

31 August 2010



Centro Properties Group Full Year 2010 Results

Centro Properties Group (Centro) today announced a net statutory loss attributable to ordinary securityholders of \$652.7 million for the year ended 30 June 2010 (FY10). Underlying Profit for the year was \$173.8 million compared to \$229.2 million for the previous corresponding period.

Income Statement Extract for year ended (\$m)	Variance		
	30 June 2010	30 June 2009	Fav / (Unfav)
Property Investment Income	252.6	295.7	(14.6%)
Services Business Income	222.3	299.8	(25.9%)
Overheads	(139.0)	(172.9)	19.6%
EBIT	335.8	422.6	(20.5%)
Interest expense	(162.0)	(199.0)	18.6%
Preference Units	0.0	5.6	n/a
Underlying Profit*	173.8	229.2	(24.2%)
Attributable to Members			
Adjustments			
Investment property revaluations	(487.9)	(2,737.2)	n/a
Impairment of intangible assets	(331.2)	0.0	n/a
Foreign exchange gains and losses	49.8	(994.6)	n/a
Mark-to-market movements on derivatives	(27.9)	41.4	n/a
Restructuring costs & other adjustments	(29.4)	(82.7)	n/a
Net Profit/(Loss)	(652.7)	(3,544.0)	81.6%
Attributable to Members			

* Underlying profit has been determined in accordance with the AICD/Finsia principles for reporting underlying profit.

Centro Chief Executive Officer Robert Tsenin said: "Centro's statutory net loss of \$652.7 million is an improvement on the net loss of \$3.54 billion for the prior corresponding period. This improvement is largely due to significantly lower property devaluations and the favourable impact on translation of our net US dollar liability position resulting from appreciation of the Australian dollar against the US dollar. Underlying Profit has decreased by 24.2% to \$173.8 million primarily as a result of both reduced Property Investment and Services Business income."

As highlighted to the market during the year there are a number of economic and operational factors impacting Centro's Underlying Profit.

One of the more significant items is the movement in the Australian/US dollar foreign exchange rate. The appreciation of the Australian dollar, from an average of 75 cents in FY09 to 88 cents in FY10, has reduced the Australian dollar equivalent of US dollar denominated net income, thereby decreasing Investment and Services Business income from US investments as well as decreasing interest expense on US dollar denominated debt.

Property investment income for the year was \$253 million, down 15% compared with the prior corresponding year. This decrease was largely due to:

- Reduced net operating income from US investments due to lower rental income;
- Increased interest rates impacting the cost of debt within our Australian fund investments; and
- The appreciation of the Australian dollar by an average 18%, reducing the Australian Dollar equivalent of Centro's income from US investments.

These negative impacts were partly offset by a reduction in US interest expense, predominantly within Super LLC.

Services business income was \$222 million, down 26% from \$300 million for the prior corresponding year. This represents the reduction in fees due to a combination of property devaluations, asset sales, and foreign exchange rate movements.

Centro's net interest expense has reduced to \$162 million compared to \$199 million for the prior corresponding year. This saving resulted from the restructuring of debt as part of the Stabilisation Agreement with the Group's lenders, as well as the favourable impact on translation of US dollar denominated interest payments.

Balance sheet movements over the year were largely a result of the movements in property devaluations, the impairment of intangible assets and foreign exchange rates. Net Tangible Assets (NTA) per security attributable to ordinary securityholders of Centro were negative \$3.12; a decline of \$0.21 from 30 June 2009.

At 30 June 2010 net equity attributable to members of Centro was negative \$2.1 billion compared to negative \$1.6 billion at the end of FY09.

Business Update

"The Centro Group has quality assets that have performed well despite the difficult operating environment experienced over the past few years. Centro continues to be a leading retail centre property manager. For example, in Australia, we have achieved a very high occupancy of 99.5% and NOI growth of 3.2% for FY10," Mr Tsenin said.

"However, Centro continues to face significant challenges moving forward. Whilst the Stabilisation Agreement executed in January 2009 has crucially afforded Centro time to address the structural challenges it faces, it has not resolved the wider challenges of the Group.

"The Stabilisation Agreement did not address Centro's fundamental issue of overleverage or other financial risks including interest rate and foreign currency exposures. Across the entire Centro Group, including Centro and all of its funds under management, there is \$18.6 billion of investment properties and \$18.4 billion of related debt, with Centro's net equity attributable to its members at 30 June 2010 being negative \$2.1 billion. This is clearly an unsustainable capital structure.

“The complexity of the Centro Group is also driving the need for a restructure. The way the Centro Group is currently structured, especially with assets owned in multiple co-ownership vehicles, makes it extremely difficult to efficiently raise capital. This situation has limited Centro’s ability to undertake value adding developments or take advantage of new investment opportunities.

“Key components of the restructure work and recapitalisation work that has been undertaken so far includes the development of a Strategic Business Plan and identifying a number of financial restructuring alternatives for the Centro Group (including CER and the various funds and business units).

“Any restructure will be complex and must be critically linked to reducing the leverage and financial risks confronting us. Subject to market conditions, it is expected that any restructure could take through to the end of 2011 to implement. We have made progress on this journey and have commenced discussions with our headstock lenders on potential restructuring options but no decisions have been made. Any significant restructuring will also most likely require the approvals of other stakeholders including securityholders and secured lenders at the fund level,” Mr Tsenin said.

Independent of these restructuring considerations, Centro also commenced a process to evaluate interest from strategic parties to participate alongside it in the growth of its syndicate funds management business.

“Our syndicate property funds management platform is the largest in Australia and we believe this is an exciting opportunity to grow the syndicates business, provide a superior service to investors, and create value for Centro and its securityholders,” Mr Tsenin said.

Managed Property Portfolio Information

Property Portfolio	30 Jun 10	30 Jun 09
Australasia		
Number of Properties	112	121
Gross Lettable Area (million sqm)	1.9	2.0
Comparable Stabilised NOI Growth (12 months)	3.2%	2.5%
Stabilised Occupancy	99.5%	99.0%
Retail Sales Growth (MAT)	4.0%	5.0%
US		
Number of Properties	600	612
Gross Lettable Area (million sqf)	98.4	100.0
Comparable Stabilised NOI Growth (12 months)	-4.2%	-3.6%
Stabilised Occupancy	88.3%	88.7%

Centro manages an A\$18.6 billion portfolio of 712 shopping centres in Australia, New Zealand and the US. The vast majority of the shopping centres are owned by Centro’s managed funds. Approximately 60% of the portfolio by value is located in the US.

Centro is the second largest manager of retail property in Australia and the third largest manager of shopping centres in the US based upon gross lettable area.

Australian Portfolio

Centro's Australasian portfolio continued to perform well despite the challenging operating environment. Comparable NOI growth of 3.2% was above our stated expectations 12 months ago.

Centro General Manager of Property Operations for Australia Mark Wilson said: "Our ability to rebuild our leasing team early in FY10 was one of the key drivers of our solid performance for the year. Rental income growth on renewals has increased to 5.4%, occupancy levels have increased to 99.5% from 99.0% at June 2009, and we had pleasing increases in our base rent, percentage rent and casual mall leasing from the prior year."

"We have achieved cost savings by maximising the economies of scale of our national portfolio through consolidated tendering of major services contracts. The benefits of these savings will become more apparent in FY11," Mr Wilson said.

Sales growth for the Australian portfolio, whilst remaining solid at 4.0%, has been adversely impacted by the downturn in consumer spending, predominantly due to the loss of the impact of last year's stimulus spending. The supermarkets have been the primary driver of total retail sales growth in the portfolio which has been aided by the major chains continuing to redevelop their stores combined with their aggressive marketing and competition.

"In FY11 we expect retail sales growth will continue to be subdued as a result of rising interest rates suppressing any above trend growth. Notwithstanding this, our strategy is to continue to build upon the strong fundamentals of the portfolio – high occupancy, sustainable occupancy costs and improved cost efficiencies, as well as undertaking value creating property re-investment opportunities where possible. We are forecasting comparable NOI growth of approximately 3% for FY11," Mr Wilson said.

US Portfolio

Centro's US stabilised portfolio at 30 June 2010 was 88.3% leased compared with 88.7% at 30 June 2009. Same store NOI growth was negative 4.2% for the year compared to negative 3.6% for the full year ended 30 June 2009.

Centro US CEO Michael Carroll said: "Our operating results for FY10 reflect the challenges posed by the US recession. Whilst leasing volume improved during FY10, store closings by local tenants continued as a result of their limited access to credit as well as soft rental income growth given excess retail supply in many of Centro's markets."

In total, Centro executed more than 2,000 leases for 12.3 million square feet of space, with rental income growth of negative 2%.

"Comparable NOI performance reflected the effect of the bankruptcies during the past two years however it showed steady improvement as the year progressed," Mr Carroll said.

“Looking ahead, long-term recovery of operating fundamentals is expected to be impacted by sluggishness in the US retail recovery. We continue to face a cautious consumer with household spending constraints and ongoing difficulties for small shop tenants, but store closings and bankruptcies are benign for national tenants. Our merchandise strategy, with 15 of our top 20 retailers focused in the defensive food category or value / discount players, complements today's more fiscally conservative and value-oriented consumer.

“Our guidance for 2011 reflects this cautious optimism. We expect year-end occupancy of 88 to 89%. And while NOI declines may continue through the year, traction is being made in leasing mid-size and anchor spaces that will help improve comparable NOI performance. We expect comparable NOI for 2011 in the range of flat to negative 2%.”

Property Valuations

The value of Centro's properties under management declined during FY10 with the majority of the decrease occurring in the first half of the year.

On a comparable property basis, the valuation movements were as follows:

- Australia: The value of assets under management declined by 1.0% or \$72 million (of which \$61 million was in the first half of FY10).
- US: The value of assets under management declined by 4.8% or US\$476 million (of which US\$412 million was in the first half of FY10).

“The moderation in devaluations during the second half of the year compared to the first half indicates a gradually improving property outlook in both Australia and the US. However, trading volumes have remained below average and while some of the transactions occurring indicate the market has started to stabilise, with the information available, our outlook remains cautious,” Mr Tsenin said.

Debt Refinancing

“Despite the challenges we face, during the year Centro successfully completed the extension and refinancing of \$1.4 billion of debt across its managed funds. This was a significant achievement that improved the debt maturity profile of Centro Retail Trust, Centro Australia Wholesale Fund and many Centro MCS syndicates,” Mr Tsenin said.

Discussions with lenders around debt maturities in FY11 have also commenced and are progressing satisfactorily.

Subsequent to year end, Centro also announced a number of further significant financing achievements, completing financing arrangements for approximately US\$3.1 billion of debt across its US business.

Important Notes & Supplemental Information

Centro's results and the corresponding financial statements have been prepared on a fully consolidated basis and therefore incorporate the results announced yesterday by Centro Retail Trust (CER).

For complete details, including important footnotes, please refer to the Annual results presentation, Annual Report and supplemental information for Centro's Australasian and US managed property portfolios which have been lodged with the ASX and posted to the Centro website.

Annual General Meeting

The Annual General Meeting for Centro Properties Group is scheduled to be held on Wednesday, 17 November 2010.

About Centro Properties Group (ASX: CNP)

Centro Properties Group specialises in the ownership, management and development of shopping centres. Centro is Australia's largest manager of retail property investment syndicates and is a manager of direct property funds and wholesale funds which invest in Centro's quality retail properties in Australasia and the United States. For more information, please visit **centro.com.au**.

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