ASX Announcement

FEDERATION CENTRES

19 August 2015

FY15 annual results

- **Solid growth in underlying earnings and NTA for the merged group**
- **Strategic focus unchanged**
- **Merger operational cost synergies on track**
- **Merger financing savings target secured and at a lower cost**
- **Integration is on program**
- **Portfolio performance is improving**
- **Development pipeline enhanced**

Federation Centres (ASX:FDC) (the Group) merged with Novion Property Group (NVN) in June this year, and delivered a statutory net profit after tax of $675.1 million for the year ended 30 June 2015[1]. Underlying earnings for the merged Group were $683.1 million, up 6.2% on the prior year on an aggregated basis. A final distribution of 8.5 cents per security will be paid, taking the full year distribution to 16.9 cents per security[2]. The final distribution will be paid on 27 August 2015.

Federation Centres Chief Executive Officer, Angus McNaughton, said: "This strong financial result reinforces the strategic rationale for bringing these two high quality retail property businesses together. The integration process is running on program with over 60 per cent, or $31 million, of estimated operational savings on a run-rate or annualised basis already locked in and we remain on target to achieve the operational savings outlined in the Scheme Booklet.

"I am also pleased to say that our team has already achieved the $28 million of annualised interest cost savings at a weighted average cost of debt (WACD) of 4.2% and reduced the cost to achieve those savings by over $100 million compared to that detailed in the Scheme Booklet[3]. This is largely as a consequence of keeping in place selected pre-existing debt arrangements and favourable outcomes on other debt facilities. We continue to negotiate on the pre-merger debt, some of which may remain in place.

"The key centre management, leasing and development teams have been integrated, and we have a clear set of priorities to progress the merger integration during FY16. Key remaining tasks include: IT platform consolidation, refinancing the bridge facility, co-locating corporate teams, integrating systems and processes, launching the new Vicinity Centres brand[4], and building a single culture and way of doing business across the Group.

"I am very focused on driving a culture of high performance and continuous improvement," said Mr McNaughton.

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[1] As required by accounting standards, the merger has been accounted for as a reverse acquisition and consequently, the statutory results of the Group comprises 12 months of Novion Property Group results and one month of Federation Centres results.

[2] Both the final and full year distributions are in line with the distribution guidance provided in the Scheme Booklet.

[3] Refer to page 115 in the Scheme Booklet.

[4] Subject to securityholder approval at the Annual General Meeting in October 2015.

"While we further progress integration tasks and remain focused on delivering the forecast merger cost synergies and identifying new cost and revenue opportunities, the intensive asset management of our portfolio, asset recycling, advancing our growing development pipeline and investigating new wholesale fund opportunities will establish a strong platform to drive growth.

"The Group's strategic focus has not changed. We own, manage and develop Australian retail assets across the spectrum, with a prudent approach to capital management, and an ongoing portfolio enhancement program," Mr McNaughton said.

Highlights for the period[5]

Financial

- Underlying earnings of $683.1 million, up 6.2%.
- Net tangible assets of $2.45 per security, up 5.2%.
- Gearing[6] of 28.0% compared to 29.3%.
- Weighted average cost of debt reduced to 4.2% from 5.3%.
- $3.3 billion of new bank debt facilities and a $1.8 billion bridge facility negotiated.
- A$558 million of USPP renegotiated post implementation of the merger.
- Conversion notices for over 99% of the $300 million of convertible notes received[7].

Operations

- 99 retail assets or $22.6 billion of retail assets under management in total (Direct Portfolio: 88 retail assets valued at $14.3 billion[8])[9].
- Comparable Net Property Income growth of 2.5%, up from 1.2%.
- Comparable specialty retail sales growth of 3.3%, up from 2.4%, with total retail sales growth of 1.3%, up from 0.8% (both on a moving annual turnover basis).
- Portfolio occupancy remains high at 98.9%, down marginally from 99.0%[10].
- Average leasing spreads of -2.2% (prior year -1.5%).

Portfolio redevelopment and repositioning

- Emporium Melbourne, Warnbro Centre and Cranbourne Park Stage 1 redevelopments completed.
- Five key projects under construction with development cost of $922 million (direct share $461 million).
- Development pipeline[11] increased to $3.1 billion (direct share $1.5 billion).
- Improved portfolio quality with over $2.0 billion in capital transactions completed.
- Portfolio weighted average capitalisation rate of 6.30%, down 11bps on 31 December 2014.

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[5] Comparisons are with FY14 on an aggregated basis unless otherwise stated.
[6] Calculated as drawn debt net of cash divided by total tangible assets excluding cash and derivative financial assets.
[7] As at the date of this announcement.
[8] Includes investment properties relating to equity accounted investments.
[9] As at 30 June 2015.
[10] The philosophy on calculation of vacancies has been aligned across the portfolio for the current and prior period. A tenancy is treated as vacant unless the original lease term was at least 12 months.
[11] The pipeline of identified projects will vary over time depending on feasibilities, approvals, tenant demand and capital allocation decisions.

Federation Centres' aggregated portfolio of 88 directly-owned retail assets (Direct Portfolio) had a valuation of $14.3 billion[12] as at 30 June 2015. At the period end, 36 retail assets (49% by value) in the Direct Portfolio had been independently valued and the majority of the remaining properties were subject to internal valuations resulting in total in a $371 million or 2.7% increase[13] on 31 December 2014 valuations, adjusted for development capex. The weighted average capitalisation rate on a comparable basis[13] tightened to 6.30%, from 6.41% at 31 December 2014.

The quality of the Direct Portfolio continued to improve in the period by selectively divesting assets for reinvestment into stronger assets. Over $2.0 billion in capital transactions occurred in the year across the Group including assets divested from Federation Centres' syndicate business and transactions completed on behalf of strategic partners.

The shopping centre portfolio continues to perform well with management working alongside retailers to drive sales productivity across the portfolio while integration continued. The Group's portfolio occupancy remains high at 98.9%, down marginally from 99.0%[14]. With the managed portfolio now consisting of over 9,700 leases and 3 million square metres of gross lettable area, the Group's relevance to retailers seeking access to a diverse range of customer segments has been strengthened through the merger.

Mr McNaughton said: "As part of enhancing our portfolio quality, we continually seek to optimise our retailer mix and customer offering.

"We are delighted to announce that the first LEGOLAND® Discovery Centre in the Southern Hemisphere will be opening at Chadstone Shopping Centre during 2017. This unique 2,800 square metre indoor attraction will be a great addition to our world-class shopping destination."

The Group's development pipeline has been expanded to $3.1 billion[15]. Development approvals have been received for The Glen in Victoria and Mandurah Forum in WA, and work on the proposed redevelopment of Roselands in New South Wales is progressing. Major projects at Chadstone Shopping Centre and Cranbourne Park in Victoria, Warriewood Square in NSW, Colonnades in SA and Halls Head Central in WA are ongoing and progressing well.

The Group's gearing is 28.0% and remains comfortably within the target gearing range of 25 to 35 per cent. Steady progress has been made on refinancing post merger. New bank debt facilities of $3.3 billion and a $1.8 billion bridge facility have been negotiated, and the pre-merger NVN USPP facilities have also been renegotiated. For the remaining Novion convertible notes, clean up provisions will be exercised with over 99% of conversion notices now received.

Strategic partnerships continue to provide a complementary income source to the business with $8.4 billion of assets managed on behalf of strategic partners.

The Group is also progressing development of its digital strategy, building on prior learnings of both groups, whilst exploring potential partners for network connectivity across the portfolio.

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[12] Includes investment properties relating to equity accounted investments.

[13] Comparative analysis excludes assets purchased or sold in six month period to 30 June 2015 including Warwick Cinemas, Karingal Hub, Glenorchy Central, Meadow Mews and Burnie Plaza, and excludes sundry properties valued less than $10m. Valuation numbers include ancillary properties but the associated capitalisation rate relates to the core property only.

[14] The philosophy on calculation of vacancies has been aligned across the portfolio for the current and prior period. A tenancy will be treated as vacant unless the original lease term was at least 12 months.

[15] The pipeline of identified projects will vary over time depending on feasibilities, approvals, tenant demand and capital allocation decisions.

Outlook

Mr McNaughton said: "Over the past few years we have seen a slow but steady improvement in the retail environment, the effects of which are being reflected in the pick-up in specialty MAT growth of 3.3% across the portfolio.

"Employment growth is expected to soften over the next twelve months before picking up again, and this will see consumer sentiment continue to fluctuate. However, overall the short to medium term outlook for disposable income is positive.

"The falling Australian dollar is also benefitting the domestic retail environment contributing to the lowering of online sales growth and reduction in offshore travel which means there is more money left in the Australian economy.

"While we forecast a continuance of mixed economic indicators this year, overall we expect an ongoing steady improvement in the retail environment over the medium term."

Full year 2016 underlying earnings[16] are forecast to be in the range of 18.8 to 19.1 cents per security (underlying EPS), inclusive of five asset sales (~$220 million)[17] which reduced underlying EPS guidance by ~0.3 cents per security, subject to no unforeseen deterioration of economic conditions or further asset sales. The Group's payout ratio is expected to be 90% to 95% of underlying earnings.

Federation Centres' Annual General Meeting will be held in Melbourne on 28 October 2015.

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About Federation Centres (ASX:FDC)

Federation Centres is one of Australia's leading retail property groups. Following the merger with Novion Property Group implemented in June 2015, Federation Centres has over $22 billion in retail assets under management.
For more information about Federation Centres, please visit www.federationcentres.com.au.
For information about Novion Property Group, please visit www.novion.com.au.

16 Effective 1 July 2015, underlying earnings will exclude the amortisation of non-project lease incentives and include rent lost from undertaking developments. This measure will be used by management to assess the underlying financial performance of the Group. It represents the Group's underlying and recurring earnings from ordinary operations.

17 Goulburn Plaza, Katherine Oasis, Lutwyche City, Mount Gambier Central and Westside Plaza.