other stapled entities of Federation Centres</b>				
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)
<b>Total equity attributable to other securityholders of Federation Centres</b>		<b>3,649,271</b>	<b>3,395,621</b>	<b>3,372,272</b>
<b>Equity attributable to securityholders of Federation Centres</b>				
Federation Limited securityholders		(59,839)	(32,593)	(24,656)
Other stapled entities of Federation Centres		3,649,271	3,395,621	3,372,272
<b>TOTAL EQUITY ATTRIBUTABLE TO SECURITYHOLDERS OF FEDERATION CENTRES</b>		<b>3,589,432</b>	<b>3,363,028</b>	<b>3,347,616</b>

(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

Federation Limited and its Controlled Entities					
	Contributed equity \$'000	Class Action True-up Securities \$'000 <sup>(1)</sup>	Accumulated losses \$'000	Share-based payment reserve \$'000	Total \$'000
<b>As at 1 July 2012</b>	<b>3,453,502</b>	<b>203,261</b>	<b>(310,045)</b>	<b>898</b>	<b>3,347,616</b>
Net profit for the year <sup>(2)</sup>	-	-	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 <sup>(3)</sup>	-	-	(201,282)	-	(201,282)
<b>As at 30 June 2013</b>	<b>3,657,240</b>	<b>-</b>	<b>(298,672)</b>	<b>4,460</b>	<b>3,363,028</b>

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

(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		
	2014 \$'000	Restated 2013 \$'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
<b>Total comprehensive income</b>	<b>441,319</b>	<b>212,655</b>

(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

		Federation Limited and its Controlled Entities	
	Notes	2014 \$'000	Restated <sup>(3)</sup> 2013 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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)
<b>Net cash inflow from operating activities</b>	18	<b>245,030</b>	<b>220,515</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of syndicates, net of cash acquired <sup>(1)</sup>		-	(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)
<b>Net cash inflow from investing activities</b>		<b>296,537</b>	<b>96,813</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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 <sup>(2)</sup>		(232,488)	(203,811)
<b>Net cash outflow from financing activities</b>		<b>(579,353)</b>	<b>(419,791)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(37,786)</b>	<b>(102,463)</b>
Cash and cash equivalents at the beginning of the year		102,656	205,119
<b>Cash and cash equivalents at the end of the year</b>		<b>64,870</b>	<b>102,656</b>

(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 securityholders of \$214 million (2013: \$181 million) and to puttable interests of \$18 million (2013: \$22 million).

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

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

# 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.

### (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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### *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 Investments 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.

#### *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

### 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 re-present 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.



# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 2. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

### AASB 10 Consolidated Financial Statements (continued)

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

	Previously reported 2013 \$'000	Adjustments arising from the adoption of AASB 10 \$'000	Restated 2013 \$'000
Property ownership revenue	500,839	26,643	<b>527,482</b>
Services revenue	26,146	(2,047)	<b>24,099</b>
Distribution revenue	8,055	(2,191)	<b>5,864</b>
Interest revenue	11,013	157	<b>11,170</b>
Other income	18,695	(691)	<b>18,004</b>
Fair value adjustment on financial assets at fair value through profit or loss	(4,250)	(1,661)	<b>(5,911)</b>
Property revaluation increment for directly owned properties	37,925	6,648	<b>44,573</b>
Borrowing costs	(124,686)	(7,718)	<b>(132,404)</b>
Direct property expenses	(133,331)	(7,358)	<b>(140,689)</b>
Employee benefits expenses	(70,040)	2,203	<b>(67,837)</b>
Other expenses from ordinary activities	(18,393)	(4,863)	<b>(23,256)</b>
Net movement on mark to market of derivatives	898	(146)	<b>752</b>
Movement in net assets attributable to puttable interests in consolidated finite life trusts	(9,011)	(8,976)	<b>(17,987)</b>
<b>TOTAL EFFECT ON NET PROFIT/(LOSS) AFTER TAX</b>	<b>n/a</b>	<b>nil</b>	<b>n/a</b>
<b>TOTAL EFFECT ON TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	<b>n/a</b>	<b>nil</b>	<b>n/a</b>

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

	Previously reported 2013 \$'000	Adjustments arising from the adoption of AASB 10 \$'000	Restated 2013 \$'000
Cash assets and cash equivalents	93,317	9,339	<b>102,656</b>
Receivables and other assets – current	89,413	725	<b>90,138</b>
Non-current assets classified as held for sale	417,354	23,750	<b>441,104</b>
Financial assets carried at fair value through profit or loss – non-current	44,033	(41,033)	<b>3,000</b>
Investment property	4,081,715	205,133	<b>4,286,848</b>
Payables and other liabilities – current	206,210	3,817	<b>210,027</b>
Interest bearing liabilities – non-current	1,108,410	106,786	<b>1,215,196</b>
Derivative financial instruments liability – non-current	1,115	430	<b>1,545</b>
Puttable interests in consolidated finite life trusts	112,292	86,881	<b>199,173</b>
<b>IMPACT ON NET ASSETS</b>	<b>n/a</b>	<b>nil</b>	<b>n/a</b>

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

	Previously reported 2012 \$'000	Adjustments arising from the adoption of AASB 10 \$'000	Restated 2012 \$'000
Cash assets and cash equivalents	200,478	4,641	<b>205,119</b>
Receivables and other assets – current	127,397	3,575	<b>130,972</b>
Financial assets carried at fair value through profit or loss – non-current	192,254	(40,165)	<b>152,089</b>
Investment property	3,701,041	219,450	<b>3,920,491</b>
Payables and other liabilities – current	165,926	19,016	<b>184,942</b>
Interest bearing liabilities – non-current	1,238,662	86,492	<b>1,325,154</b>
Derivative financial instruments liability – non-current	4,715	629	<b>5,344</b>
Puttable interests in consolidated finite life trusts	106,561	81,364	<b>187,925</b>
<b>IMPACT ON NET ASSETS</b>	<b>n/a</b>	<b>nil</b>	<b>n/a</b>

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

	Previously reported 2013 \$'000	Adjustments arising from the adoption of AASB 10 \$'000	Restated 2013 \$'000
Net cash inflow from operating activities	217,507	3,008	<b>220,515</b>
Net cash inflow from investing activities	100,024	(3,211)	<b>96,813</b>
Net cash outflow from financing activities	(424,692)	4,900	<b>(419,791)</b>
Net decrease in cash and cash equivalents	(107,161)	4,697	<b>(102,463)</b>

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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.

### (c) Segment income statement

Federation Limited and its Controlled Entities		
	2014 \$'000	2013 \$'000 <sup>(1)</sup>
Direct property investment income	310,317	309,491
Syndicate investment income	11,713	22,012
<b>Investment income</b>	<b>322,030</b>	<b>331,503</b>
Property management, development and leasing fees	14,374	12,703
Syndicate management fees	5,112	27,310
<b>Services business income</b>	<b>19,486</b>	<b>40,013</b>
<b>Total segment income</b>	<b>341,516</b>	<b>371,516</b>
Overheads, net of recoveries	(40,147)	(44,774)
Depreciation and amortisation	(1,740)	(1,348)
Borrowing costs	(56,704)	(101,044)
<b>Underlying earnings</b>	<b>242,925</b>	<b>224,350</b>
Non-distributable items:		
Investment property revaluations <sup>(2)</sup>	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 <sup>(3)</sup>	(18,436)	-
Other non-distributable items <sup>(4)</sup>	308	(10,459)
<b>Net profit</b>	<b>441,319</b>	<b>212,655</b>

(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).



# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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	
	2014 \$'000	2013 \$'000
<b>Underlying earnings</b>	<b>242,925</b>	<b>224,350</b>
Adjusted for:		
Amortisation of rent free periods	1,921	2,360
<b>Funds From Operations</b>	<b>244,846</b>	<b>226,710</b>
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
<b>Adjusted Funds From Operations before software implementation costs</b>	<b>214,052</b>	<b>196,910</b>
Software implementation costs	(18,436)	-
<b>Adjusted Funds From Operations after software implementation costs</b>	<b>195,616</b>	<b>196,910</b>

### (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	
	2014 \$'000	Restated 2013 \$'000
<b>Total segment income</b>	<b>341,516</b>	<b>371,516</b>
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
<b>Total revenue per Statement of Comprehensive Income</b>	<b>546,548</b>	<b>568,615</b>

#### (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.

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
<b>Current assets</b>					
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
<b>Total current assets</b>	<b>204,640</b>	<b>(8,975)</b>	<b>3,431</b>	<b>332</b>	<b>199,428</b>
<b>Non-current assets</b>					
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
<b>Total non-current assets</b>	<b>5,045,087</b>	<b>(314,000)</b>	<b>81,777</b>	<b>33,138</b>	<b>4,846,002</b>
<b>Total assets</b>	<b>5,249,727</b>	<b>(322,975)</b>	<b>85,208</b>	<b>33,470</b>	<b>5,045,430</b>
<b>Current liabilities</b>					
Interest bearing liabilities	136,656	(137,492)	836	32,954	32,954
Other current	237,378	(7,945)	2,547	184	232,164
<b>Total current liabilities</b>	<b>374,034</b>	<b>(145,437)</b>	<b>3,383</b>	<b>33,138</b>	<b>265,118</b>
<b>Non-current liabilities</b>					
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
<b>Total non-current liabilities</b>	<b>1,286,261</b>	<b>(177,538)</b>	<b>81,825</b>	<b>332</b>	<b>1,190,880</b>
<b>Total liabilities</b>	<b>1,660,295</b>	<b>(322,975)</b>	<b>85,208</b>	<b>33,470</b>	<b>1,455,998</b>
<b>Net assets</b>	<b>3,589,432</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,589,432</b>

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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
<b>Current assets</b>					
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
<b>Total current assets</b>	<b>712,969</b>	<b>(112,606)</b>	<b>41,992</b>	<b>-</b>	<b>642,355</b>
<b>Non-current assets</b>					
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
<b>Total non-current assets</b>	<b>4,737,290</b>	<b>(784,575)</b>	<b>262,763</b>	<b>33,838</b>	<b>4,249,316</b>
<b>Total assets</b>	<b>5,450,259</b>	<b>(897,181)</b>	<b>304,755</b>	<b>33,838</b>	<b>4,891,671</b>
<b>Current liabilities</b>					
Borrowings	372,940	(83,790)	10,651	-	299,801
Other current	297,402	(52,437)	29,350	428	274,743
<b>Total current liabilities</b>	<b>670,342</b>	<b>(136,227)</b>	<b>40,001</b>	<b>428</b>	<b>574,544</b>
<b>Non-current liabilities</b>					
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
<b>Total non-current liabilities</b>	<b>1,416,889</b>	<b>(760,954)</b>	<b>264,754</b>	<b>33,410</b>	<b>954,099</b>
<b>Total liabilities</b>	<b>2,087,231</b>	<b>(897,181)</b>	<b>304,755</b>	<b>33,838</b>	<b>1,528,643</b>
<b>Net assets</b>	<b>3,363,028</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,363,028</b>

## 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**

	<b>2014 \$'000</b>	<b>Restated 2013 \$'000</b>
<b>Current</b>		
External trade receivables	23,109	21,511
Less: Impairment provision on trade receivables	(1,053)	(1,593)
<b>Total external receivables</b>	<b>22,056</b>	<b>19,918</b>
Related party receivables <sup>(1)</sup>	3,969	5,643
Related party accrued rollover, performance, windup and deferred RE fees	-	11,239
Related party loans <sup>(2)</sup>	-	21,238
Less: Impairment provision on related party trade receivables	(110)	(220)
<b>Total related party loans and receivables</b>	<b>3,859</b>	<b>37,900</b>
Prepayments and other assets	15,000	32,320
<b>Total current receivables and other assets</b>	<b>40,915</b>	<b>90,138</b>
<b>Non-current</b>		
Related party loans and receivables <sup>(3)</sup>	117,388	117,388
<b>Total non-current receivables and other assets</b>	<b>117,388</b>	<b>117,388</b>

(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.

**(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).

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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 5. RECEIVABLES AND OTHER ASSETS (CONTINUED)

### (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	
	2014 \$'000	Restated 2013 \$'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
<b>Closing balance</b>	<b>(1,163)</b>	<b>(1,813)</b>
Comprises:		
Impairment provision on trade receivables	(1,053)	(1,593)
Impairment provision on related party receivables	(110)	(220)

## 6. INVESTMENTS

		Federation Limited and its Controlled Entities	
	Note	2014 \$'000	Restated 2013 \$'000
<b>Included in the Balance Sheet as:</b>			
Non-current assets classified as held for sale <sup>(1)</sup>		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 <sup>(2)</sup>		6,455	82,071
		<b>4,820,889</b>	<b>4,929,897</b>

(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).



**(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		Carrying amount		Share of net profit/(loss)	
		2014 %	2013 %	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'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 <sup>(1)</sup>	n/a	-	50.0	-	9,950	700	3
Emerald Market <sup>(1)</sup>	n/a	-	50.0	-	7,250	-	(420)
Others <sup>(2)</sup>	n/a	-	-	-	-	-	16,002
				<b>106,030</b>	<b>119,874</b>	<b>7,378</b>	<b>20,764</b>

(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	2014 \$'000	Restated 2013 \$'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 <sup>(1)</sup>		17,500	312,891
Transferred to investment properties	6(b)	(35,000)	(791,522)
<b>Closing balance</b>		<b>106,030</b>	<b>119,874</b>

(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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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			
	2014 \$'000 Victoria Gardens	2014 \$'000 Tuggeranong Hyperdome	2013 \$'000 Victoria Gardens	2013 \$'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)
<b>Net assets</b>	<b>118,734</b>	<b>93,326</b>	<b>110,122</b>	<b>95,226</b>
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.

**Federation Limited  
and its Controlled Entities**

	<b>FDC Interest</b>	<b>Shopping Centre Type</b>	<b>Valuation Type</b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
Bankstown Central <sup>(1)</sup>	50%	Regional	Independent	297,500	284,300
Colonnades <sup>(1)</sup>	50%	Regional	Independent	145,000	153,000
Galleria <sup>(1)</sup>	50%	Regional	Directors	347,500	341,500
Roselands <sup>(1)</sup>	50%	Regional	Independent	175,113	166,897
The Glen <sup>(1)</sup>	50%	Regional	Directors	215,800	215,750
West End Plaza <sup>(3)</sup>	100%	Sub-regional	Independent	55,450	55,450
Armida Central	100%	Sub-regional	Independent	41,500	39,000
Arndale Central	100%	Sub-regional	Directors	152,500	140,000
Belmont Village <sup>(2)</sup>	100%	Sub-regional	Directors	39,300	39,300
Box Hill Central	100%	Sub-regional	Independent	188,000	169,000
Brandon Park <sup>(2)</sup>	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 <sup>(1)</sup>	50%	Sub-regional	Directors	92,250	-
Cranbourne Park <sup>(1)</sup>	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 <sup>(1)</sup>	50%	Sub-regional	Independent	103,125	93,150
Karratha City <sup>(1)</sup>	50%	Sub-regional	Independent	53,660	47,925
Kurralta Central <sup>(2)</sup>	100%	Sub-regional	Directors	34,500	32,300
Lavington Square	100%	Sub-regional	Directors	57,000	59,000
Maddington Central <sup>(3)</sup>	100%	Sub-regional	Directors	100,000	97,050
Maitland Hunter Mall <sup>(3)</sup>	100%	Sub-regional	Directors	12,600	12,000
Mandurah Forum <sup>(1)</sup>	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 <sup>(4)</sup>	100%	Sub-regional	n/a	-	38,500
Springwood <sup>(4)</sup>	100%	Sub-regional	n/a	-	48,000
Sunshine Marketplace <sup>(1)/(3)</sup>	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 <sup>(1)</sup>	50%	Sub-regional	Directors	35,500	32,750
Tweed Mall <sup>(3)</sup>	100%	Sub-regional	Directors	80,000	85,000
Warriewood Square <sup>(1)</sup>	50%	Sub-regional	Independent	75,000	70,154
Warwick Grove	100%	Sub-regional	Directors	154,000	132,500
<b>Carried forward</b>				<b>3,631,548</b>	<b>3,453,226</b>

Footnotes on page 96

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 6. INVESTMENTS (CONTINUED)

### (b) Investment property (continued)

				Federation Limited and its Controlled Entities	
	FDC Interest	Shopping Centre Type	Valuation Type	2014 \$'000	Restated 2013 \$'000
<b>Brought forward</b>				<b>3,631,548</b>	<b>3,453,226</b>
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 <sup>(3)</sup>	100%	Convenience	Independent	20,500	-
Emerald Market <sup>(3)</sup>	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 <sup>(3)</sup>	100%	Convenience	Directors	18,550	18,200
Goldfields Plaza	100%	Convenience	Independent	23,000	21,000
Halls Head Central <sup>(1)</sup>	50%	Convenience	Independent	16,550	17,150
Hilton Plaza <sup>(2)</sup>	100%	Convenience	Directors	18,400	18,000
Katherine Oasis	100%	Convenience	Independent	26,000	25,000
Kalamunda Central <sup>(2)</sup>	100%	Convenience	Directors	30,000	25,400
Lennox Village <sup>(1)(3)</sup>	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 <sup>(3)</sup>	100%	Convenience	Independent	41,500	38,100
Monier Village <sup>(3)</sup>	100%	Convenience	Independent	17,000	11,200
North Shore Village	100%	Convenience	Directors	19,600	18,500
Oakleigh Central <sup>(3)</sup>	100%	Convenience	Directors	46,550	44,200
Oxford Village <sup>(3)</sup>	100%	Convenience	Independent	24,500	23,000
Terrace Central <sup>(3)</sup>	100%	Convenience	Independent	29,000	25,500
Stirlings Central <sup>(2)</sup>	100%	Convenience	Directors	42,000	32,300
The Gateway <sup>(2)</sup>	100%	Convenience	Directors	34,000	30,400
Victoria Park Central	100%	Convenience	Independent	22,200	21,750
Wambro Centre	100%	Convenience	Directors	53,000	53,000
Warrnambool North	100%	Convenience	Independent	13,200	12,300
Woodlands Village <sup>(3)</sup>	100%	Convenience	Independent	12,250	14,450
Indooroopilly Central <sup>(3)</sup>	100%	Bulky goods	Directors	51,000	46,900
				4,559,448	4,278,371
<b>Development projects and construction in progress</b>					
Cranbourne Park <sup>(1)</sup>				15,498	1,251
Wambro Centre				29,581	1,291
Other development projects and construction in progress				8,577	5,935
				53,656	8,477
<b>Total</b>				<b>4,613,104</b>	<b>4,286,848</b>

(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	Restated 2013 \$'000
		2014 \$'000
Opening balance at the beginning of the year		4,286,848
Acquisition of investment property		88,500
Stamp duty capitalised on acquisition of investment property		4,864
Disposal of interests in investment property		-
Investment properties arising from acquisition of syndicates		-
Transferred from equity accounted investments	6(a)	35,000
Transferred to non-current assets classified as held for sale		(95,300)
Capital expenditure during the year		114,290
Property revaluation increment for directly owned properties		176,635
Stamp duty written off on acquisition of investment property		(4,864)
Straight-lining of rent adjustment		7,131
Tenant allowance amortisation		-
<b>Closing balance</b>		<b>4,613,104</b>

### 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.



# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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 <sup>(1)</sup> \$'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
<b>Total portfolio<sup>(1)</sup></b>	<b>4,701,148</b>	<b>7.27%</b>	<b>64,652</b>	<b>0.05</b>

(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.

	<b>Federation Limited and its Controlled Entities</b>	
	<b>2014 \$'000</b>	<b>2013<sup>(1)</sup> \$'000</b>
Funds management	82,523	82,523
Property, leasing and development	117,212	117,212
<b>Total Goodwill</b>	<b>199,735</b>	<b>199,735</b>

(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.

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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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	
	2014 \$'000	Restated 2013 \$'000
Bank loans	1,029,235	1,598,453
Australian Medium Term Notes	300,000	-
Deferred debt costs and discount on Notes issue <sup>(1)</sup>	(14,826)	(10,317)
<b>Total interest bearing liabilities</b>	<b>1,314,409</b>	<b>1,588,136</b>
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	
	2014 \$'000	Restated 2013 \$'000
Total facilities available	1,992,900	1,819,853
Facilities utilised at the end of the year	1,329,235	1,598,453
<b>Total facilities not utilised at the end of the year</b>	<b>663,665</b>	<b>221,400</b>

### (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.

<b>Federation Limited and its Controlled Entities</b>					
<b>30 June 2014</b>	<b>Less than 1 year \$'000</b>	<b>1 to 3 years \$'000</b>	<b>Greater than 3 years \$'000</b>	<b>Total \$'000</b>	<b>Carrying amount \$'000</b>
Bank loans <sup>(1)</sup>	137,000	780,000	112,235	1,029,235	1,017,646
Australia Medium Term Notes <sup>(1)</sup>	-	-	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
<b>Total contractual outflows</b>	<b>195,528</b>	<b>852,758</b>	<b>466,036</b>	<b>1,514,322</b>	<b>n/a</b>

<b>Federation Limited and its Controlled Entities</b>					
<b>Restated 30 June 2013</b>	<b>Less than 1 year \$'000</b>	<b>1 to 3 years \$'000</b>	<b>Greater than 3 years \$'000</b>	<b>Total \$'000</b>	<b>Carrying amount \$'000</b>
Bank loans <sup>(1)</sup>	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
<b>Total contractual outflows</b>	<b>436,371</b>	<b>852,048</b>	<b>487,698</b>	<b>1,776,117</b>	<b>n/a</b>

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

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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.

	<b>Federation Limited and its Controlled Entities</b>	
	<b>2014</b>	<b>Restated 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest expense	71,040	122,187
Amortisation of borrowing costs	4,766	11,855
Less: capitalised borrowing costs	(1,588)	(1,638)
	<b>74,218</b>	<b>132,404</b>

### (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:

	<b>Federation Limited and its Controlled Entities</b>	
	<b>2014</b>	<b>Restated 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
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)
<b>Net variable rate borrowings exposed to cash flow interest rate risk at 30 June</b>	<b>804,823</b>	<b>1,380,590</b>
Less: borrowings repaid in post year-end <sup>(1)</sup>	-	(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 <sup>(2)</sup>	(692,793)	(557,787)
<b>Representative net variable rate borrowings exposed to cash flow interest rate risk after effect of interest rate swaps</b>	<b>112,030</b>	<b>486,075</b>

(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.



### 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	
	2014 \$'000	Restated 2013 \$'000
Trade payables	29,634	13,318
Accrued expenses	60,312	63,093
Accrued interest	2,687	5,125
Distributions payable <sup>(1)</sup>	113,375	118,584
Other liabilities	5,590	9,907
<b>Payables and other liabilities</b>	<b>211,598</b>	<b>210,027</b>

(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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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.

	<b>Federation Limited and its Controlled Entities</b>	
	<b>2014 \$'000</b>	<b>Restated 2013 \$'000</b>
<b>Current</b>		
Employee benefits	8,622	8,061
Provision for stamp duty	16,388	78,768
<b>Total current provisions</b>	<b>25,010</b>	<b>86,829</b>
<b>Non-current</b>		
Employee benefits – long service leave	675	975
<b>Total non-current provisions</b>	<b>675</b>	<b>975</b>

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

	<b>2014 \$'000</b>	<b>Restated 2013 \$'000</b>
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)	-
<b>Closing balance</b>	<b>16,388</b>	<b>78,768</b>

## 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:

			<b>Federation Limited and its Controlled Entities</b>	
	<b>Properties held</b>	<b>% ownership<sup>(1)</sup></b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
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 <sup>(2)</sup>	Various	Various	-	108,734
			<b>95,382</b>	<b>199,173</b>

### (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)
<b>Closing balance</b>	<b>95,382</b>	<b>199,173</b>

(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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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

	<b>Federation Limited and its Controlled Entities</b>	
	<b>2014</b>	<b>Restated 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
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 <sup>(1)</sup>	141,721	67,119
Deferred tax assets not recognised <sup>(2)</sup>	(6,826)	(1,249)
Other movements	(2,499)	(506)
<b>Income tax benefit</b>	<b>-</b>	<b>2,239</b>

(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.

### (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		
	2014 Number '000	2013 <sup>(1)</sup> Number '000
<b>Number of stapled securities issued:</b>		
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
<b>Closing balance</b>	<b>1,427,642</b>	<b>1,427,642</b>
	2014 \$'000	2013 \$'000 <sup>(1)</sup>
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.



# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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:

	<b>Federation Limited and its Controlled Entities</b>	
	<b>2014 \$'000</b>	<b>Restated 2013 \$'000</b>
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:

	<b>Federation Limited and its Controlled Entities</b>	
	<b>2014 Number '000</b>	<b>2013 Number '000</b>
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
<b>Weighted average number of securities used in calculation of diluted earnings/(loss) per security</b>	<b>1,434,674</b>	<b>1,425,386</b>

## 15. NET TANGIBLE ASSET BACKING

	<b>Federation Limited and its Controlled Entities</b>	
	<b>2014 \$'000</b>	<b>2013<sup>(1)</sup> \$'000</b>
Net assets attributable to securityholders of Federation Centres	3,589,432	3,363,028
Less: Intangible assets	(199,735)	(199,735)
<b>Net tangible assets attributable to securityholders of Federation Centres</b>	<b>3,389,697</b>	<b>3,163,293</b>
	<b>Number '000</b>	<b>Number '000</b>
Number of securities outstanding at the end of the period	1,427,642	1,427,642
	<b>\$</b>	<b>\$</b>
<b>Net tangible asset backing per security</b>	<b>2.37</b>	<b>2.22</b>

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

## 16. EMPLOYEE BENEFITS EXPENSES

		Federation Limited and its Controlled Entities	
	Note	2014 \$'000	2013 \$'000
Salaries and wages		52,996	58,764
Defined contribution superannuation expense		5,629	4,925
Share-based payments expense <sup>(1)</sup>	17(b)	5,304	4,148
		<b>63,929</b>	<b>67,837</b>

(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	
		2014 \$'000	2013 \$'000
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
		<b>13,908</b>	<b>13,886</b>

## 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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 17. SHARE-BASED PAYMENTS (CONTINUED)

### (a) Plan description (continued)

Salient features of each grant currently on foot are:

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

**(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	Nil
Forfeited during the period	(528,149)	Nil	(163,001)	Nil
Granted during the year	1,745,398	Nil	3,666,708	Nil
Vested during the year	(65,739)	Nil	-	Nil
<b>Closing balance at 30 June</b>	<b>7,664,154</b>	<b>Nil</b>	<b>6,512,644</b>	<b>Nil</b>
Exercisable at 30 June	Nil		Nil	
Weighted average remaining contractual life	1.53 years		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:

	9 December 2013	15 November 2013
Grant dates		
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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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 <sup>(1)</sup>	468	575
<b>Total</b>	<b>5,304</b>	<b>4,137</b>

(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:

		<b>Federation Limited and its Controlled Entities</b>	
	<b>Notes</b>	<b>2014 \$'000</b>	<b>Restated 2013 \$'000</b>
Net profit after tax		441,319	212,655
<b>Exclude non-cash items and cash flows under investing and financing activities:</b>			
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 <sup>(1)</sup>		(538)	5,405
<b>Movement in working capital:</b>			
Decrease in trade and other receivables		19,794	7,512
Decrease in trade and other payables		(9,254)	(18,523)
<b>Net cash inflow from operating activities</b>		<b>245,030</b>	<b>220,515</b>

(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.

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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	
	2014 \$	Restated 2013 \$
<b>Assurance services</b>		
<b>(a) Audit services</b>		
Ernst & Young Australian firm:		
– Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	1,299,515	1,722,115
Moore Stephens Australian firm:		
– Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	96,000	156,700
<b>Total remuneration for audit services</b>	<b>1,395,515</b>	<b>1,878,815</b>
<b>(b) Other assurance services</b>		
Ernst & Young Australian firm	277,790	275,665
<b>Total remuneration for other assurance services</b>	<b>277,790</b>	<b>275,665</b>
<b>Total remuneration for assurance services</b>	<b>1,673,305</b>	<b>2,154,480</b>
<b>(c) Taxation services</b>		
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
<b>Total remuneration for taxation services</b>	<b>299,400</b>	<b>253,073</b>

## 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	2014 \$'000	Restated 2013 \$'000
<b>Financial assets</b>			
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
		<b>229,628</b>	<b>392,253</b>
<b>Financial liabilities</b>			
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
		<b>1,634,610</b>	<b>1,999,427</b>

### (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).

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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	
	2014 \$'000	2013 <sup>(1)</sup> \$'000
<b>Statement of Comprehensive Income information</b>		
Net loss attributable to securityholders of the parent entity	(31,716)	(12,467)
<b>Comprehensive income information</b>		
Total comprehensive loss attributable to securityholders of the parent entity	(31,716)	(12,467)
<b>Balance Sheet information</b>		
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)
	<b>(59,492)</b>	<b>(31,275)</b>

(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).

#### (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.



# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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:

	2014 \$'000	Restated 2013 \$'000
Related party loans		
Retail Direct Property 4	-	18,758
Retail Direct Property 21	-	2,480
Tuggeranong Hyperdome	113,800	113,800
	<b>113,800</b>	<b>135,038</b>

#### (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.

**(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
<b>Total</b>	<b>3,477</b>	<b>903</b>	<b>5,241</b>	<b>9,621</b>	<b>4,210</b>

**(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	
	2014 %	2013 %
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

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 23. COMMITMENTS

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

	Federation Limited and its Controlled Entities	
	2014 \$'000	Restated 2013 \$'000
<b>Capital expenditure:</b>		
– Capital expenditure projects <sup>(1)</sup>	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	
	2014 \$'000	Restated 2013 \$'000
<b>Receivable:</b>		
– 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
	<b>1,927,946</b>	<b>1,963,877</b>

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).

# Notes to and forming part of the consolidated financial statements

for the year ended 30 June 2014

## 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 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.



# Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes of Federation Centres (the Group) set out on pages 76 to 122 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

# Independent Auditor's Report

to the members of Federation Limited



8 Exhibition Street  
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Melbourne VIC 3001

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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 statements of 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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Liability limited by a scheme approved under Professional Standards Legislation



## 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 47 to 72 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

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# Summary of Securityholders

as at 22 August 2014

## SUMMARY OF SECURITYHOLDERS

Range	Fully paid Ordinary Securities	
	Number of Securityholders	% of Issued securities
100,001 and Over	92	97.39
10,001 to 100,000	1,040	1.73
5,001 to 10,000	773	0.40
1,001 to 5,000	2,231	0.38
1 to 1,000	3,315	0.10
Total	7,451	100.00
Holding less than a marketable parcel	396	

## SUBSTANTIAL SECURITYHOLDERS

	Fully paid Ordinary Securities	
	Number held	% of Issued securities
Blackrock Group	106,393,536	7.45%
CBRE Clarion Securities LLC	94,819,574	6.64%
Commonwealth Bank of Australia	92,100,300	6.45%
AMP Limited	88,157,315	6.18%
Vanguard Investments Australia	86,311,928	6.05%
BT Investment Management (and Westpac Group)	82,853,713	5.80%

## 20 LARGEST SECURITYHOLDERS

	Fully paid Ordinary Securities	
	Number held	% of Issued securities
HSBC Custody Nominees (Australia) Limited	527,000,127	36.91%
J P Morgan Nominees Australia Limited	288,608,205	20.22%
National Nominees Limited	247,586,916	17.34%
Citicorp Nominees Pty Limited	126,421,887	8.86%
BNP Paribas Noms Pty Ltd	61,284,651	4.29%
AMP Life Limited	25,073,959	1.76%
Citicorp Nominees Pty Limited	18,704,690	1.31%
RBC Investor Services Australia Nominees Pty Limited	13,636,817	0.96%
HSBC Custody Nominees (Australia) Limited	7,830,252	0.55%
HSBC Custody Nominees (Australia) Limited-Gsco Eca	7,161,354	0.50%
BNP Paribas Nominees Pty Ltd	5,696,464	0.40%
National Nominees Limited	4,396,773	0.31%
Reassure America Life Insurance Company (Conning)	4,055,863	0.28%
RBC Investor Services Australia Nominees Pty Ltd	3,851,856	0.27%
Bond Street Custodians Limited	3,655,846	0.26%
RBC Investor Services Australia Nominees Pty Limited	3,305,455	0.23%
SWISS Re Life & Health Americainc (Conning)	2,937,575	0.21%
BNP Paribas Noms (NZ) Ltd	2,533,774	0.18%
Brispot Nominees Pty Ltd	2,513,344	0.18%
UBS Wealth Management Australia Nominees Pty Ltd	2,389,290	0.17%
Total 20 largest Securityholders	<b>1,358,645,098</b>	95.17%
Total Capital	<b>1,427,641,565</b>	100.00%

In this glossary, terms that have been abbreviated in the Annual Report are listed alphabetically by the abbreviation, which is then followed by the spelled-out term and a definition if required.

**AMTN** – Australian Medium Term Notes.

**asset** – any resource owned by a company, fund or person. Assets can be tangible (e.g., cash, investments, property and equipment) or intangible (e.g., goodwill and patents).

**A-REIT** – Australian real estate investment trust – an Australian trust that owns and, in most cases, operates income-producing real estate, such as shopping centres, offices and industrial properties.

**ASX** – Australian Securities Exchange – ASX Limited (ABN 98 008 624 691).

**ASX Listing Rules** – the official listing rules of the ASX.

**Australian Accounting Standards** – accounting standards, developed by the Australian Accounting Standards Board, for entities in the Australian private and public sectors.

**book value** – the value of an asset as recorded in an entity's statutory accounts, representing its cost plus any additions, less depreciation. The book value may differ from the current market value.

**BPS** – basis points – a unit equal to one-hundredth of 1 per cent, commonly used to denote the absolute change between interest rates.

**capitalisation rate** – the assessed net income from a property expressed as a percentage of the market value of the property.

**Company** – Federation Limited.

**constitution** – refers to the constitution of any or all of Federation Limited, Federation Centres Trust No. 1, Federation Centres Trust No. 2 and Federation Centres Trust No. 3 as the case requires.

**convenience centres** – typically provide convenience shopping for consumers in the immediate neighbourhood and generally comprise one or two major supermarkets along with a collection of food and non-food specialty shops and services which are typically focused on convenience usages such as newsagent and pharmacy.

**co-ownership alliances/arrangements** – generally arrangements where an asset is owned 50% by FDC and 50% by an unrelated external party.

**distributions** – periodic payments made by an entity, usually a trust, to its investors.

**DPS** – distribution per security.

**EBIT** – earnings before interest and taxes.

**EBITDA** – earnings before interest, tax, depreciation and amortisation.

**EESP** – Exempt Employee Security Plan.

**EGM** – Executive General Manager.

**EPS** – earnings per security.

**ESA** – Executive Service Agreement.

**Federation Centres (or FDC or The Group)** – is a stapled vehicle listed on the ASX and comprising Federation Limited (ACN 114 757 783), Federation Centres Trust No. 1 (ARSN 104 931 928), Federation Centres Trust No. 2 (ARSN 122 223 974) and Federation Centres Trust No. 3 (ARSN 153 269 759).

**gearing** – the ratio of total debt to total assets, generally expressed as a percentage.

**GLA** – gross lettable area.

**Group** – see Federation Centres.

**hedge** – a step taken to reduce the risk of adverse price in an underlying financial position.

**HIN** – Holder Identification Number.

**KMP** – key management personnel – 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.

**LTI** – Long-term incentive.

**MAT** – moving annual turnover – the volume of sales reported in a rolling 12-month period.

**MER** – Management expense ratio.

**mini major** – a retailer that occupies an area greater than 400sqm and less than 1000sqm.

**mark to market** – the accounting act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.

**NOI** – net operating income – property revenues less property expenses, excluding debt service and depreciation.

**non-discretionary retailers** – retailers whose product offering predominantly contains everyday necessities such as food and services.

**NTA** – net tangible assets – calculated as the total assets of an entity, minus any intangible assets such as goodwill, patents and trade marks, less all liabilities.

**Percentile** – value that represents a percentage position in a range of data.

**PRP** – Performance Reward Payment.



## Glossary (continued)

**PRPL** – Performance Reward Payment – long term – (formerly LTI).

**PRPS** – Performance Reward Payment – short term – (formerly STI).

**Retail Direct Property** – RDP – the direct property division of Federation Centres.

**RE** – responsible entity – a company appointed with authority and responsibility for the management of a managed investment scheme that is registered with the Australian Securities and Investments Commission under the Corporations Act. The RE for the Trusts is Federation Centres Limited.

**real estate index** – an index similar to the S&P/ASX All Ordinaries Index, specifically including real estate securities.

**regional centres** – typically major retail centres with a wide range of retail and other services serving a broad regional role and destination oriented in nature. Regional centres are typically anchored by at least one department store of a minimum of 10,000m<sup>2</sup> in size, at least one discount department store and one or more supermarkets.

**ROE** – return on equity – underlying earnings plus change in valuations divided by average equity.

**RREL** – Retail Responsible Entity Limited.

**Services Business** – the division of Federation Centres that provides property management, development, funds management and leasing services to managed funds carried on or operated by Federation Centres and its controlled bodies, co-ownership alliances, and other property owners.

**SRN** – Securityholder Reference Number.

**SRO** – State Revenue Office.

**stamp duty** – a charge imposed by any government agency that includes, but is not limited to, any interest, fine, penalty, charge or other amount imposed in respect of any of them.

**stapled or stapling** – the arrangement by which one Federation Limited share, one Federation Centres Trust No. 1 unit, one Federation Centres Trust No. 2 unit and one Federation Centres Trust No. 3 unit or any of them may not be dealt with without the others.

**stapled security** – an FDC security. Each FDC security consists of one Federation Limited share, one unit in Federation Centres Trust No. 1, one unit in Federation Centres Trust No. 2 and one unit in Federation Centres Trust No. 3, all stapled together.

**stapled securityholder** – a holder of a stapled security.

**statutory net profit or loss** – net profit or loss per the income statement.

**STI** – Short-term incentive.

**sub-regional centres** – typically have an anchor tenant of at least one discount department store and one or more supermarkets. Sub-regional centres offer a wide range of apparel and other soft goods, more than a convenience centre but less than a regional shopping centre.

**syndicate** – a direct property investment vehicle whereby investors' funds are pooled over a set property or group of properties for a fixed term. This is administered by an RE with ownership usually vested in a custodian on behalf of investors.

**TFR** – Total fixed remuneration.

**Trusts, the** – collectively, Federation Centres Trust No. 1, Federation Centres Trust No. 2 and Federation Centres Trust No. 3.

**TSR** – total securityholder return – is a calculation of the profits earned by an entity's securities based on the rise and fall in their price and the distributions paid to securityholders over a particular period.

**underlying earnings** – a financial measure that represents for an entity the profit or loss calculated under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items. Also called underlying profit.

**UEPS** – Underlying earnings per security.

**Unit** – a unit in any of Federation Centres Trust No. 1, Federation Centres Trust No. 2 or Federation Centres Trust No. 3, as the case requires.

**vertically integrated** – providing all property services, including management, leasing and development, for owned, co-owned and managed centres. The exception for FDC is Tuggeranong which it owns but does not manage.

## FEDERATION CENTRES

comprising:

### Federation Limited

ABN 90 114 757 783

and

### 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

## ASX Listing

Federation Centres is listed on the ASX under the listing code FDC

## Board of Directors

Bob Edgar

Steven Sewell

Clive Appleton

Tim Hammon

Charles Macek

Fraser MacKenzie

Debra Stirling

Wai Tang

## Secretary of Federation Limited and Federation Centres Limited

Elizabeth Hourigan

## Registered Office

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Australia

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Facsimile: +61 3 9236 6301

Web: [www.federationcentres.com.au](http://www.federationcentres.com.au)

## Auditor

Ernst & Young

8 Exhibition Street

Melbourne Victoria 3000

Australia

## Security Registrar

Link Market Services Limited

Level 1

333 Collins Street

Melbourne Victoria 3000

Australia

General securityholder enquiries:

Toll Free: (AU) 1300 887 890

Facsimile: +61 2 9287 0303

Facsimile: +61 2 9287 0309 (for proxy voting)

Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

Postal Address: Locked Bag A14, Sydney South NSW 1235 Australia

## Investor Services

Level 28

35 Collins Street

Melbourne Victoria 3000

Australia

Toll Free: (AU) 1800 802 400

Toll Free: (NZ) 0800 449 605

Telephone: +61 (3) 8647 2303

Facsimile: +61 (3) 9236 6582

Email: [investor@federationcentres.com.au](mailto:investor@federationcentres.com.au)

## Complaints

Complaints Officer

Federation Centres

Level 28, 35 Collins Street

Melbourne Victoria 3000

Australia

Toll Free: (AU) 1800 802 400

Toll Free: (NZ) 0800 449 605

Email: [complaints@federationcentres.com.au](mailto:complaints@federationcentres.com.au)

## KEY DATES

30 October 2014	Annual General Meeting
23 December 2014	Ex distribution date for December 2014 distribution
31 December 2014	Record date for December 2014 distribution
February 2015	Half year results announcement (final date to be confirmed)
February 2015	December 2014 distribution payment (final date to be confirmed)
June 2015	Ex distribution date for June 2015 distribution
June 2015	Record date for June 2015 distribution
August 2015	Full year results announcement (final date to be confirmed)
August 2015	June 2015 distribution payment (final date to be confirmed)

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