



28 August 2011

Centro Properties Group FY2011 Results

Centro Properties Group ("Centro" or the "Group") announces a statutory net profit attributable to members of Centro of \$2.7 billion for the year ended 30 June 2011 ("FY11"). Underlying profit for FY11 was \$14.6 million compared to \$173.8 million for the prior year.

It is critical for ordinary securityholders to understand that the significant statutory net profit for FY11 is not a reflection of sustainable profit and growth; it is attributable to a number of non-cash items including liquidation value adjustments of \$1.3 billion arising from preparing the statutory financial report on a liquidation basis. Net equity attributable to ordinary securityholders (prior to liquidation value adjustments) is negative \$1.7 billion at 30 June 2011 and the FY11 statutory net profit therefore does not alleviate the essential need for Centro to implement its proposed restructure agreement prior to the maturity date of its senior debt on 15 December 2011.

Income Statement Summary

The following Income Statement summary reconciles the underlying profit to the statutory net profit attributable to members of Centro and is an extract from Note 7 of Centro's financial report.

Income Statement based on ownership share (\$million)	30 June 2011	30 June 2010
Underlying profit attributable to members of Centro	14.6	173.8
Liquidation value adjustments	1,329.3	-
Net gain on disposal of US assets	210.9	-
Foreign currency translation reserve recycled following sale of US assets	607.8	-
Investment property revaluations	276.1	(487.9)
Foreign exchange gains and loss	286.7	49.8
Mark-to-market movements on derivatives	74.4	(27.9)
Impairment of intangible assets	(34.9)	(331.2)
Restructure costs and other adjustments	(20.4)	(29.4)
Statutory net profit/(loss) attributable to members of Centro	2,744.6	(652.7)

The statutory financial report has been prepared on a liquidation basis as required by Australian Accounting Standards due to the expected material curtailment of Centro's operations, which would result from either a successful implementation of the proposed restructure, as announced on 9 August 2011, or, if the restructure does not occur, the expectation that Centro would be placed in a position where it is likely that external administrators would be appointed.

Key points of explanation on the income statement:

- The liquidation value adjustment is a one-off accounting entry to adjust net assets from negative \$1.3 billion to zero. This reflects the fact that there will be insufficient assets upon a liquidation to settle Centro's liabilities. It does not affect or reduce Centro's contractual debt obligations;
- While the consolidated Group recognised a loss of \$96.0 million on disposal of US assets, Centro members realised a gain on disposal of \$210.9 million. At the time of the US asset and business sale, external investors in Super LLC held positive equity while Centro members held negative equity. As a result of cross collateralisation arrangements between the joint owners of Super LLC, upon the sale, Centro members were able to recognise the benefit they receive from the positive equity held by external investors in Super LLC being used to satisfy the member's negative equity; and
- The gain attributable to the foreign currency translation reserve recycled following sale of US assets is due to the requirement under Australian Accounting Standards on disposal of a foreign subsidiary, to recycle (i.e. transfer) the previously generated foreign exchange gain relating to the disposal of a foreign subsidiary from one reserve (Foreign Currency Translation Reserve) to another reserve (Accumulated Losses).

Balance Sheet Summary

The 2011 financial report shows the net equity attributable to members of Centro as zero, however, this is after the positive liquidation value adjustment of \$1.3 billion (to reflect the expected settlement amount of debt at less than face value under the proposed restructure). The liquidation value adjustment in Centro's statutory financial report does not affect or reduce Centro's contractual debt obligations. Furthermore, the convertible bonds included in equity rank senior to ordinary securities such that the negative net equity attributable to ordinary securityholders is negative \$1.7 billion.

Net Equity Summary as at 30 June 2011		\$million
Net Equity attributable to members of Centro Properties Group at 30 June 2011 on a liquidation basis		0.0
Back out liquidation value adjustments		(1,329.3)
Net Equity attributable to members of Centro Properties Group at 30 June 2011 prior to liquidation value adjustments		(1,329.3)
Adjustment for Convertible Bonds which rank ahead of ordinary equity ¹		(414.1)
Net Equity attributable to ordinary securityholders of Centro Properties Group at 30 June 2011 prior to liquidation value adjustments		(1,743.4)

¹ Convertible Bonds have a principal value of US\$444 million. The AUD amount above is calculated using the year-end spot rate of A\$1.00 : US\$1.0722 as this represents the best estimate of the settlement amount at 30 June 2011. The Convertible Bonds in Note 18 of the statutory financial statements have been calculated at the historical rate in accordance with Australian Accounting Standards.



Cash Flow Summary

Centro's headstock cash flow prior to debt repayments (which does not include the above mentioned accounting adjustments as they are non-cash items) of \$1.8 million has shown a declining trend during FY11. Absent a restructure, Centro will not have sufficient cash to fund interest, overheads and other ongoing expenses beyond 15 December 2011 and could not repay its \$2.9 billion senior debt maturing on that date.

Comments from Centro Chairman

Centro Chairman Paul Cooper said, "The need to restructure Centro by 15 December 2011 is essential. This is the maturity date for our \$2.9 billion senior debt and, as highlighted by Centro's negative net equity position, there will be insufficient assets to repay this debt at maturity."

"The Implementation Agreement we announced on 9 August 2011 has provided Centro with the prospect of a restructure, which would resolve the financial predicament that has been afflicting Centro since late 2007. If it is approved by Centro securityholders, and all other approvals are obtained and conditions satisfied, Centro securityholders will receive 5 cents per security in cash despite the negative net equity position."

"The restructure proposal is the only feasible option for Centro to emerge from the extensive review of alternatives undertaken. Centro cannot trade its way out of the debt situation – even after the moderate recovery in Australian asset values during the past year reflected in the improvement in investment property values, the debt is simply too large and cannot be refinanced when it matures in just under four months time."

Business Update

Centro Chief Executive Officer Robert Tsenin said, "Although we have enviable retail assets in Australia that have performed well despite the difficult operating environment over the past few years, Centro faces senior debt maturity of \$2.9 billion in December of this year and must effect a restructure prior to that maturity."

"The proposed restructure, which would make available to Centro securityholders 5 cents per security if all approvals and conditions are met, is Centro's only feasible prospect of delivering any value to securityholders. The alternative is likely to be external administration in which circumstances Centro securityholders are expected to receive nothing."

"We expect Centro securityholders will receive an explanatory memorandum ("EM") setting out the details of the restructure towards the end of September. The EM will contain an Independent Expert's Report and a formal recommendation from Directors on the restructure transaction. Meetings of investors to vote on a series of resolutions relating to the restructure will be held in October."



“Importantly, more than 83% of Centro's senior lenders agreed to the restructuring proposal; any restructuring of Centro required the senior lenders' approval and support,” said Mr Tsenin.

Property Portfolio Update

The following section discusses the property portfolio which Centro manages. Centro only owns one of these properties with the remainder owned by Centro managed funds including Centro Retail Trust.

Australasia Property Portfolio	30 June 2011	30 June 2010
Number of Properties	103	112
Comparable Stabilised NOI Growth (annual)	3.6%	3.2%
Total Occupancy	99.5%	99.5%
Retail Sales Growth (annual)	2.9%	4.0%

Centro General Manager of Property Operations for Australia, Mark Wilson said: “The Australian portfolio has recorded a strong result for FY11. The comparable stabilised NOI growth of 3.6% is a positive result in light of slowing consumer spending which is impacting on the Australian retail sector. Furthermore, occupancy levels remained near full at 99.5% and occupancy costs were 14.3%. Rental growth on new leases during FY11 continued prior year performance with an average 6.1% increase on new and renewing leases.”

“Sales by department stores and discount department stores have decreased 3.2% and 2.2% respectively, contributing to a more modest overall increase in annual retail sales for the portfolio. The overall increase in annual retail sales of 2.9% has largely been driven by strong sales by supermarkets which have performed well off the back of successful marketing campaigns and improved product offerings. Supermarket sales account for 45% of Centro's total sales,” Mr Wilson said.

Property Valuations

At 30 June 2011, 101 of Centro's 103 properties under management, including those held by Centro's managed funds, were independently valued. The aggregated portfolio value was \$7.10 billion, an increase of 4.3% over the prior year. The weighted average capitalisation rate of the portfolio is now 7.60%.

“The valuation growth has been achieved due to active centre management resulting in near full occupancy and stable net income growth. Comparative transactions which occurred during the period provided valuers with current market information,” Mr Wilson said.



Important Notes & Supplemental Information

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

For complete details, including important footnotes, please refer to Centro's financial report.

For Further Information

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