Responsible Entity
CPT Manager Limited
ABN 37 054 494 307

Centro™
Properties Group

Centro Properties Limited
ABN 45 078 590 682
Centro Property Trust
ARSN 091 043 793

6 May 2011

Companies Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
Sydney NSW 2000

Dear Sir

Chief Executive Officer Speech

Please find enclosed a speech by Robert Tsenin, Centro Properties Group Chief Executive Officer being delivered at an American Chamber of Commerce Business Briefing in Melbourne today.

Yours faithfully

Elizabeth Hourigan
Company Secretary

Responsible Entity
CPT Manager Limited
ABN 37 054 494 307

Centro Properties Group

Centro Properties Limited
ABN 45 078 590 682
Centro Property Trust
ARSN 091 043 793

Robert Tsenin
Chief Executive Officer – Centro Properties Group
Speech to American Chamber of Commerce Business Briefing
Friday 6 May 2011

I'm finishing a book written by a English historian and political commentator – Tony Judt – who unfortunately recently passed away from Lou Gehrig's disease. It's a book of recollections ranging from the bus he used to take to school to weightier topics such as his days as a Zionist radical. He tells an anecdote. As a student revolutionary in Cambridge he was protesting, but in a very genteel British way, against the Vietnam War. On the way back from the protest he happened to be walking next to a policeman who had been on duty at the protest, so Judt asked the policeman how he thought the demonstration went. The policeman replied, "Oh, I think it went quite well, Sir". Were I to ask the question: "How is the Centro restructuring progressing?" of the stakeholders in the Centro Group I have no doubt that many would recommend I be water-boarded! I think there are some in this room who might volunteer to do it! That actually heartens me – apart from demonstrating the relative passions generated by the Vietnam War and Centro restructuring, it probably also implies that as everyone seems unhappy, we might just be on the right path!

I have been asked to give an outline of the restructuring that Centro is undertaking. This will be difficult in a 20 minute talk as I suspect business case studies will be written about Centro.

I should say that when I talk of Centro, I mean Centro Properties Group as distinguished from its other listed managed fund Centro Retail Trust and Centro's unlisted managed funds.

Before sharing with you some of Centro's experiences on the journey to what we hope will be a successful restructuring, let me give you some background on Centro. We are a retail property specialist whose business comprises three core functions:

- Property management, also including leasing and development;
- Funds management, which involves Centro acting as the investment manager for over 40 funds which own shopping centres.
- Investment activities, which predominantly involve Centro not actually owning properties itself, but having equity investments in a number of funds that it manages.

In terms of its scale, based on gross area of floor space, Centro is currently the second largest retail property manager in Australia and, as I'll discuss shortly, we have just entered into a binding agreement to sell our US assets and services business, where we are the third largest shopping centre manager in the US, for US$9.4 billion.

The Centro business model was to acquire the assets at the corporate level, then sell them down into funds by attracting third party capital, while Centro retained control of property management and investment management. This "bridging" model was successful while asset prices kept rising and there was continued availability of relatively cheap capital, both debt and equity. Indeed, over a number of years, investors in Centro had done extremely well. At its peak in 2007, Centro managed about $27 billion of retail centre assets, had a market capitalisation of over $8 billion and Centro Retail Trust, another ASX listed fund which Centro manages, had a market capitalisation of around $3.5 billion. Today, those market capitalisations are around $50 million and $800 million respectively.

The Centro financial collapse is reasonably easy to understand. It occurred for a number of reasons – Centro was over-levered, it had acquired highly priced assets in the US, its New Plan acquisition in 2007 was financed with what turned out to be short term debt, it evolved over time into an extraordinarily complex corporate structure and finally a "Black Swan" event arrived in the form of the GFC. Not only did asset values fall, but Centro was left with illiquid assets and insufficient cash flow or ability to secure long term refinancing for $2.7 billion of maturing debt given the constrained lending environment during the GFC.

The rest is history. Centro entered into a Stabilisation Agreement with its Senior Lenders in January 2009. The Senior Lenders agreed to a two year standstill on the US debt, and a three year Standstill on the Australian debt subject to onerous, though understandable, conditions given the circumstances of Centro.

I took the position of CEO on March 1, 2010. At December 2009 Centro had $1.6 billion of negative equity and A$4.8 billion of debt maturing by December 2010. The key reason that Centro is able to continue as a "going concern" is because its Senior Lenders and Centro believe there is a reasonable basis that a consensual outcome can be negotiated whereby some form of debt restructuring can be agreed, including debt compromise or conversion of debt to equity. This was and remains a critical assumption underpinning Centro's "going concern" as there is no practical possibility, given the negative equity, that Centro can meet looming debt maturities from its own resources.

From the start of 2010 Centro embarked on reviewing all strategic and financing options with the aim of recovering as much value for our stakeholders as possible. I use the term stakeholder broadly to include Senior Lenders ($3.1 billion), Hybrid Note Holders ($1 billion), Convertible Bondholders (which formerly held Exchangeable Notes) (US$444 million), ordinary securityholders and other external investors in Centro-managed funds and creditors. From the start we were in intense negotiations with our Senior Lenders as Centro was, and remains, dependent on obtaining their approval before a restructure and any other material transaction or transactions could proceed.

In July 2010 we were successful in extending US$2.7 billion of debt from December 2010 to December 2011, bringing it in line with Centro's maturing Senior Debt. This bought us valuable time to continue to explore restructuring options.

In November 2010 we announced to the market that we would embark on a competitive process and see what offers we would receive for our assets both in Australia and the US. We did, however, stress that concurrently with that process we would continue to review all other options.

It is worthwhile to return to an earlier comment I made about the overly complex corporate structure of the Centro Group which has also proven to be a major constraint to an effective restructuring of the Group.

In the majority of cases, the 40 Centro managed funds don't own assets 100% outright. In many cases funds also have equity investments in each other. There was also unsecured debt (and subsequently secured debt) borrowed at the corporate level of Centro, essentially borrowed against the intangible value of its Services Business and the equity investments Centro holds in its funds. All these funds have directly, or indirectly, external investors.

This corporate structure can make decision making difficult since effectively the external equity in the 40 managed funds in the Group accounts for over 50% of total equity. Centro has a fiduciary obligation to act in the best interests of these investors. This requires a very rigorous and transparent governance process. In 2009 we made significant progress in this area with the separation of the Centro and Centro Retail Trust Boards. The appointment of a majority of non-Centro directors to the Centro Retail Trust Board, including the Chairman, was a significant step that has facilitated the restructuring path. I will further illustrate how we applied rigorous governance processes in the context of the Centro Group selling the US assets.

Coming back to the competitive process – we received attractive offers for our Australian and US assets. After rigorous evaluation with our advisors and the Senior Lenders (whose approval was required for any material transaction) we accepted the offer from Blackstone and entered into a binding agreement on February 28 of this year for the sale of our US assets.

We were able to proceed with this agreement to sell and, critically, meet Centro's fiduciary obligations because each of the REs representing the funds with an interest in the US assets – Centro, Centro Retail Trust, and six separate Syndicates – having conducted due inquiry, considered the sale terms to be in the best interests of their respective investors. The reasons varied according to the specific circumstances of each of the funds but included the need for liquidity, opportunity to combine part interests in assets into 100% ownership and thereby maximise and unlock value which otherwise was not possible, meet refinancing needs and address concerns over value diminution in our US assets since the US business had been capital constrained for three years and assets needed capital to survive in a competitive environment. Each fund undertook a thorough due diligence committee process. All committees had different chairpersons and management teams. The rigour and commitment of our directors and management to evaluating the transaction gave us comfort that we were indeed acting in the best interests of the investors of each fund.

I should add that Centro had considered other alternatives including retaining the US and Australian assets and recapitalising them. This we, and our advisors, ultimately did not believe was feasible for a number of reasons including the sheer size of the new capital required. To illustrate the latter point – to recapitalise the Centro Group across both Australia and the US in line with its peers' gearing ratios of say 30-40% in Australia and around 50% in the US, and using December 2010 valuations, would have required new capital in the order of $4 billion. This was not feasible.

Similarly, we could not see how our US business could be recapitalised given the Group's capital position. The US assets, like the Australian assets, have been starved of capital since the crisis. Gearing, prior to the sale of the US business, was around 85% in the US. To properly recapitalise Centro Group's US assets in line with peers' gearing would have required around $3 billion which clearly Centro Group did not have access to. We were convinced that following intense marketing of our assets in the US by the Group's three investment banking advisors and negotiations with potential bidders, that we had a compelling offer from Blackstone – effectively only a 1% discount to December 2010 book values. At US$9.4 billion, this was one of the largest transactions globally in the past five years. All our advisors representing the different funds concurred that it was in the interest of the Owners to sell to Blackstone and that the timing of the sale was opportune, particularly given the time pressures around upcoming debt maturities.

The sale of the US assets will, on completion, allow the Australian business to be recapitalised with approximately US$1.4 billion in capital returned to Australia. However, to be clear, because of the co-ownership structure discussed above, only about $600 million will be repatriated to Centro both directly and indirectly from its investments in managed funds and will be used to repay headstock debt. The remaining $700 million will be returned to Centro Retail Trust and the external investors in other Centro Managed Funds.

The restructuring of Centro Group's Australia business is the next step in the overall restructuring process. We currently own or manage 103 shopping centres in Australia which at 31 December 2010 were valued at $7.2 billion. I believe we have a strong portfolio of retail centres and a demonstrably strong management team, one that has continued to extract strong results even in what has been a very difficult period for Centro. Australia's portfolio is positioned in an extremely strong convenience and food asset class resulting in excellent operational performance. An occupancy level of 99.5% has ensured an increase in net operating income exceeding 4% for the current year. This combined with being Australia's largest landlord to Coles and Woolworths provides for a sound operational platform moving forward.

As mentioned earlier, all the underlying assets in Australia are held in co-ownership vehicles with Centro's ownership stake in these vehicles varying from small minority interests to over 50% interests. Operationally this is challenging to manage since the objectives and financial resources of the investors can vary. For that reason we believe it's in the interests of our investors to simplify the Centro structure by consolidating the entities and assets into one listed vehicle with relevant investors receiving a share in the new amalgamated listed entity in proportion to the net assets the investor contributes into this listed vehicle. In our recent public announcements we have referred to this discussion as "Amalgamation". I strongly believe that on the broad principles being discussed, Amalgamation is in the best interests of both Centro and its Managed Funds.

In order to deal with the upcoming maturity of its Senior Debt, on 1 March this year, Centro also announced it has agreed with holders of approximately 73% of its senior debt to progress a creditors scheme of arrangement to effect the cancellation of all Centro's Senior Debt in consideration for substantially all Centro's Australian assets. We spent a very long weekend holed up in the offices of Freehills, our legal advisers, in late February to agree this deal between all the funds and our Senior Lenders. One of the highlights for me was the opportunity to share a McDonald's meal with my fellow directors at about midnight on a Sunday.

I would like to acknowledge the Senior Lenders and their advisors for the constructive manner in which they have considered, with the Group, alternative restructuring options. Our Senior Debt is now majority owned by offshore hedge funds, a fairly recent phenomenon. Whilst they have bought Centro's debt at significant discounts to face, they recognise and appreciate the value that can be created through the Amalgamation strategy. My personal view is that their faith in "Amalgamation" will be vindicated.

The details of this arrangement have yet to be fully worked out. As with the sale of the US assets we have maintained strict governance protocols to progress the Amalgamation process. The “Owners" contributing assets into the listed vehicle are represented by their respective fund managers, legal and investment banking advisors and any decision will need to be in the best interests of the funds

There is one important difference between the funds and Centro. The Centro managed funds have positive net equity. As I mentioned earlier Centro has negative net equity. At December 2010 Centro reported negative net equity of $1.6 billion. In a liquidation it's highly unlikely to see recovery of any value to anybody other than the secured Senior Lenders since the face value of the senior loans and the hybrid amounts to $4.1 billion.

However, in conjunction with the sale of the US business, Centro reached agreement with the Senior Lenders that, subject to certain conditions and provided the relevant stakeholders who are junior to the Senior Lenders vote in favour of the proposal, then $100 million would be made available to the junior stakeholders in return for the Senior Lenders cancelling all of the Senior Debt and receiving all of Centro’s interest in the new amalgamated listed entity.

Whilst Centro would have liked to have achieved a higher amount to be made available for our ordinary securityholders and other stakeholders junior to the Senior Lenders, the reality is that given the significant negative equity and December 2011 Senior Debt maturity at the Centro level, the $100m we believe is the best outcome that could be achieved.

So in conclusion, I believe we've come a fair distance in the reconstruction of the Centro Group but the next 3-6 months will determine how successful we will ultimately be.

Whilst I may have started my talk somewhat flippantly that many of the parties to the Centro restructuring might want to “water-board” me, I think that ultimately we will reach an equitable outcome. This is arguably one of the most complex corporate restructurings in Australian corporate history and given the quantum of money and the number of different stakeholders involved across the entire Centro Group, a lot is at stake. This is why we have had to tread very carefully and ensure that the interests of all parties are treated as equitably as possible.

Thank you.