

10 July 2006



## Centro US\$3.2 Billion Asset Acquisition and A\$2.4 Billion Wholesale Fund Spin-Off

Centro Properties Group ("Centro") today announced:

- **Acquisition of US\$3.2 Billion Heritage REIT** – It had entered into an agreement to acquire Heritage Property Investment Trust ("Heritage"), a US listed, retail property real estate investment trust, for US\$36.15 cash per share (total equity investment of US\$1.83 billion). Heritage comprises 157 neighbourhood and community shopping centres across 27 states with a value of US\$3.2 billion or A\$4.3 billion at an average acquisition yield of 7.41%;
- **A\$2.4 Billion Centro Wholesale Fund Creation and Spin-Off to Centro Securityholders** – Subject to completion of the Heritage acquisition, Centro will spin-off to its securityholders a new Centro Wholesale Fund. The Fund will comprise 33 high quality Australian shopping centre interests currently owned by Centro. Centro securityholders not wishing or able to invest in the Fund will be offered 75 cents in cash per Centro security;
- **New Centro International Unlisted Funds/Syndicates** – Stabilised core assets from the Heritage retail property portfolio will provide a pipeline for Centro's unlisted funds through the creation of two or more new Centro MCS syndicates with assets of A\$2.5 billion and a new Centro International Wholesale Fund with assets of A\$1.1 billion; and
- **Increased Centro Distribution Forecast** – As a consequence of the acquisition and creation of new managed fund opportunities, Centro's distributions per security from FY07 are forecast to increase by 0.75 cents. This forecast increase is after allowing for the impact of the Centro Wholesale Fund spin-off to securityholders.

Mr Brian Healey, Chairman of Centro said "The Heritage acquisition is another landmark transaction for Centro. It provides quality and appropriate assets to grow Centro's co-invested funds under management and significantly enhances the geographic and asset spread of Centro's managed property portfolio. With the non-discretionary expenditure focused retail property portfolio which is 64% supermarket anchored, the Heritage portfolio provides a unique growth opportunity for Centro to utilise and expand its funds management platform for its investors".

"Our experienced US and Australian management teams have inspected the Heritage properties, and completed comprehensive due diligence to allow this investment. The transaction is being undertaken through our US Centro Watt joint venture, which has successfully utilised its fully integrated national management platform to source and complete this transaction. The opportunity to acquire another large US listed retail property REIT demonstrates the ability of the Centro Watt team to identify and provide Centro and its managed funds with access to quality, retail property assets", Mr Healey added.

Following the acquisition, Centro Watt will be the ninth largest owner/manager of retail property in the United States with owned/managed retail property of 4.5 million square metres (49 million square feet).

In conjunction with the acquisition of these new assets, Centro is also pleased to announce new managed funds which will further invest in Centro's current directly owned Australian properties as well as the new stabilised Heritage property portfolio.

### **Centro Wholesale Fund Spin-Off**

Mr Andrew Scott, Centro Chief Executive Officer, said, "The spin-off of a new A\$2.4 billion Centro Wholesale Fund made up of diversified interests in 33 quality Australian Centro shopping centres, including Centro Bankstown (Sydney), Centro The Glen (Melbourne), Centro Galleria (Perth) and Centro Colonnades (Adelaide), is a significant event for Centro. The establishment of the Centro Wholesale Fund feeds the continuing strong appetite from investors for quality direct retail property investments, that the sustained high inflows to our managed funds and syndicates, as well as the successful spin-off of Centro Retail Trust last year has confirmed."

"Importantly, today's announcements demonstrate the strength and sustainability of Centro's cemented co-investment business model with the simultaneous acquisition and distribution of retail assets into Centro's co-owned and managed funds. In particular, the growth in Centro's funds under management to A\$15.7 billion will result in further solid diversification and increased certainty of both Centro's property investment and services business income streams," said Mr Scott.

"We are very confident of the completion of the Heritage acquisition, which is following the same processes as our previous Kramont purchase. Subject to this, we are pleased to announce a 2% (or 0.75 cent) upgrade in forecast Centro distributions per security or DPS from the 2007 financial year and onwards. In addition, Centro investors will receive a spin-off distribution valued at 75 cents per Centro security and securityholders will be given the option to receive the distribution in several ways including units in the Centro Wholesale Fund or cash. We believe that this will continue Centro's track record of efficient balance sheet management and strong total returns to investors", Mr Scott added.

The Centro Wholesale Fund portfolio of high quality Australian centres which average an initial yield of 6.2%, will provide the Centro Direct Property Fund ("DPF") with the opportunity to access a high quality, largely regional shopping centres, Australian property portfolio. Centro will retain a significant interest in the Centro Wholesale Fund through both its direct ownership, and its interest through the DPF, which is expected to own 50% of the new Centro Wholesale Fund.

### **New Centro MCS Syndicates and Fund Formation Opportunity**

Centro expects to launch two or more new international syndicates with assets totalling A\$2.5 billion from the newly acquired Heritage portfolio. These properties are stable, convenience-based shopping centres, with many anchored by well known supermarket chains. Centro's managed funds, the Centro Direct Property Fund International ("DPFI") and Centro Retail Trust ("CER"), will hold interests in the syndicates and Centro's initial direct interest will be sold down to retail investors.

"Following the successful sell down of Centro MCS 36, a A\$400 million syndicate of US properties, ahead of schedule, strong inflows for Centro MCS 37 and significant support for the recently announced Centro MCS 38, the Heritage assets replenish Centro's pipeline of international syndicates for sale through its established and diversified distribution channels over the next 18 months," added Mr Scott.

From the newly acquired Heritage portfolio, an A\$1.1 billion Centro International Wholesale Fund (“CIWF”) will also be created. The CIWF will provide the opportunity for direct investment in quality international convenience shopping centres for the DPFI. Centro will hold the other 50% direct interest in the CIWF and this will be sold down to investors or used as consideration to acquire other assets over coming years.

### Key Centro Impacts

The key Centro financial impacts from the above transactions are:

- **Centro DPS Upgrade by 2% or 0.75 cent per Centro security from FY07 onwards;**
- **Increase in Centro’s Funds Under Management to A\$15.7 billion** – After acquisition, Centro will have 385 centres under management with 51% of FUM in Australasia and 49% in the United States;
- **Centro Prudent Gearing Continues:**
  - Centro’s “book gearing” will increase to approximately 39%, and reduces to below 30% after external sell down of assets and fund inflows;
  - “Lenders’ look through gearing” will increase to approximately 45% at the top end of the preferred 35 % to 45% Centro range, and then decrease to approximately 34% after external sell down of assets and fund inflows; and
  - Both ratios remain within Centro’s preferred gearing ranges;
- **Services Business EBIT Contribution** – This is expected to increase to 32% for FY07; and
- **International Balance Sheet Exposure** – This is expected to increase from approximately 10% at June 2006 to approximately 25% by June 2007. Given investor support and Centro’s growth, the 20% maximum target for international assets will no longer be targeted.

Mr Scott said, “Crucially, this acquisition has been achieved without the need to raise new Centro equity while also maintaining Centro’s lender look-through gearing within the preferred range of 35-45%, and allowing a significant increase in Centro’s interest cover ratio. We are pleased with the strong support that our relationship financial institutions have shown to enable Centro to undertake this transaction.”

Funding of the Heritage acquisition will be provided by a combination of committed, secured bridging facilities from JPMorgan, to be refinanced in the medium term through US Commercial Mortgage Backed Securities funding, as well as bridging facilities from Centro’s Australian relationship banks. Interest rate hedges and interest rate differential hedges will also be instigated as part of Centro’s prudent financial risk management. JPMorgan advised Centro on the Heritage acquisition and Centro Wholesale Fund spin-off.

Mr Scott said, “Centro Watt’s fully integrated national platform is well placed to manage the diverse style and geographic mix of its expanded US retail property 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 well positioned to continue adding value and management capabilities to its significantly expanded property portfolio and hopes to achieve a high retention rate of Heritage staff, as successfully accomplished following the MCS and Kramont acquisitions.”

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**About Centro Properties Group (ASX: CNP)**

Centro Properties Group specialises in the ownership, management and development of shopping centres. Centro has a market capitalisation of \$5.4 billion and funds under management of over A\$15.7 billion, comprised of retail property holdings in Australasia and the United States.

Centro continues to maximise returns to investors through its customer focused and value adding team based approach. Please visit [www.centro.com.au](http://www.centro.com.au)