

CENTRO INVESTOR

ISSUE ONE JUNE 2009

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Welcome! As you know, the past 18 months have been challenging for Centro, and our energies have been focused on achieving the long term stabilisation of the Group.



↑ Centro Box Hill South, VIC

In this time, Centro's investor base has more than doubled to over 32,000 investors. We want to stay in touch with you, and this newsletter, the *Centro Investor*, is one way we will be doing just that. We also encourage investors to regularly visit the Centro website (centro.com.au) for the most up-to-date information.

In this first issue of the *Centro Investor*, we take a look back. From Centro's rapid expansion in the US to the achievement of its Debt

Stabilisation Agreement, we take you through Centro's key events and milestones from late 2006 to today. We think this provides some context and perspective for where we are today.

The aim of the *Centro Investor* is to provide you with clear, easy-to-understand information about your investment in Centro. We hope you'll tell us how we're doing and let us know if there's something you'd like to hear about. Tell us what's on your mind.

WHERE TO GO FOR INFO

Online or on the phone... we're here for you

CENTRO.COM.AU

The Centro website (centro.com.au) has a lot of information about Centro and the funds and shopping centres we manage and invest in. Stop by and check it out. Here's a little of what you can find there...

- **Company announcements**
- **Annual and financial reports**
- **Supplementals** – detailed information on the assets Centro manages and detail on Centro's debt. The property information includes:
 - Properties by type and location
 - Redevelopments/developments

- Top retailers
- Leasing summary
- Same property NOI analysis
- Acquisitions/dispositions
- Listings of managed and directly owned properties
- **Portfolio Assessments** – detailed information on the shopping centres that Centro manages including:
 - Physical characteristics
 - Market analyses
 - Geographic and retailer diversification

INVESTOR SERVICES

Centro has a team dedicated to assisting investors with questions and with finding information. Give us a call or email us:

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A lot has happened at Centro since December 2007. In order to understand how Centro got to where it is today, we take a look back and recap the main events of the past 18 months.

FROM DECEMBER 2007 TO TODAY ...THE CENTRO STORY

Centro's Business Model

Generally, Centro's practice was to buy shopping centres (or companies that owned shopping centres) with debt and capital and then recoup a large portion of its investment through a capital recycling process, a simple example of which is:

- 1 Centro purchased a shopping centre.
- 2 Centro sold the shopping centre into a new or existing managed (ownership) fund such as a syndicate or wholesale fund.
- 3 The managed fund sourced external debt for approximately 50% of the value of the asset and sold investment units to raise the remaining 50%.
- 4 Centro's diversified funds (DPF/DPFI) acquired half of the investment units.
- 5 External investors bought the other half of the investment units.
- 6 Centro would use the money it recouped from this process to purchase more assets and start the process again.

Caught by the Credit Crunch

From January 2006 – December 2007, Centro's funds under management grew from \$9.9 billion to \$26.6 billion, primarily as the result of acquisitions in the US and the growth in property values in both Australia and the US.

Centro's US\$6.2 billion acquisition of New Plan was funded with short term debt which was Centro's usual practice. The intention was to

implement the capital recycling model described above and to secure longer term debt and equity through the Commercial Mortgage Backed Securities (CMBS) markets in the US as it had always been able to do. However, this was not possible because the historically reliable US CMBS market shut down as a result of the sub-prime crisis and Centro was unable to repay the short term debt when it was due.

SPOTLIGHT

CMBS

Debt securities which use commercial assets as collaterals, and incomes generated from property assets are used to pay back the loans and interest

Considering the Options

Centro's financiers provided an initial two month extension on the expiring debt. Centro used this time to review its options and to come up with a solution to repay the debt.

Centro engaged financial and other advisers to come up with and evaluate options as well as any proposals put to the company.

Through this process, Centro assessed a number of alternatives including:

- Recapitalisation proposals
- Equity issuance scenarios
- Various options for the acquisition of all or parts of Centro including:

- ° Centro's interests in its Australian and US wholesale funds
- ° Shopping centres or portfolios of shopping centres
- ° The services business – that is, the part of Centro's business that manages the properties and runs the funds

Centro was open to any and all proposals which would achieve stabilisation of the Group, provide it with a longer time horizon to solve its challenges and retain as much value as possible for investors.

Global Financial Crisis Exacerbates the Situation

As Centro was working through all of these options, the credit crunch and the ensuing Global Financial Crisis made conditions more and more difficult.

There was a good deal of interest in each of the alternatives discussed, but it was becoming very difficult (and expensive) for suitors to source the debt and equity funding they would need to complete transactions.

Proposals from entities that had the wherewithal to complete the transactions were considered to be far too expensive or dilutive. In fact, had any of these proposals been accepted, it is likely that greater dilution in securityholder value would have occurred compared with that of the Debt Stabilisation Agreement.

Centro continued to operate on a number of short term debt extensions while it pursued these alternatives.

Long Term Debt Stabilisation Was Necessary

As Centro moved through 2008, it achieved a number of short term extensions on the facilities that had originally expired in December 2007.

The constant effort required to negotiate and document the short term extensions was a drain on executive time and on human and financial resources.

As the Global Financial Crisis intensified, it became clear that the only truly viable option for Centro's survival was to effect a stabilisation plan with our 23 financiers.

Centro's Board, management and advisers, under the deft hand of Glenn Rufrano, went to work on putting together a deal that would stabilise Centro, allow time for the Global Financial Crisis to abate and for Centro to continue to pursue various options for recapitalisation.

Who are the Financiers?

There are 23 financiers associated with Centro's Debt Stabilisation Agreement. They include Australian, US, European and Asian banks as well as US insurance companies.

Understanding the Debt Stabilisation Agreement

The Debt Stabilisation Agreement is complex but the key terms as they relate specifically to Centro's headstock debt are as follows (investors should refer to the announcement of 16 January 2009 for further detail):

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Asset Sales are Not the Solution

Selling shopping centres would appear to be an easy way for Centro to raise money to repay debt. In fact, the contrary is true.

- Centro owns very few properties directly – most of the shopping centres are owned by its managed funds.
- When a fund sells a shopping centre, Centro only receives its proportionate share of net proceeds as an investor.
- In the current environment funds are generally repaying debt with asset sale proceeds – they are not returning capital to their investors.
- Centro's fee streams are negatively impacted when:
 - Property management, leasing and development fees are lost
 - Funds management income is lowered due to fewer assets under management

At the headstock or Centro level, A\$4.95 billion of debt was dealt with as follows:

- A A\$3.9 billion of Term Loans (Senior Syndicated Debt Facility):
 - Maturity date of 15 December 2011
 - Interest margins no greater than 175 basis points



1 Centro Brandon Park, VIC
2 Centro Colonnades, SA

- B Hybrid Securities were issued to the lending group for A\$1.05 billion of debt. Some key features of this facility include:

- Maturity date of 15 January 2016
- Lower servicing costs and improved cash flow:

- ° All interest is capitalised (unless all senior debt has been paid in full)
- ° Interest accrues at 5% per annum until 14 January 2012 and 7.5% thereafter

- Repayment options:

- ° Cash redemption (at Centro's option once the Term Loans are repaid)
- ° By converting to ordinary stapled Centro securities

- If converted in full, the Hybrid Securities would convert to 90.1% of the post-conversion ordinary stapled securities (this 90.1% is to include the already issued 124.9 million securities discussed below)
- The conversion to ordinary securities is subject to Securityholder approval

Important Note:

Only the conversion into ordinary securities is subject to securityholder approval. If not approved prior to conversion, Centro would need to repay the amount in cash when due.

- C Issuance of Ordinary Stapled Securities - 124,904,301 securities (14.8% of the existing issued securities at that time) were issued to certain financiers:

- Issued at 11.27 cents per security
- For partial payment of accrued lender fees and expenses
- Contributes toward (and is not in addition to) the 90.1% of ordinary securities that would be held by the financiers upon conversion of the Hybrid Securities (detailed above)

Debt Stabilisation Agreement or Administration – The Choice Was Clear

On 16 January 2009, 13 months after Centro first announced that it could not repay expiring debt, Centro entered into a Debt Stabilisation Agreement with its financiers. This agreement was the culmination of over a year's work pursuing various options to stabilise the Group.

As all other options had been exhausted, the Debt Stabilisation Agreement achieved positive outcomes for Centro, its managed funds and, indeed, its investors. Without this agreement, Centro would likely have entered into administration, and it is unlikely that investors would have realised any value for their investment as the value of the Group's assets would have been less than that of its liabilities.

Leading Centro into the Future

Glenn Rufrano, who had been the CEO of Centro US and had been the CEO of New Plan since 2000, became CEO of Centro in January

2008. Throughout 2008, Glenn worked with Centro's financiers to achieve a long term stabilisation of the Group.

Once the Debt Stabilisation Agreement was achieved, Glenn completed the realignment of the Executive Committee (EC). Today, Centro's EC represents an experienced and agile group of executives working for investors.

Shopping Centres... Centro's Backbone

The shopping centre portfolio that Centro manages in both Australia and the US is Centro's foundation. Centro derives its revenues from managing these properties and the funds that own them, as well as receiving distributions by investing in the funds. Centro's property management platforms in both countries combine local knowledge and expertise with national economies of scale and leadership.

Largely, the portfolio serves the everyday shopping needs of customers. The non-discretionary nature of our portfolio has proven to be defensive in the currently difficult economic environment.

And, while there are challenges every day such as unexpected vacancies, retailer bankruptcies, and increased competition, our assets are managed and leased by some of the best in the business, and they are holding up well.

Centro's Future

With the Group more secure as a result of the Debt Stabilisation Agreement, the Board and management have turned their attention to restoring as much value as possible.

This includes:

- Continuing to run the properties well during the difficult economic climate.
- Progressing the Board's renewal and separation process under which:
 - ° Three of the current Directors have resigned pending appropriately qualified replacements being appointed.
 - ° At least four of the six Directors on each of the Boards will be new.
 - ° The Boards of Centro Properties Group (CNP) and Centro Retail Trust (CER) will have a majority of Directors who are different.
 - ° A different Chairperson will be appointed for CER.
- Refinancing the debt that comes due within the managed funds this calendar year.
- Continued discussions of strategic and recapitalisation options for the Group.
- Achieving simplification of the Group.
- Running the services business.
- Proper maintenance of the balance sheet.

With the Group more secure ...the Board and management have turned their attention to restoring as much value as possible for investors

SPOTLIGHT

Portfolio Performance

Take a look at the portfolio performance through the March 2009 quarter:

Australian Portfolio Sales Results (12 months to March 2009)

Category	Comparable Annual Growth %
Supermarkets	+4.2
Discount Department Stores	+1.6
Department Stores	-5.2
Specialty Stores	+9.9
Mini Majors	+6.8
Other*	+7.0
Total	+5.3

*Includes cinemas and travel

These sales results were calculated in accordance with Shopping Centre Council of Australia (SCCA) standards.

Australian Portfolio	As at 31 Mar 2009	As at 31 Dec 2008
Number of Properties	122	123
GLA (millions of square metres)	2.0	2.1
Comparable NOI Growth – Stabilised*	2.2%	2.5%
Comparable NOI Growth – Incl. Developments*	3.7%	4.2%
Portfolio Occupancy Rate – Stabilised	99.0%	99.2%
Leasing Deals*	969	711
Rental Income Growth*	4.0%	6.5%

*NOI Growth, Leasing Deals and Rental Income Growth are for the nine month period ended 31 Mar 2009 and for the six month period ended 31 Dec 2008.

US Portfolio	As at 31 Mar 2009	As at 31 Dec 2008
Number of Properties	622	633
GLA (millions of square feet)	100.8	102.8
Comparable NOI Growth – Stabilised*	-3.1%	-2.8%
Comparable NOI Growth – Incl. Developments*	-2.5%	-2.3%
Portfolio Occupancy Rate – Stabilised	88.5%	90.7%
Portfolio Occupancy Rate – Developments	76.5%	78.3%
Leasing Deals*	1,519	942
Rental Income Growth*	3.9%	5.6%

*NOI Growth, Leasing Deals and Rental Income Growth are for the nine month period ended 31 Mar 2009 and for the six month period ended 31 Dec 2008.

A Centro timeline

