

# CENTRO INVESTOR

ISSUE THREE APRIL 2010

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## Introducing Centro's new CEO

On Monday 1 March 2010 Centro's new Chief Executive Officer (CEO) and Managing Director Robert Tsenin formally commenced his duties in Centro's head office in Melbourne.

Robert has over 30 years experience in real estate and corporate finance, mergers and acquisitions in Australia, the US and the UK. He has also held a number of executive roles including Managing Director of Goldman Sachs (Australia) Limited, Finance Director of Lend Lease Corporation Limited and Senior Adviser on real estate related

matters with the Lazard Group in London.

Upon his appointment CEO Robert Tsenin said: "I am delighted to have been given the opportunity and challenge to lead the management team at Centro as we continue the process of rebuilding value in the group. The group has a strong and highly dedicated management team and quality assets that have continued to perform well despite the difficult environment in which the group has been operating in the past two years."



"Most immediately one of my priorities is to continue to lead the group in working with the advisers we have appointed to assist us to develop funding strategies and portfolio combinations that will underpin Centro's future.

"This is a very complex process. A significant amount of work has already been done but the whole process of restoring value is going to take some considerable time."

Robert Tsenin – CEO

## Revamped website coming soon



As mentioned in earlier editions of *Centro Investor*, we are focused on staying in touch with you. We believe up-to-date and informative communication is needed as Centro undertakes the process of restoring value. After talking to our investors, it was identified that our website could be improved to allow for easier navigation. We are doing just that and the new and improved website will be available to investors in the coming months.

# → HALF YEAR 2010 RESULTS

## IMPROVING HALF YEAR RESULTS

Centro announced a net loss attributable to ordinary securityholders of \$63.2 million for the half year ended 31 December 2009.

Centro's net loss of \$63 million is a significant improvement on the prior corresponding half year loss of \$2.4 billion. The turnaround is mostly due to lower property devaluations and benefits to the group from the strengthening Australian dollar.

Underlying profit for the half year was \$82.7 million compared to \$71.6 million for the previous corresponding period. The 15% increase in underlying profit was primarily as a result of reduced interest costs.

### INCOME STATEMENT EXTRACT FOR HALF YEAR (\$MILLIONS) (based on ownership share)

	31 Dec 2009	31 Dec 2008
Property Investment Income	130.1	131.2
Services Business Income	113.4	146.5
Overheads	(72.3)	(78.8)
<b>EBIT</b>	<b>171.2</b>	<b>198.9</b>
Interest Expense	(88.5)	(127.3)
<b>Underlying Profit Attributable to Ordinary Securityholders</b>	<b>82.7</b>	<b>71.6</b>
Asset Revaluations	(361.4)	(970.1)
Foreign Exchange	179.8	(1,138.0)
Mark-to-market Movements on Derivatives	52.9	(294.7)
Restructure Costs and Other Adjustments	(17.2)	(67.9)
<b>Net Loss Attributable to Ordinary Securityholders</b>	<b>(63.2)</b>	<b>(2,399.1)</b>

### EXPLAINING THE INCOME STATEMENT TABLE

Centro derives its income from two sources: investments in its managed funds which own properties, and its services business which derives fees from managing both the properties and the funds that own them.

Centro's underlying profit of \$82.7 million was impacted by a number of economic and operational factors during the half year and in particular the movement in the Australian/US dollar foreign exchange (FX) rate. The appreciation of the Australian dollar reduced the amount in which US dollar denominated net income is translated, which reduced underlying profit.

Centro's property investment income for the half year was \$130 million, in line with the prior corresponding period.

Centro's services business income for the half year was \$113 million, down from \$147 million for the prior corresponding period. The movement on the prior period represents a reduction in fees due to a combination of property devaluations, FX movements, asset sales and reduced development activity.

Below the underlying profit line you will see adjustments which are mainly comprised of non-cash items and include the asset revaluations, derivative mark-to-market movements and FX gains.

The FX movements, although unfavourable to underlying profit due to the net impact on US dollar income, had a favourable

impact for the translation of net US dollar liabilities. After these non-cash items, Centro's net loss attributable to members of the Centro Properties Group for the half year was \$63 million.



**Investors are reminded that Centro's statutory accounts, released to the market, 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 contributed by these funds.**

### STATUTORY BALANCE SHEET EXTRACT

Balance Sheet (\$m)	31 Dec 2009	30 Jun 2009
<b>Total Assets</b>	<b>16,467</b>	<b>18,235</b>
Financed by:		
Borrowings	15,910	17,320
Other Liabilities	1,070	1,529
Equity Attributable to Non-controlling Interests - External	1,102	943
<b>Equity Attributable to Members of CNP</b>	<b>(1,616)</b>	<b>(1,557)</b>
Proforma Adjustment should Hybrid Securities Convert	980	n/a
<b>Adjusted Equity Attributable to Members of CNP</b>	<b>(636)</b>	<b>(1,557)</b>
<b>Ratios</b>		
Gearing (book)	96.5%	94.9%
Net Tangible Assets per Ordinary Security (\$)	(2.87)	(2.91)

Centro's balance sheet was more stable for the half year with the impact of the significantly lower asset revaluations slightly exceeded by gains attributable to foreign exchange movements.

Net tangible assets per ordinary security (NTA) was -\$2.87 at 31 December 2009, a four cent improvement from -\$2.91 at 30 June 2009.

# Managed Property Portfolio Update

## Properties perform solidly in Australasia and US performance reflects challenging environment

As at 31 December 2009 Centro had 718 properties in its management portfolio.

In Australasia, Centro's portfolio of 118 properties is a well diversified portfolio with a broad range of regional, sub-regional and convenience shopping centres.

In the US, Centro's portfolio largely comprises community shopping centres with an average shopping centre size of 15,256 square metres.

### Snapshot of Managed Property Portfolio for the half year ended 31 December 2009:

Property Portfolio	31 Dec 09	31 Dec 08
Total Property Portfolio Value	A\$18.2bn	A\$25.6bn
Number of Properties	718	756
<b>Australasia</b>		
Number of Properties	118	123
Property Portfolio Value	A\$7.6bn	A\$8.2bn
Comparable Stabilised NOI Growth (6 months)	1.9%	2.5%
Stabilised Occupancy	99.2%	99.2%
Retail Sales Growth (MAT)	4.1%	6.2%
<b>US</b>		
Number of Properties	600	633
Property Portfolio Value	US\$9.6bn	US\$12.1bn
Comparable Stabilised NOI Growth (6 months)	-5.2%	-2.8%
Stabilised Occupancy	88.6%	90.7%

## AUSTRALIAN PROPERTY OVERVIEW

The Australian portfolio has continued to perform solidly. Stabilised Net Operating Income (NOI) growth of almost 2% for the first half of 2010 is at the high end of the range Centro forecast of between 1% and 2% for the full year.

This result can be attributed to growth from annual rent reviews and management of controllable costs.

Occupancy levels have increased to 99.2% since June 2009 and are in line with the levels seen 12 months ago.



**"Our improved occupancy levels can be attributed to having an experienced and fully resourced leasing team which is focused on improving occupancy in all our centres."**

**Mark Wilson – General Manager, Property Operations Australia**

Some external factors beyond Centro's control, such as statutory charges and insurance costs, continued to exert pressure on the NOI, but

we complete approximately 120 new leases per month generating good growth and future increases which is helping offset the impact of rising costs.

Positive statistics to note are our occupancy cost ratio which has remained stable and rental income growth which remains above inflation. These key statistics demonstrate the stability and the quality of the portfolio and the sound underlying fundamentals of the retail property sector.

Centro's strategy for the remainder of FY10 is to continue to build on the solid foundation created in the first half of the year with a continuing focus on further improving occupancy levels and sustaining NOI growth.

## US PROPERTY OVERVIEW

Recent sales trends indicate that consumer spending has stabilised from the historic lows seen in 2009 however we are not anticipating a significant consumer 'rebound' over the near term.

In this difficult climate retailers have repositioned themselves to adjust to lower levels of consumer spending with more disciplined inventory management, promotional activity, and through cost savings.

With retailer margins now more protected, we anticipate fewer store closings and bankruptcies than experienced over the last 18 months and potentially increased store openings.

Demonstrating the leasing power we have derived from our assets and relationships is the strong progress we have made in re-leasing approximately 232,000 square metres of space created in our portfolio by bankruptcies in calendar years 2008 and 2009. So far we have executed or have under negotiation leases for 50% of this space.

Our leasing expertise and effective asset management are helping us recover from the US economic downturn and our commitment in the US to a geographic retail format, and tenant diversification, has mitigated the impact of the downturn.



**"Our objective moving forward is to leverage our established national platform and regional operating systems."**

**Mike Carroll – Centro US CEO**

## Key Highlights since June 2009

- On 5 January Centro announced the appointment of Robert Tsenin as new Group Chief Executive Officer and Managing Director.
- On 24 December we announced the appointment of the advisers who will work with Centro and Centro Retail Trust (CER) to undertake an assessment of a potential restructure to provide the basis of long term strategies.
 

Centro appointed J.P. Morgan Australia Limited and Moelis & Company LLC as co-advisers. Although Centro and CER (which appointed UBS AG as its adviser) each appointed independent advisers, the parties are working on a collaborative basis during the assessment phase.

Whilst we hope to be in a position to provide an update on the assessment phase by mid-year, the process of restoring value is not going to be a rapid one and an actual transaction of any type is not imminent.
- Centro successfully completed the extension and refinancing of \$1.4 billion of debt across its managed funds. This was an important achievement that has improved the debt maturity profile of CER, Centro Australia Wholesale Fund and many Centro MCS syndicates.
 

Centro is already in discussions with our lenders around debt maturities over the coming 12 months, the most significant of which is the US Super LLC debt maturity in December 2010.



# Centro's Australasian Portfolio at a Glance\*

A well diversified portfolio by shopping centre format with a broad spread of regional, sub-regional and convenience shopping centres.

## Centro in Australasia at a glance:

- 118 Properties – 6 regional centres, 48 sub-regional centres, 52 convenience centres and 12 other assets
- Portfolio spans Australia and New Zealand
- Victoria and New South Wales account for the largest proportion of Annual Base Rent (ABR)
- Retail space occupancy rate of 99.2%
- Retail sales growth of 4.1% with supermarkets driving growth
- Top five retailers by Gross Lettable Area (GLA) and ABR:
  1. Woolworths/Safeway
  2. Coles
  3. Kmart
  4. Target
  5. David Jones
- Centro is the largest landlord to the Woolworths and Coles groups

\* Represents the entire portfolio which Centro manages, not owns, as at 31 December 2009.



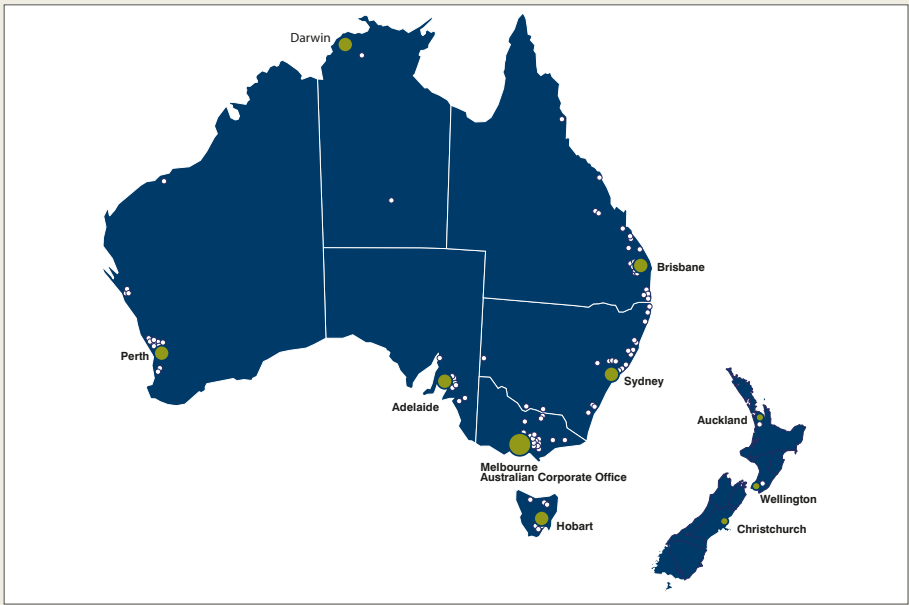
## WHAT IS?

**A regional centre:** According to the Shopping Centre Council of Australia (SCCA): “A regional centre is defined as a major retail facility within one integrated building structure, incorporating at least one major department store as well as a wide range of other facilities.”

**A sub-regional centre:** Sub-regional centres are smaller, built around one or two major discount department stores (DDSs) and one or more supermarkets. Sub-regional centres are usually around 20,000 square metres in size and include specialty shops.

**A convenience centre:** Convenience centres comprise one or more major supermarkets, along with a collection of food and non-food specialty shops and services.

**Want more information? Visit [www.scca.org.au](http://www.scca.org.au)**



“Food, grocery and liquor retailing accounts for 40% of the total retail turnover in Australia and has traditionally been one of the strongest retail categories, particularly in times of the weaker economy. Our non-discretionary based portfolio, which is anchored predominantly by supermarkets and discount department stores, is well positioned to take advantage of this shift.”

**Mark Wilson – General Manager, Property Operations Australia**

# Centro's US Portfolio at a Glance\*

Largely comprised of community shopping centres and an average shopping centre size of 15,250 square metres. One third of the portfolio was redeveloped in 2001 or later.

- 600 Properties includes – 570 community and neighbourhood shopping centres, 2 new developments, 9 malls and lifestyle centres and 19 other assets.
- Approximately 65% of Centro's US portfolio is community shopping centres and approximately 35% is neighbourhood shopping centres
- 352 properties, accounting for approximately 63% of Centro's portfolio GLA, are grocery-anchored; 265 of the 352 grocery-anchored shopping centres have an additional anchor
- Total Portfolio Value of US\$9.6 billion
- Retail space occupancy (stabilised) of 88.6%
- Shopping centre portfolio encompasses 39 states
- The portfolios top five states by ABR are:
  1. Texas
  2. Florida
  3. California
  4. Pennsylvania
  5. New York

These states account for approximately 39% of the nation's Gross Domestic Product

\* Represents the entire portfolio which Centro manages, not owns, as at 31 December 2009.

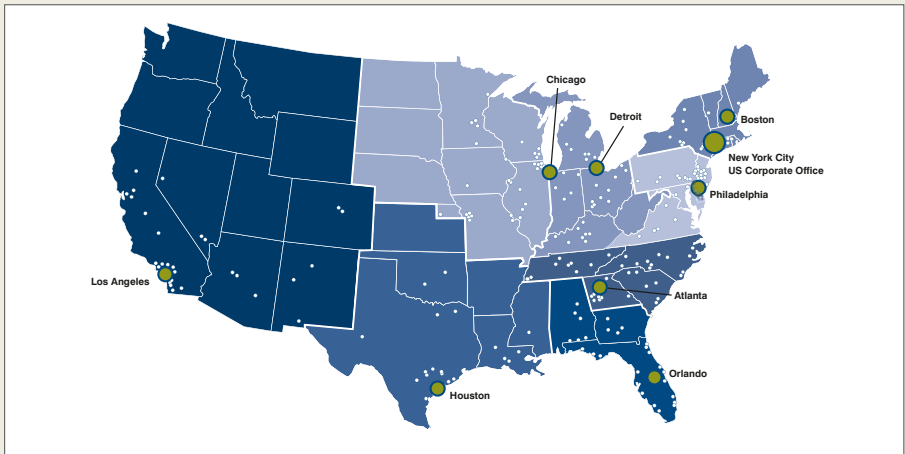


## WHAT IS?

**A neighborhood shopping centre:** According to the International Council of Shopping Centers (ICSC): “Neighborhood shopping centers provide convenience shopping for the day-to-day needs of consumers in the immediate neighborhood. These centers are typically anchored by a grocery and average 30,000 to 150,000 square feet\*.

**A community shopping centre:** Community shopping centers typically offer a wider range of apparel and other soft goods than neighborhood shopping centers do. Among the more common anchors are grocers, super drugstores and discount department stores. These centers average 100,000 to 350,000 square feet\*.

**For more information visit: [www.icsc.org](http://www.icsc.org)  
\*1,000 square feet equals 93 square metres.**



“While leasing expertise and effective asset management are helping us recover from the US economic downturn, it is our commitment to geographic, retail format and tenant diversification that has mitigated the impact.”

**Mike Carroll – Centro US CEO**

# What to expect for the remainder of FY10

**Australasia –** the Australasian retail sector remained resilient during the difficulties of the global financial crisis which is a credit to our quality retailers and their ability to quickly adapt to the changed economic environment. Consumers adjusted their spending habits and are seeking out greater value for money. Loyalty to brands has reduced and discretionary spending remains vulnerable. Overall, with positive economic data indicating signs of recovery, our expectation is that the sector will continue to grow.

**US –** Despite growing confidence in our US platform, operating results for the first half of FY10 reflected the challenges imposed by the recession. Our outlook in the US remains cautious. There is no doubt that the US consumer has changed and is more fiscally conservative than in recent years. The good news is that retailers are adapting and our strategic objective in this evolving retail environment is to maximise the value of our national platform, operating expertise and the fundamental characteristics of our portfolio.



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