Colonial First State
Global Asset Management

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CFS RETAIL PROPERTY TRUST GROUP (CFX)

Annual results for the 12 months ended 30 June 2013

CFS Retail Property Trust Group (CFX) has met the challenges of a difficult retail environment to deliver investors a distribution of 13.6 cents per security for the year ended 30 June 2013, a 3.8% increase on the prior year.

Angus McNaughton, Managing Director, Property, Colonial First State Global Asset Management, said: "CFX has delivered another creditable full-year result, despite Australian retail markets continuing to face the challenge of a cautious consumer."

Michael Gorman, CFX Fund Manager, said: "CFX continues to deliver on its strategy of providing long-term sustainable returns to investors. CFX ended the year with a close to fully-let portfolio, modestly improving retail sales growth, a strong and flexible balance sheet, and an increase in distributions being paid to securityholders."

Key operating highlights for the year included:

- net profit of $295.0 million, compared to $409.2 million in the prior year, with the decrease primarily due to differences in property valuations between the two periods
- a 3.5% increase in distributable income[1] to $384.6 million
- a distribution of 13.6 cents per security, up 3.8% on the prior year
- like-for-like net property income[2] increasing 2.0%, reflecting modest rental growth, while total net property income decreased 2.0% to $537.2 million due to the sale of a 50% interest in The Myer Centre Brisbane in March 2012
- net tangible asset backing (NTA) per security reducing to $2.04 from $2.07 at 30 June 2012
- total assets increasing to $8.6 billion from $8.4 billion at 30 June 2012
- reinstating the distribution reinvestment plan, a funding source for CFX's development pipeline, raising $56.9 million
- restructuring over $940 million of debt instruments, and a further $550 million post year end
- gearing[3] remaining conservative at 28.8%
- completing projects at Roxburgh Park, Brimbank and Forest Hill on time and on budget and making solid progress on developments at Emporium Melbourne and DFO Homebush
- close to full portfolio occupancy at 99.4%
- specialty store sales growth of 2.4% from our comparable[4] shopping centre portfolio[5]
- achieving a slight increase on rents on renewal, with fixed 5% annual increases for specialty stores that were re-leased, and
- having the whole portfolio[6] NABERS-rated.

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1. Distributable income is a key non-IFRS earnings measure used by management to assess the performance of CFX. It represents CFX's underlying and recurring earnings from ordinary operations. Refer to page 2 for the reconciliation of net profit to distributable income.
2. Net property income and like-for-like net property income are unaudited, non-IFRS financial information and are not key earnings measures of CFX. They are used by management to monitor the performance of the property portfolio. Refer to Appendix 2 for the calculation of net property income and like-for-like net property income.
3. Gearing equals borrowings as a proportion of total assets. For this calculation, borrowings is the amount of debt drawn and total assets exclude the fair value of derivatives.
4. Comparable centres refer to those centres that are not undergoing or have not undergone substantial redevelopment in either period of comparison.
5. Shopping centre portfolio excludes Myer Melbourne, the DFO retail outlet centres and 15 Bowes Street, Woden.
6. All centres that are able to be rated which excludes the DFO retail outlet centres, Post Office Square, The Entertainment Quarter, Myer Melbourne and any other asset which was impacted by refurbishment or development or there was insufficient metering.

For more information on CFX's performance during the period, refer to the Appendix 4E which was released today and can be found on CFX's website, **cfsgam.com.au/cfx**

Financial results

CFX's net profit for the 12 months to 30 June 2013 was $295.0 million, compared to $409.2 million for the prior year. The net profit includes a net loss on investment properties and associate valuations of $63.1 million (compared to a $164.3 million net gain for the prior year) and a net loss on derivatives valuations of $3.5 million (compared to a $87.9 million net loss for the prior year).

Distributable income was up 3.5% to $384.6 million, compared to $371.5 million for the prior year.

On a like-for-like basis, net property income was up 2.0%, supported by fixed annual rental increases and close to full occupancy. Total net property income reduced by 2.0% largely reflecting the sale of a 50% interest in The Myer Centre Brisbane in March 2012.

Reconciliation of net profit to distribution $m, for the year ended	**30-Jun-13**	**30-Jun-12**
Net profit	**295.0**	**409.2**
Adjustments:		
net loss/(gain) from property valuations	63.1	(164.3)
net loss from derivative valuations	3.5	87.9
straight-lining revenue	(2.4)	(2.8)
movement in fair value of unrealised performance fees	(5.5)	3.4
non-cash convertible notes interest expense	2.0	7.0
convertible notes buy-back expense	-	4.9
project and other items	28.9	26.2
Distributable income/Distribution	**384.6**	**371.5**

Capital management

Mr Gorman said: "Despite ongoing weakness in the global economy over the past 12 months, we have seen a growing appetite for longer-dated debt from corporate bond investors and banks, and an active corporate bond market with relatively attractive all-in costs for quality covenants. We have taken advantage of the current demand to improve CFX's debt costs, duration and diversity during the year.

"We also reinstated our distribution reinvestment plan. The plan is a funding source for CFX's development pipeline which will raise $56.9 million from the June 2013 distribution."

The change in other key debt metrics is detailed below:

	As at 30-Jun-13[a]	**As at 30-Jun-13**	**As at 30-Jun-12**
Weighted average interest rate[b] (%)	5.6	5.6	6.0
Weighted average debt duration (years)	3.6	3.1	2.8
Weighted average interest rate on hedged debt[c] (%)	5.1	5.1	5.4
Weighted average hedged debt duration[c] (years)	3.3	3.1	3.3
Undrawn debt facilities ($m)	530	530	807

a. Adjusted for post year end events, including the extension of $400 million of bank debt facilities and the execution of $150 million of interest rate swaps.
b. Including margins and line fees.
c. Including all fixed-rate debt and excluding margins and fees.

At 30 June 2013, CFX's gearing was 28.8% up from 26.6% at 30 June 2012, with borrowings of $2,486 million and undrawn debt facilities of $530 million. CFX's debt was 81.3% hedged at 30 June 2013. We restructured over $940 million of debt instruments during the year, extending our debt maturity to 3.1 years at 30 June 2013 from 2.8 years at 30 June 2012. Post year end, we restructured a further $550 million of debt instruments, improving our debt duration to 3.6 years.

Investment performance

CFX delivered a solid total return[7] of 10.5% for the year, albeit below the UBS Retail 200 Property Accumulation Index (the 'Index'). Over the five and 10-year periods, CFX outperformed the Index by 4.7 and 5.6 percentage points per annum respectively, and underperformed over the one and three year periods.

7 Total return comprises stapled security price performance and distribution income yield.

For the six months to 31 December 2012, CFX underperformed the customised retail property accumulation index[8] (the 'benchmark') by 12.0 percentage points. For the six months to 30 June 2013, CFX underperformed the benchmark by 2.5 percentage points. However, after including carry-over outperformance of 45.6 percentage points to 30 June 2012, the Responsible Entity was entitled to performance fees for both periods totalling $10.3 million for the year. At 30 June 2013, the carry-over balance was 28.7 percentage points of positive performance relative to the benchmark.

The fair value of the unrealised performance fee liability at 30 June 2013 is $29.2 million, a decrease of $5.5 million from 30 June 2012. The total performance fee expense is $4.8 million, representing the capped performance fees paid for the year offset by the reduction in the fair value of future performance fees.

Full details of the performance fee are detailed in Note 14 of the Financial Report.

Portfolio update
CFX held total assets of $8.6 billion at the end of the year, increasing marginally from $8.4 billion at 30 June 2012, driven by capital expenditure on the development pipeline offset by a net valuation loss.

CFX's portfolio consists of interests in 29 retail properties, located predominantly in the capital cities of all six Australian states, with 77% of the retail portfolio[9] comprising super-regional and regional shopping centres[10].

Retail sales environment
Mr Gorman said: "While there continue to be challenges in the Australian retail environment, several macroeconomic indicators remain supportive for retail expenditure. Positive real wages growth continues, the housing market is picking up and the rate of growth in offshore travel has slowed in recent months compared to previous years.

"In response to several tough years in the retail sector, we are seeing retailers becoming more sophisticated in how they operate. Many have been reviewing their operating models and supply chains to implement significant efficiency gains. This has enabled them to offer goods at lower prices while maintaining or increasing their profit margins. If anything, the sentiment amongst our retailers is slightly better than it was 12 months ago."

CFX's shopping centre portfolio reported total moving annual turnover (MAT) of $7.2 billion, up 2.0% compared to the prior year. Comparable specialty stores achieved 2.4% MAT growth this year, which is below our forecast of 3.0%, but an improvement on 2.1% reported to December 2012 and 1.7% to June 2012. This steady improvement in sales has been underpinned by solid MAT growth in food retail (+7.8%), retail services (+5.8%) and mobile phones (+3.9%), while apparel sales fell modestly (-1.1%).

Mr Gorman said: "We are very pleased with the MAT growth of 9.4% for comparable DFO centres for the year. This reflects the success of our marketing initiatives and extensive remixing implemented since acquiring these assets in 2010 which has seen the expansion of luxury, international and national brands in the tenancy mix. This has enabled us to drive re-leasing spreads of 25% since acquisition in late 2010.

"Despite an improvement in retail sales across the portfolio, leasing remains challenging. However, the quality of CFX's portfolio, coupled with improving sales growth, has enabled us to maintain a healthy leasing deal rate, with close to full occupancy of 99.4%. We have also continued to provide stability of income through our fixed 5% annual increases for specialty tenancies. For specialty tenants renewing, which was around 75% of expiries during the year, we have slightly increased rents. Including replacements, our overall re-leasing spread for the year was -1.1% for the shopping centre portfolio.

"Comparable shopping centre specialty store occupancy costs rose slightly to 17.3%, from 17.1% at 30 June 2012, supported in part by an increase in the productivity of our retailers, with specialty sales rising to $10,066 per sqm from $9,576 per sqm at 30 June 2012.

"We remain cautious on retail sales and forecast retail specialty sales growth of 3% for the CFX portfolio over FY14," added Mr Gorman.

See **Appendix 1** for further details on CFX's retail sales.

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8 For the purposes of calculating the performance fee, the benchmark, which is the UBS Retail 200 Property Accumulation Index, is customised to remove the effect of CFX on the Index. A 20-day volume weighted average price (VWAP) is applied to both the CFX accumulation index and the customised index.
9 Excluding Myer Melbourne and 15 Bowes Street, Woden.
10 As defined by the Property Council of Australia.

Asset valuations
Mr Gorman said: “The transactional market for shopping centres has been particularly active this year, reflecting strong investor demand. Whilst there have been a limited number of transactions involving very large centres, we have seen support for current book values and higher demand for better quality assets. Capitalisation rate compression has been limited over the year, a trend also witnessed in CFX asset valuations.”

The shopping centre portfolio[11] weighted average capitalisation rate tightened marginally to 6.43% from 6.45% at 30 June 2012.

The entire CFX portfolio was independently valued during the year, which resulted in an unrealised $63.1 million net valuation loss compared to book value. The loss was driven by a number of asset-specific write downs. The remainder of the portfolio generally reported stable or rising valuations underpinned by steady income growth.

Mr Gorman said: “Valuations of Chadstone, Chatswood Chase, QueensPlaza and Rockingham continued to benefit from the strength of sales and rental growth. They was offset by the write down at Emporium Melbourne resulting in a net valuation loss across the portfolio of $63.1 million.”

Development
Mr Gorman said: “CFX’s development pipeline is key to ensuring that we continue to create retail spaces which are fresh, vibrant and compelling and incorporate the latest retailers and trends.

“To that end, we have introduced a new large-format Coles, an Aldi and 40 specialty stores in the recently completed expansion of Roxburgh Park Shopping Centre, doubling its existing floorspace. We also completed two smaller convenience-based redevelopments which included the introduction of a new large-format Coles and a fresh food precinct at Brimbank, and an Aldi and enhanced food offering at Forest Hill Chase.”

CFX’s development pipeline is currently $1.2 billion. Projects currently under construction have a development cost of approximately $698 million (CFX share), with $209 million remaining to be spent.

Key developments under construction
Emporium Melbourne, Melbourne, VIC
The structure of the Emporium Melbourne project is now largely complete. As noted in our announcement on 27 June 2013, the project is due to open in the first quarter of calendar year 2014. Leasing has progressed significantly in recent months with approximately 90% of income secured.

The project will incorporate a range of concept and large flagship stores housing some of the world’s best international and luxury brands, some of Australia’s most noted fashion labels and iconic food operators, in a new building in the heart of the Melbourne CBD.

Some of the key tenants secured include: Max Mara, Paul Smith, Adidas, Superdry, Super Glue, UNIQLO, Topshop, Coach, Salvatore Ferragamo, Mulberry, Scanlan & Theodore, sass & bide, Zimmerman, Oroton, MARCS, SABA, lululemon, Carla Zampatti, Georg Jensen, Alannah Hill and MAX&Co., as well as a range of quality food retailers.

Mr Gorman said: “The high quality of the tenancy mix that we have secured to date is an endorsement of the world-class nature of this development.”

The $590 million (CFX share) development is targeting a year-one yield on costs of approximately 5%.

DFO Homebush, Homebush, NSW
We have made significant progress on the $100 million development of DFO Homebush that was commenced in November 2012. Leasing is well progressed, with 85% of income secured. The project involves the addition of a food court and bulky goods retailers, a remix of tenancies, an expansion and reconfiguration of the car park, adding 500 new car spaces, as well as a substantial upgrade to the existing building.

Luxury tenants Armani, Zegna and Michael Kors have already opened stores anchoring a premium mall. Burberry, Max Mara and Bose have recently been secured further enhancing the tenant mix. The project is targeting an initial year-one yield of greater than 7% and an internal rate of return of greater than 10%, with

[11] Excluding Myer Melbourne, the DFO retail outlet centres and 15 Bowes Street, Woden.

the majority of outlet stores open by Christmas 2013 and completion of the whole development expected by June 2014.

Future development

Chadstone Shopping Centre, Chadstone, VIC

Reinforcing Chadstone as Australia's premier shopping centre destination, the project is expected to involve redeveloping the northern end of the centre producing up to 20,000 sqm of additional retail floor area and introducing new international retailers. The planning scheme also allows for the development of office and hotel space along the Princes Highway. All six of the required planning permit applications have been submitted to council. The retail project is now in the design development phase and has an indicative cost of $240 million (CFX share).

Responsible property investment

As a responsible property investor, we consider environmental, social and governance factors in everything we do. Our approach continues to achieve outstanding global recognition.

Mr Gorman said: "During the year, we were recognised as a disclosure and performance leader in the Carbon Disclosure Project (CDP) for Australia and New Zealand. We were rated a Green Star (ranked 20 out of 451 property funds and companies globally) by the Global Real Estate Sustainability Benchmark (GRESB), and were recognised for our market-leading approach to valuations and corporate governance by the Asia Pacific Real Estate Association (APREA).

"CFX was also again included in the FTSE4Good, DJSI World, DJSI Asia Pacific and the Australian SAM Sustainability Index (AuSSI)."

"We are also proud to announce that we had our entire portfolio achieve NABERS ratings. The weighted average portfolio rating for NABERS Energy is 3.0 stars and for NABERS Water is 3.4 stars," Mr Gorman added.

Our responsible property investment program has resulted in efficiencies being achieved across the portfolio. CFX's shopping centres:

- are 8.2% more energy efficient[12]
- are 20.5% more water efficient[12]
- have 15.9% lower emissions intensity[12], and
- in FY13 diverted 29% of waste from our centres away from landfill.

This year we engaged with our stakeholders to identify the environmental, social and governance (ESG) matters that are material to them. By identifying our stakeholders' level of interest and engagement compared to CFX on a range of ESG matters, we have been able to prioritise these into our business model."

In FY14, we are looking to further improve our transparency and disclosure by reporting in accordance with the Global Reporting Initiative (GRI) G4 framework.

Comprehensive detail in relation to the Manager's approach to responsible property investment can be found on CFX's website, **cfsgam.com.au/cfx**

Internalisation proposal

On 24 July 2013, the Commonwealth Managed Investments Limited (CMIL) Board announced it had received a highly conditional, indicative and incomplete proposal from Commonwealth Bank of Australia to internalise the management of CFX and for CFX to acquire its wholesale property funds management and integrated retail property management and development businesses.

The CMIL Board has established an Independent Board Committee (IBC) of independent Directors, being Chairman Richard Haddock AM, Nancy Milne OAM and James Kropp, to consider the proposal.

Mr Haddock said: "The Board of CMIL can give no assurance that the proposal or any other proposal will proceed. It is also noted that the approval of CFX securityholders would be required.

"The IBC has engaged independent advisers to assist with its consideration of the proposal and will update the market when it is in a position to do so," Mr Haddock added.

[12] Like-for-like shopping centre portfolio which excludes those centres where GLA has varied by more than 10% since the FY08 base year.

Outlook
Mr Gorman said: "This year, CFX will focus on delivering further value through the intensive asset management of our portfolio, refining the tenant mixing and driving traffic and sales performance.

"On the development pipeline, we are focused on the delivery and opening of the world-class Emporium Melbourne project and DFO Homebush, arguably Australia's premier outlet centre. We will also progress the design development of the next stage of Chadstone.

"CFX plans to further refine the quality of its portfolio through the sale of non-core sub-regional shopping centres. Given the higher yielding nature of this type of centre, their divestment would result in a short-term dilution to earnings, which over time would be partially offset by the reinvestment of the proceeds. The proceeds will initially be used to retire debt, providing CFX with flexibility to pursue value enhancing initiatives such as investing in its development pipeline or acquiring properties.

"On the basis that these non-core assets are sold during the year, CFX provides full-year distribution guidance[13] per security of 13.2 to 13.3 cents. If these assets are not sold during the year, CFX's distribution guidance would be revised to 13.7 to 13.8 cents," Mr Gorman concluded.

ENDS

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About CFS Retail Property Trust Group (CFX)
CFX is a retail sector-specific Australian Real Estate Investment Trust (A-REIT) which invests in high quality retail assets including super-regional, regional and sub-regional shopping centres and DFO retail outlet centres across Australia. CFX is managed by entities within CFSGAM Property on behalf of more than 17,000 investors from 21 countries, comprising a portfolio of 30 assets with a total asset value of $8.6 billion at 30 June 2013.

About CFSGAM Property
CFSGAM Property is the specialist property division of Colonial First State Global Asset Management, and is one of the largest real estate fund managers in Australia with $17 billion in funds under management. CFSGAM Property offers a fully integrated real estate investment platform including investment management, asset management, development management, origination and execution. CFSGAM Property manages a suite of wholesale investment products, as well as three listed real estate investment trusts in Australia and New Zealand.

[13] Assuming performance fees are payable for the full financial year and there is no unforeseen material deterioration to existing economic conditions. Guidance is based upon the current operating model (Refer to Note 20 of the Financial Report for details concerning potential changes to this operating model, which may impact on future distributions).

Appendix 1

12-month comparison tables

Retail sales by category for the 12-month rolling period to 30 June 2013 are detailed below:

Category	Comparable[14] MAT 30-Jun-13 ($m)	Comparable[14] MAT Growth (%)	Actual MAT 30-Jun-13 ($m)	Actual MAT Growth (%)
Department stores	611.1	(1.2)	650.7	(1.3)
Discount department stores	682.2	1.1	772.6	(0.9)
Supermarkets	1,358.3	5.4	1,672.6	6.4
Mini majors	646.4	(0.5)	753.3	(1.2)
Retail specialty	2,517.3	2.4	2,797.8	1.9
Other retail[15]	427.0	4.1	508.2	3.1
Shopping centre portfolio	**6,242.3**	**2.3**	**7,155.2**	**2.0**
DFO retail outlet centres	421.7	9.4	571.9	5.9
Total portfolio	**6,664.0**	**2.8**	**7,727.1**	**2.3**

Retail specialty store sales by category for the 12-month rolling period to 30 June 2013 are detailed below:

Shopping centre portfolio Retail specialty category	Comparable MAT 30-Jun-13 ($m)	Comparable MAT Growth (%)	Actual MAT 30-Jun-13 ($m)	Actual MAT Growth (%)
Food retail	171.5	7.8	202.5	5.0
Food catering	368.2	2.3	417.8	2.4
Apparel	863.4	(1.1)	938.5	(1.6)
Jewellery	202.9	1.0	221.3	0.5
Leisure	165.8	(5.8)	182.3	(6.3)
General retail[16]	196.6	(0.7)	237.5	0.5
Homewares	262.1	20.5	273.2	19.4
Mobile phones	102.4	3.9	112.6	1.1
Retail services	184.4	5.8	212.1	5.5
Total retail specialty	**2,517.3**	**2.4**	**2,797.8**	**1.9**

[14] Comparable centres refer to those centres that are not undergoing or have not undergone substantial redevelopment in either period of comparison.

[15] Other retail includes cinemas and sales reporting tenancies under 400 sqm including travel agents, auto accessories, Lotto and other entertainment and non-retail stores.

[16] General retail includes giftware, pharmacy and cosmetics, pets, discount variety, florists and toys.

Appendix 2

Calculation of net property income

For the year ended	30-Jun-13 ($m)	30-Jun-12 ($m)	Change (%)
Extract from Statement of Comprehensive Income in the Financial Report			
- Rental and other property income	725.1	727.2	
- Share of net profit from associate before fair value adjustments[a]	3.3	3.0	
- Rates, taxes and other outgoings	(201.2)	(189.3)	
- Repairs and maintenance	(15.6)	(15.8)	
- Bad and doubtful debts expense	(2.5)	(2.2)	
	509.1	522.9	
Adjustments			
- straight-lining revenue[b]	(2.4)	(2.8)	
- amortisation of project items[b]	20.0	20.7	
- other items[b]	8.9	5.5	
- estimated net earnings from CFSPAM[c] for the current year	1.6	1.6	
Net property income	**537.2**	**547.9**	(2.0)
Like-for-like adjustments			
- Net property income from development-affected properties[d]	(69.0)	(70.8)	
- Net property income adjustment for changes in ownership of properties[e]	0.0	(20.3)	
- Other one-off adjustments[f]	(2.3)	0.0	
Like-for-like net property income	**465.9**	**456.8**	2.0

a. Excluding non-property related net profit from associate of $0.1m (FY12: $0.2m).
b. Refer to Note 2 of the Financial Report for further explanation of these items.
c. CFSPAM derives car park and electricity on-selling income from CFX's portfolio of shopping centres. CFX's share of CFSPAM's earnings for the current year will be recognised as dividend income when the dividend is declared by CFSPAM.
d. Properties have been excluded from the like-for-like calculation where income has been significantly affected by development in either year. Properties excluded are Bayside Shopping Centre, Brimbank Shopping Centre, Forest Hill Chase, Emporium Melbourne and Roxburgh Park Shopping Centre.
e. On 26 March 2012, CFX sold a 50% share in The Myer Centre Brisbane. An adjustment is made to the like-for-like calculation to reflect the change in ownership interest.
f. Net property income related to the industrial component of DFO Homebush has been excluded from the like-for-like calculation as it was not included in the prior year.