

# CENTRO INVESTOR

ISSUE TWO SEPTEMBER 2009

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## Annual Report Available

If you have not requested to receive a printed copy of the *Centro Annual Report* for FY09, you may view a copy by visiting the Centro website ([centro.com.au](http://centro.com.au)) or call Centro Investor Services if you would like a printed copy mailed to you.



## AGM DATE

Centro's Annual General Meeting (AGM) will be held Tuesday, 17 November 2009 at the Melbourne Convention & Exhibition Centre. Watch your mail for the Notice of Meetings and Proxy Forms.

## New Group CFO & General Counsel Appointed to EC

Chris Nunn and Dimitri Kiriacoulacos Lead Finance & Legal Teams

### Chris Nunn, Group CFO

Chris started in his new role as Group Chief Financial Officer on Tuesday, 1 September 2009.

Chris has over 30 years of finance, accounting and audit experience, most recently as Chief Financial Officer of Industry Superannuation Property Trust. He held senior finance and operations roles at MacarthurCook, JP Morgan Investor Services, Merrill Lynch Investment Managers and McIntosh Securities after ten years

with Coopers & Lybrand. Chris holds a Bachelor of Science in Economics with Accountancy (Honours) from Loughborough University in the UK and Graduate Diplomas in Business Administration from AGSM and in Applied Finance and Financial Planning from Financial Services Institute of Australia (FinSIA). Chris is an Associate of the Institute of Chartered Accountants in Australia and a Fellow of FinSIA.

### Dimitri Kiriacoulacos, General Counsel - Australia

Dimitri is a lawyer and accountant with global legal and commercial experience in the financial services, pharmaceutical and manufacturing sectors. He has worked in private practice, investment banking and corporate roles principally in the areas of mergers and acquisitions, business development and corporate governance.

Prior to joining Centro, Dimitri held senior legal roles, most recently as General Counsel, Corporate Advisory with National Australia Bank and General Counsel and Company Secretary with Mayne Pharma.

Dimitri will join the Company in October.

## WHERE TO GO FOR INFO

Centro has a number of resources for investors

### CENTRO.COM.AU

The Centro website ([centro.com.au](http://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 physical characteristics of the shopping centres that Centro manages including:
  - Physical characteristics
  - Market analysis
  - 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:

Toll Free (Australia)  
**1800 802 400**

Toll Free (New Zealand)  
**0800 449 605**

Telephone  
**+61 3 8847 1802**

Email:  
**[investor@centro.com.au](mailto:investor@centro.com.au)**



# → FINANCIAL YEAR 2009 RESULTS

## UNDERLYING PROFIT WAS \$229 MILLION

Centro announced a loss attributable to its securityholders of \$3.5 billion for the financial year ended 30 June 2009 (FY09).

The loss was primarily attributable to a number of non-cash items including property devaluations, the effect of foreign exchange movements and derivative mark-to-market adjustments.

### Underlying Profit was \$229 Million

Prior to the non-cash items, Centro's underlying profit was \$229 million and it has been determined in accordance with the AICD/FinSIA principles for reporting underlying profit. Refer to the Income Statement table below.

### Understanding Centro's Financial Performance

The Group's statutory accounts are prepared on a *consolidated basis*. This means that the accounts aggregate the performance of many of our managed funds and they eliminate the services business revenue (fee income) contributed by those funds.

For more information see "Demystifying the Accounts" at right.

### Net Tangible Assets

Our balance sheet was impacted significantly during the year by the same items that impacted net profit. Net Tangible Assets (NTA) per security reduced significantly from June 2008 to June 2009, primarily as a result of property devaluations, as shown in the Net Tangible Asset Backing table below.

### SPOTLIGHT

#### Cash Flow Most Relevant Way of Understanding Centro's Issues

Sources and applications of cash at the headstock level are the most relevant way of understanding Centro's liquidity issues. Centro's net cash inflow for FY09 of \$4.5 million included additional borrowings of \$77.5 million, nearly half of which was used to cover the costs of one-off items related to the finalisation of the debt stabilisation agreement.

Moving into FY10, we expect the debt stabilisation agreement to result in substantially lower debt servicing costs, and we expect to be cash flow positive without the need for additional borrowings. We're forecasting net cash flow of up to \$25 million for the half year to December 2009 before the pay down of debt.

the properties, as well as the management and leasing services it provides to these centres. We therefore believe it is relevant to report on the performance of the properties to our investors. The geographic diversification of the portfolio is providing resilience as the relatively solid Australian portfolio is offsetting some of the more challenging results from the US portfolio as shown in the Property Portfolio table below.

### What to Expect in FY10

**Australia** – we anticipate that the next 12 months will remain challenging. Our goal is to maintain occupancy at 99% and achieve NOI growth of 1% to 2%.

**US** – we expect stabilised portfolio occupancy to average 88.5% over the year and for NOI growth to be negative 3% to negative 5%.

### Recap and the Future

We have stabilised Centro on many fronts. The debt stabilisation agreement has allowed us to focus on property operations while offering continuity to employees, retailers and suppliers. Our centre-based teams in Australia and the US have returned to appropriate levels, senior management roles have been filled and shopping centre occupancy levels indicate retailer confidence in us.

New personnel added to the team will bring energy and fresh ideas. The Board renewal process will bring new perspectives on corporate strategies and execution as Centro moves forward.



Stability provides the foundation for change and future progress.

- Glenn Rufrano  
Centro CEO



Sunshine Marketplace, VIC

Eagle Rock Plaza, California, US



## Demystifying the Accounts

In an attempt to help investors better understand the accounts, we have provided some layman's explanations of some of the key terms used in this newsletter, our results announcement and our statutory accounts.

**Accounting Methodology** – Starting with our 30 June 2009 Financial Statements, we have consolidated rather than equity accounted the majority of our investments. Importantly, there is no difference in the total equity attributable to investors between either methodology.

**Equity Method for Accounts** – Under this method, we would have simply included on the balance sheet and income statement the equity value of our investments and level of earnings based on Centro's proportionate ownership.

**Consolidated Method for Accounts** – Given that we own a controlling interest in many of our investments, accounting standards require that we include 100% of the assets and 100% of the liabilities of these investments on our balance sheet even though we may have less than a 50% direct investment into a fund. The proportion of these gross amounts that we do not own is adjusted for in the equity section of the balance sheet.

### EXAMPLE:

- Centro owns a 23% direct investment in Centro Retail Trust (CER)
- Centro's investment in CER combining its direct holding and its indirect holding through its investments in the Centro Direct Property Fund and Centro Direct Property Fund International, defined as its look-through investments, is 43%.
- CER's 30 June 2009 balance sheet shows the following:

\$2.92 billion of assets  
\$2.23 billion of liabilities

### \$0.69 billion of equity

Under the equity method, our balance sheet would have simply shown the net investment in CER as an asset of \$0.30 billion. The value would have been determined by multiplying our look-through investment (43%) by CER's equity (\$0.69 billion).

With the consolidated method (which is currently required to be used), the assets line of the balance sheet includes the full \$2.92 billion of CER's assets and the liabilities line of the balance sheet includes the full \$2.23 billion of CER's liabilities.

In this consolidated method example, the net look through equity which does not belong to Centro (57% x \$0.69 billion = \$0.39 billion) is deducted from parent entity interest in the minority interests line of the balance sheet.

**Property Devaluations** – These are adjustments made to the carrying value of the shopping centre assets owned by the ownership funds such as CER and the Syndicates. Although Centro does not directly own many shopping centres, the impacts of the changes in the market value of the properties (as determined by independent and Directors' valuations) are reflected in Centro's results because of the *consolidated* method of accounting described earlier. Property valuations are non-cash because no gain or loss has been realised – rather, adjustments are made to the books to reflect what we believe the actual current value of the properties to be.

**Foreign Exchange Movements** – These movements reflect the differential between the Australian dollar and the US dollar. These are also non-cash because they are simply a restatement of the value of certain assets and liabilities based on the currency conversion rate at a certain point in time. There were negative adjustments made here because the 30 June 2009 conversion rate was A\$1 = US\$0.8064 whereas at 30 June 2008, the conversion rate was A\$1 = US\$0.9626.

**Derivative Mark-to-market Adjustments** – Derivatives are financial instruments which are generally used to hedge against financial risk. Centro has interest and foreign exchange rate derivatives (or hedges). The goal is to fix these rates

thereby achieving certainty regarding the cash cost of interest and foreign exchange expenses.

The derivatives themselves have a value determined by comparing the current interest or foreign exchange rate against the hedged rate. The derivative value is recorded on our balance sheet as either an asset or a liability. The change in this net value period over period is recognised on the company's Income Statement in the "Net movement of mark-to-market of derivatives" line. Since the value change in the derivative is not realised, it is a non-cash income or expense item.

**Underlying Profit** – Underlying profit is the company's statutory profit adjusted to present a figure which represents the results of our ongoing business activities.

The Australian Institute of Company Directors (AICD) and the Financial Services Institute of Australia (FinSIA) have published a set of guidelines for companies to use when reporting underlying profit. Centro has followed these guidelines in deriving its underlying profit of \$229 million.



### INCOME STATEMENT TABLE

Extract for Year Ended 30 June 2009

(based on equity accounted or "ownership share" method)

	\$million
<b>Underlying Profit Attributable to Ordinary Securityholders</b>	<b>229.2</b>
Asset Revaluations	(2,531.5)
Derivative Mark-to-markets	(236.2)
Foreign Exchange (on headstock debt)	(950.6)
Restructure Costs and Other Adjustments	(54.9)
<b>Net Loss Attributable to Ordinary Securityholders</b>	<b>(3,544.0)</b>



### NET TANGIBLE ASSET BACKING PER SECURITY

Diluted NTA at 30 June 2008 \$0.69

Movements in FY09:

Loss from property revaluations	(\$2.49)
Loss from net movement of derivative financial instruments	(\$0.23)
Loss from net foreign currency movement	(\$0.29)
Gain from underlying profit & other items including issue of new securities	\$0.09
<b>Diluted NTA at 30 June 2009</b>	<b>(\$2.23)</b>



### PROPERTY PORTFOLIO

	30 June 09	30 June 08
<b>Australasia</b>		
Number of Properties	121	129
Comparable Stabilised NOI Growth	2.5%	3.7%
Comparable Stabilised Occupancy	99.0%	99.5%
Retail Sales Growth	5.0%	6.9%
<b>US</b>		
Number of Properties	612	665
Comparable Stabilised NOI Growth	-3.6%	1.9%
Comparable Stabilised Occupancy	88.7%	91.9%



## Three highly-qualified and credentialed candidates to join Centro Board

# Meet Your New Directors

On 25 June 2009, we announced the appointment of Anna Buduls, Susan Oliver and Robert Tsenin to the boards of Centro Properties Limited and CPT Manager Limited. These appointments are an important step forward in our efforts to simplify the Group structure and restore value for Investors.

The three new Directors will be seated immediately following the finalisation of FY09 accounts for Centro and its managed funds which is expected to occur in late September. The new Directors may have taken their seats by the time you receive this newsletter. As part of the Board renewal process, we bid a fond farewell to Graham Goldie, Sam Kavourakis and Peter Wilkinson – three long-serving and loyal Centro Directors.

### Anna Buduls

#### Background & Experience

Ms Buduls has over 20 years experience in finance and consulting and as a journalist and editor.

#### Current Directorships, Executive Positions and Advisory Roles

- **SAI Global** – Non-executive Director
- **Tramada Systems** – Owner
- **Macquarie Generation** – Non-executive Director, Acting Chairman
- **Beyond Empathy** (non profit) – Chairman
- **Various Work for Non-Profit Organisations** including the Alzheimer's Association

#### Past Non-Executive Directorships & Executive Positions

- **Hamilton James & Bruce Group** – Chairman; Non-Executive Director; Member, Audit Committee
- **Mirvac Group** – Non-executive Director; Member, Audit Committee
- **Freedom Group** – Non-executive Director
- **Dairy Australia** – Non-executive Director
- **AWB Limited** – Non-executive Director
- **Westpac Banking Corporation** – General Manager/Head of Investor Relations
- **Macquarie Bank** – Associate Director, Corporate Advisory Division
- **Australian Financial Review** – Journalist; Investment Editor
- **Hueblein Overseas Management** – Strategic Planning Manager
- **J Walter Thompson** – Various positions
- **Grey Communications Group** – Various positions

#### Past Non Profit & Government Service

- **The Smith Family** – Non-executive Director
- **Australian Federal Government** – Member, Steering Group for the White Paper on Homelessness

### Susan Oliver FAICD

#### Background & Experience

Ms Oliver has over 30 years experience in building and planning.

#### Current Directorships and Executive Positions

- **Programmed Group** – Non-executive Director; Member, Audit Committee
- **wwite** – Executive Director

#### Past Non-Executive Directorships & Executive Positions

- **Transurban Group** – Non-executive Director; Chairman, Risk Committee; Chairman and Member, Sustainability Committee; Member, Audit Committee
- **Just Group** – Non-executive Director; Member, Audit Committee
- **The Smith Family** – Governor
- **The Swish Group** – Non-executive Director
- **MBF Australia** – Non-executive Director; Chairman, Remuneration Committee; Member, Audit Committee
- **FHAD Design** – Chairman
- **The Big Issue Australia** – Founding Director
- **Futures Alliance** – Managing Director
- **Andersen Consulting** – Senior manager
- **CIRCIT** – Managing Director
- **Australian Commission for the Future** – Managing Director
- **Invetech** – Business Manager
- **Government of Victoria**
  - o Department of Industry, Technology & Resources – General Manager; Director
  - o Ministry of Housing – Branch Manager, Policy & New Programs; Manager, Corporate Planning & Budgets; Consultant & Project Manager; Consultant
  - o Emerald Hill Urban Renewal Project – Project Manager

#### Past Industry, Government & Non Profit Service

- **Methodist Ladies College** – Non-executive Director
- **Australian Business Foundation Limited** – Non-executive Director
- **The Smith Family** – Non-executive Director
- **Swinburne University of Technology Foresight Institute** – Non-executive Director, Advisory Board; Adjunct Teaching Fellow
- **RMIT University** – National Key Centre for Design – Chairman
- **Deakin University** – Member, Advisory Board

### Robert Tsenin

#### Background & Experience

Mr Tsenin has over 30 years experience in corporate finance, mergers and acquisitions and real estate in Australia, the US and Europe.

#### Current Directorships

- **Australian Infrastructure Fund** – Non-executive Director
- **Sistema Hals (Moscow)** – Non-executive Director
- **Matrix European Real Estate Investment Trust (Guernsey)** – Non-executive Director
- **Metrix Capital Partners** – Non-executive Director

#### Past Non-Executive Directorships, Advisory Roles & Executive Positions

- **Telstra Corporation** – Non-executive Director
- **AXA Asia Pacific Holdings** – Non-executive Director
- **Global Properties Fund (Luxembourg)** – Non-executive Director
- **International Distressed Debt Fund (Luxembourg)** – Non-executive Director
- **Lazard (UK)** – Senior Adviser
- **Lend Lease Corporation** – Finance Director
- **Waco (South Africa)** – Non-executive Director
- **Santos** – Non-executive Director
- **Goldman Sachs Australia** – Managing Director

## Search for Global CEO

In August, we announced that both Glenn Rufrano (Group CEO) and Tony Clarke (CEO – Australia) would not be renewing their contracts, which expire in February 2010.

The Board has initiated a search for a new Global CEO who will be based in Melbourne. Glenn will remain CEO until a suitable replacement is appointed and a detailed transition and handover have occurred.

## Ernst & Young Appointed Auditor

Centro appointed Ernst & Young to be the company's auditor on 26 June 2009. In accordance with the Corporations Act, the appointment will be effective until our next Annual General Meeting, where we intend to seek investor approval for Ernst & Young's ongoing appointment.



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