

# Centro Properties Group

## Quarterly Update March 2006



Centro The Glen, VIC

## Key Highlights

### Distribution Upgrade to Provide 9.5% Distribution Growth

Centro Properties Group ('Centro') operating earnings for the nine months ended 31 March 2006 were up a strong 11.8% to \$208.7 million (unaudited) compared with the same quarter last year. As a result of the recently announced acquisition of seven US shopping centres and the launch of a new Centro MCS \$1 billion syndicate, Centro is very pleased to announce an upgraded distribution forecast of 36.8 cents per security ('DPS') for the year to 30 June 2006, providing a 9.5% increase on 2005.

### Value Adding Developments Completed – 8% Yield

During the quarter, Centro completed value-adding developments at eight of its Australian centres which have all successfully opened for trading. These add significant value to Centro as the acquisition of similar quality Australian retail properties at the same yield would be extremely difficult. The success of Centro's development pipeline is best evidenced by the successful trading of the centres since their recent openings. For example, retail sales at the new Woolworths and Big W stores in Centro Whitsunday and Centro Colonnades exceeded expectations, and key specialty retailers are achieving record results.

### Centro Acquires Seven New US Shopping Centres

On 9 May 2006 Centro announced a major acquisition of seven shopping centres in the United States for US \$524m (A\$700 million). The newly acquired US assets are predominately regional malls with one sub-regional mall and one power centre situated across six states in the US. The centres have a strong discount department store focus and are well anchored by retailers including Target, Sears, J.C. Penny, Dillard's and Macy's and supported by an excellent mix of specialty retailers.

The portfolio purchase price reflects an average weighted capitalisation rate of 7.0%. The A\$700 million growth in Centro's funds under management (now \$10.6 billion) will result in further solid growth in Centro's Ownership Services Business income and importantly, Centro's gearing will remain at the lower end of the 30-40% target range, leaving Centro well positioned for future growth.

### New \$1 Billion International Syndicate

Centro's newly acquired US assets will be combined with other recently acquired US assets, as well as assets from the Kramont portfolio (purchased in April 2005) to form a new \$1 billion syndicate, Centro MCS 38 – International No. 5. Centro MCS 38 will be the largest retail property syndicate offered in the Australian market and will comprise a diverse portfolio of 20 properties across 13 US states. Approximately A\$390 million in equity is expected to be raised with Centro retaining a significant co-investment in Centro MCS 38 through its holdings in its two managed vehicles, the Direct Property Fund International ('DPFI') and Centro Retail Trust ('CER'), which will acquire equity interests of 50% and 20% respectively. The balance of the equity will be largely distributed to retail investors through Centro's established and diverse Australian syndicate distribution channels.

### Centro Watt – Continuing to Add Value

The sourcing of A\$700 million of seven new US assets further demonstrates the strength of Centro's US joint venture, Centro Watt. Centro Watt's fully integrated national platform is well placed to manage the diverse style and geographic mix of Centro's expanded US retail portfolio. With Mark Wilson, a member of Centro's Executive Committee, being recently promoted to Chief Operating Officer of Centro Watt, the US management platform is positioned to continue adding value through new national leasing and development management appointments.

### Operation of DRP for June 06 Distribution

By now investors will have received notice that the Distribution Reinvestment Plan (DRP) will operate for the June 2006 six monthly distribution, to be paid in late August 2006. An election form has been provided for investors to commence or vary their existing participation in the DRP. A number of amendments to provide improved flexibility to the DRP have also been undertaken. Please refer to the letter dated 16 May 2006 or call Centro Investor Services on 1800 802 400 for further information.



Centro Whitehorse, VIC



Centro The Glen, VIC – New Lifestyle Life Precinct

## Australian Retail Sales & Leasing Update

Centro's Australian owned centres achieved healthy sales growth over the 12 months to 31 March 2006, of 3.4%. Mini majors and specialty retailers were the strongest performing sectors, with 8.2% and 6.4% growth respectively. Supermarkets, which comprise over 36% of reported sales, recorded a pleasing 1.7% growth.

Centro shopping centres are well placed to withstand any impact of rising petrol prices on retail sales as they are geared to convenience focused, non-discretionary retail spending on fresh food and other everyday shopping needs. Centro estimates that approximately 69% of its sales are non-discretionary.

Centro's healthy sales growth continues to drive the continuing active retail leasing market. In the nine months to 31 March 2006, Centro completed 500 maintenance leasing deals in its owned centres, reflecting a renewal rate of 82% and average rental growth of 6.9%. In addition, for the financial year to date, Centro's significant pipeline of development projects has led to 271 development leasing deals being completed. The leasing of this new retail space (approximately 37,000 square metres) demonstrates the ongoing demand from retailers for space in quality shopping centres.

### Centro Owned Centre Sales – 12 months to 31 March 2006

Category	MAT \$'000 <sup>(1)</sup>	Composition (%)	Change per SCCA Standards <sup>(2)</sup> (%)
Department Stores	234,819	4.6	-2.0
DDS	812,395	15.9	0.7
Supermarkets	1,847,567	36.1	1.7
<b>Total Majors</b>	<b>2,894,780</b>	<b>56.5</b>	<b>1.1</b>
Mini Majors	310,811	6.1	8.2
Specialties	1,669,404	32.6	6.4
Cinema/Other	248,263	4.8	4.4
<b>Total</b>	<b>5,123,258</b>	<b>100.0</b>	<b>3.4</b>

(1) Reflects 100% of centres' sales

(2) Shopping Centre Council of Australia standards include stable properties. Mini Majors includes all non-majors over 400m<sup>2</sup>. Other includes travel agency and lotto sales.

## Investor Terminology Explained

**Risk Managed Growth Philosophy** – This term refers to Centro's philosophy when making acquisitions and business decisions to ensure growth is well planned, well researched and will add value to Centro's investors. The strong demand for retail property as an investment vehicle has seen continuing strong growth in Centro's managed funds. The demand for quality retail space by Australian retailers has also driven Centro's development pipeline.

**Services Business** – The management division of Centro that derives stable and sustainable income streams from shopping centre management, development and leasing activities as well as funds management activities derived from its co-owned managed funds (Centro Retail Trust, Direct Property Fund, Direct Property Fund International and Centro MCS Syndicates).

**Total Annual Return (%)** – The return to a Centro securityholder for their investment over a 12 month period calculated by adding the distributions received and any capital gain (security price increase) and dividing that sum by the security price at the beginning of the period. By way of example:

$$\frac{\text{Distributions} + \text{Capital Growth}}{\text{Security Price at Beginning of Period}}$$

**DPS (Distributions per Security)** – The cash distribution paid to investors half yearly in August and February. Amounts are announced at the end of June and December.

**GLA (Gross Lettable Area)** – The total area of a shopping centre available to be leased (generally given in square metres).

**DDS (Discount Department Store)** – A major store selling clothing, homewares, furniture and electrical items, for example Kmart, Target or Big W.

**MAT (Moving Annual Turnover)** – A measurement of retail sales for the 12 month period up to a specified date (i.e. the preceding 12 months).

**Book Gearing Ratio** – Net borrowings on Centro's balance sheet divided by total assets.

**Look Through Gearing Ratio** – Similar to book gearing ratio but includes Centro's proportion of borrowings in related entities and where Centro holds an interest of greater than 25% and less than 50% (where would need to be consolidated).





Centro Taigum, QLD



Centro Mildura, VIC

## Development Program

Centro's substantial development pipeline contributes significant growth to the Group and ensures Centro shopping centres present a modern façade with a retail offer matching current trends. Below is a snapshot of two recently completed redevelopment projects.

### Centro Whitsunday

Centro Whitsunday, which officially opened in March 2006, is a \$56 million greenfield development at Airlie Beach, northern Queensland. The 22,990 square metre shopping centre opened fully leased and features the first Big W in the region. The centre also boasts a Woolworths supermarket, Best & Less store, Mitre 10 and a strong representation of national retailers.

Centro Whitsunday now provides the largest concentration of retail facilities for consumers in the burgeoning Whitsunday region. Since opening, the centre has recorded outstanding sales at its major and specialty stores.



### Centro Karingal

The redeveloped Centro Karingal (located in Victoria's south east) opened for trading in March 2006. The fully refurbished centre is anchored by a Big W and two Safeway supermarkets and now features 120 specialty stores including mini majors Best & Less and Dick Smith and national retailers Jeans West, Crossroads and Williams. The centre also features Centro's popular Fresh Life and Diners Life precincts.

The improved centre complements the adjoining Starzone Entertainment Life complex which opened in May 2005. Starzone is a leisure and entertainment precinct with a gymnasium, restaurants and a 10 screen Village Cinema complex including VMax and Gold Class.

## Branding Adds Value

Centro's branded 'Life' precincts are continuing to be rolled out at a number of centres within the Australian portfolio. Designed to improve the customer's shopping experience, the sub-branded precincts have been well received by retailers with many tenants recording increases in sales following their implementation.

**Diners Life** – Referring to the main food court precinct, Diners Life is currently available at seven centres within the portfolio, and will be shortly introduced at an additional three following completion of the redevelopments. The precinct has been designed to reflect the market's demands for a contemporary dining space within Centro's shopping centres.



**Lifestyle Life** – Lifestyle Life is a new precinct concept which typically refers to homewares and other leisure activities. Lifestyle Life has assisted Centro in introducing a new marketing element to its centres and has consequently attracted a new customer base.

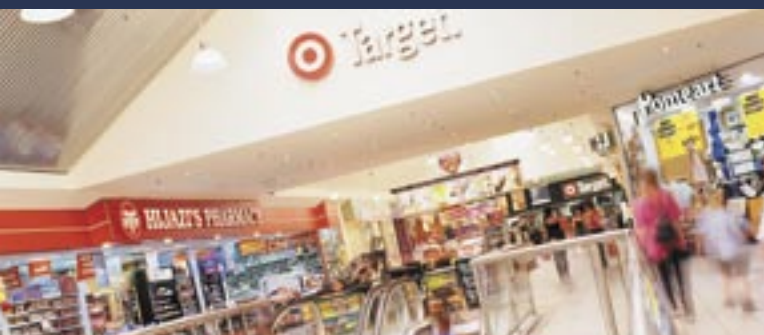


**Entertainment Life** – Currently at Centro Karingal in Melbourne's south east, and Victoria Gardens in Melbourne's inner east, Entertainment Life incorporates cinema, restaurants and leisure retailing. Victoria Gardens first launched this sub-brand in 2003. It was recently modified in design in 2005 to incorporate the launch of Starzone – a stand alone entertainment precinct at Centro Karingal.



**Fresh Life** – Fresh Life refers to the fresh food precinct of the centre and was the first precinct sub-branded by Centro. The precinct has now been introduced at eight fresh food areas throughout Australia and will be introduced in another three centres by the end of 2006. Fresh Life also incorporates national retailers including Baker's Delight, Lenards and Healthy Life.





Centro Bankstown, NSW



Centro Colonnades, SA

## New Domestic Syndicate – Centro MCS 37

Centro's latest domestic syndicate, Centro MCS 37 will be available for investment in June. Key features of the investment include:

**Quality Domestic Portfolio** – The portfolio includes Centro Albury, Centro Newton, Gladstone Homemaker Centre as well as three metropolitan Brisbane convenience centres;

**Strong Tax Advantaged Yield** – Centro MCS 37 has a forecast average distribution yield of 7.05% for the first three years with high tax advantaged benefits;

**Diversification Benefits** – The Syndicate provides good geographic diversification with six centres located across three states of Australia, in both metro and regional areas; and

**Potential for Growth** – Through redevelopment and Centro's proactive management of the portfolio Centro MCS 37 provides investors with the potential for future capital growth.

To invest please contact your financial adviser or alternatively call Centro Investor Services on **1800 802 400** (toll free Australia). You can also download a copy of the Product Disclosure Statement (PDS) from the website at **www.centro.com.au**



### Disclaimer

Centro MCS 37 will be issued by Centro MCS Manager Limited (ABN 69 051 908 984 AFSL 238 775). The Product Disclosure Statement ('Offer Document') will be available on the Centro MCS website ([www.centro.com.au/centromcs](http://www.centro.com.au/centromcs)) and will be available to Australian based Investors on request from Centro Investor Services (Toll free 1800 802 400). Investors should read the entire Offer Document and consult with a professional investment adviser prior to deciding whether to invest in this product.

## Key Future Dates

Event	Date*
Announcement of Final Distribution for year ended 30 June 2006	By 20 June 2006
Securities Trade ex-Entitlement	26 June 2006
DRP Election Closes	30 June 2006
Financial Year End	30 June 2006
2006 Annual Results Released	8 August 2006
Final Distribution Paid to Investors	25 August 2006
Annual Tax Statement Mailed to Investors	25 August 2006
Annual General Meeting Held	20 October 2006

\* Note these dates are estimates and are subject to change  
DRP = Distribution Reinvestment Plan

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**Phone:** 1300 887 890 (toll free Australia); or

**Phone:** +61 3 9615 9664 (International)

## Investor Services

Our Investor Services team is available to answer any questions you may have about your Centro investments. Please call the toll free number on 1800 802 400 (Australia) to speak to one of our Investor Services Officers.

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