Cromwell
PROPERTY GROUP

CROMWELL DELIVERS ON EARNINGS, ACHIEVES VALUATION UPLIFT

HIGHLIGHTS

- Statutory accounting profit of $88.1 million or 9.6 cps
- Operating earnings of $65.3 million or 7.1 cps, distributions of 7.0 cps
- Net increase in property valuations of 2.5%, NTA per security increased to $0.73
- Debt secured until July 2013
- Agreement signed to expand Qantas Global Headquarters and increase lease term[1]
- FY12 operating earnings guidance of 7.3 cps, distributions of 7.0 cps

Cromwell Property Group (ASX: CMW) has delivered another strong result in FY11, underpinned by the Group's A-grade office portfolio, including solid returns from recent acquisitions.

CEO Paul Weightman said FY11 had been a year of consolidation as the Group continued to improve the quality of its investment property portfolio by acquiring premium assets and selling smaller non-core properties.

"During the year we have maintained our strategy of enhancing our property portfolio, by acquiring further assets with long lease profiles and improving existing assets through development and refurbishment, and that has delivered above average valuation increases," Mr Weightman said.

"The reward for this hard work can be seen in our exceptional leasing profile. We have over 99% occupancy, an average of just 6.5% leasing expiry in each of the next four financial years and one of the longest weighted-average lease terms in the A-REIT sector at 6.8 years[2]. The Group now remains well positioned, with 90% of the portfolio consisting of office properties, which are expected to outperform other sectors in the next 12 months."

"Despite a continuing volatile economic environment, Cromwell continues to deliver returns above the A-REIT sector average whilst pursuing a low risk strategy. The Group remains well placed to grow earnings and asset values in FY12 and beyond," Mr Weightman said.

FY11 Earnings

Cromwell reported a statutory accounting profit of $88.1 million or 9.6 cents per security, including the impact of positive property revaluations in the second half-year.

Full year operating earnings of $65.3 million or 7.1 cents per security, were derived entirely through recurring income from the Group's portfolio of investment properties. The result was

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[1] Agreement is subject to certain conditions including finalisation of scope and construction contract for capital works.
[2] Based on current valuation for Qantas. Pro forma WALT on completion of works would be 7.4 years.

impacted by higher vacancy rates for part of the year and higher interest rates. However, the result is still a return on equity of approximately 10% for FY11, higher than the sector average.

Property Portfolio and NTA per security

Cromwell obtained independent revaluations on nine assets during the second half-year, equivalent to 55% of the portfolio by value, which contributed to a positive fair value adjustment of $33.7 million for the year. The portfolio showed a net increase in value of 2.5% during the year, the first increase since 2008. This provides further evidence of a return to valuation growth for quality assets.

The Group's NTA per security at 30 June 2011 was 73 cents, a 4.3% increase since 31 December 2010, driven by the increases in valuations during the second half. Gearing was 49% at June 2011, down from 53% at the half-year[3].

During the year, Cromwell continued the improvement in its portfolio through the acquisition of 321 Exhibition Street, Melbourne for approximately $90 million, the remaining one third of the TGA Complex in Canberra for approximately $25 million and the Qantas Global Headquarters, adjacent to Sydney airport, for approximately $145 million.

In line with its strategy to divest smaller non-core assets, the Group sold an industrial asset in Perth for $8.6 million, the Village Cinema Centre, Hobart for $15.9 million and the Scrivener Building in Canberra for $9.5 million.

The Group also achieved significant leasing success during the year, reaching agreement with Origin Energy to commit to 100 per cent of the office space at 321 Exhibition Street, retaining anchor tenant Reed Elsevier at the 475-501 Victoria Avenue office complex in Chatswood, Sydney and leasing the Hoppers Crossing distribution centre in Melbourne to the Woolworths/Lowes hardware joint venture.

Qantas Expansion and Lease Extension

Since acquisition of the Qantas Global Headquarters in August 2010, Cromwell has agreed terms with Qantas for an extension of the lease expiry date from December 2020 to December 2032 and for an expansion and refurbishment of the complex, which will take place progressively over the next two and a half years. The agreement is subject to certain conditions which are expected to be satisfied in coming weeks, including finalisation of a construction contract for capital works.

The transformation project will enhance the complex through increased net lettable area and extensive refurbishment and construction. When complete, the works will create a new campus, linking the existing offices by an atrium providing a covered street scape which will also include meeting areas and break out spaces. Upgrades will be completed to the buildings' services along with contributions to a new enhanced fit out providing contemporary new workspaces to encourage and support cultural change and more flexible working styles.

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[3] Gearing calculated as (total borrowings less cash) divided by (total tangible assets less cash)

The all up cost will be capped at approximately $131 million, of which $26 million was previously committed under the existing lease. The spend will result in increased rent of $9.4 million being payable in the first full year after completion, equivalent to a 9%[4] return on cost (excluding the $26 million previously committed).

The expansion is expected to commence in September 2011 and be completed by December 2013. The new rent will escalate on a monthly basis during the construction period, as project costs are paid. Cromwell has received credit endorsed terms from a major Australian bank to fund 100% of the expansion cost and expects to finalise a facility prior to the remaining conditions under the agreement with Qantas being satisfied.

The project will deliver a world class campus-style facility for Qantas. Importantly, the expanded and refurbished facility will enable a consolidation of Qantas' seven separate corporate buildings, allowing employees to benefit from one connected campus. Moving between buildings will be easier, safer and more pleasant.

On completion, targeted for December 2013, the property is expected to achieve an increased valuation of $305 million, assuming a capitalisation rate of 7.25%, and will represent approximately 20% of the Group's portfolio.

Funds Management

During FY11 Cromwell's funds management business made a small positive contribution to the Group's profitability, with no new transactions during the year. Cromwell's funds management focus will remain on simple property products underpinned by assets with stable, long-term cash flows.

Cromwell retains the capability, experience and platform to continue to grow its funds management business organically through the acquisition and syndication of individual properties and innovative products such as the Cromwell Phoenix Property Securities Fund, which generate recurring fee income.

Cromwell has also not ruled out further growth by acquisition. The Group continues to look for complementary funds management businesses, but will only proceed with an opportunity if confident a transaction will benefit Cromwell securityholders.

Capital Management

Cromwell enjoys a strong debt profile with the refinance of all FY11 and FY12 maturities completed during the second half. The Group had a weighted average debt maturity of 2.9 years[5] at June 2011, with no maturities until July 2013

During the period Cromwell also issued approximately $111 million in equity by way of placements and a rights issue, providing funding for its property acquisitions and the refurbishment of Exhibition Street.

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4 Includes minimum rental increases throughout construction.
5 Excludes impact of expanded Qantas Global Headquarters facility

The Group will continue to pursue a prudent approach to capital management, recycling existing capital into better quality properties and raising new capital only where it can do so at a price which the Group believes reflects the underlying value of its assets.

Strategy and Outlook

The Group's focus will remain on managing a portfolio of Australian assets with long lease profiles and quality tenants, with a goal of continuing to deliver superior risk adjusted returns over the long term.

Cromwell expects to deliver operating earnings of 7.3cps in FY12. This would represent earnings growth of 3% over FY11. This will be underpinned by continued strong underlying property earnings, and excludes any contribution from new funds or other transactions. The Guidance includes the impact of the reversion to higher debt facility margins for the full year as a result of the refinances during the second half. Interest costs are now largely hedged for the next 3 years.

At this time, distributions per security will be retained at the higher of 7.0 cps per annum and 90% of operating earnings and will continue to be paid quarterly.

Cromwell is well placed to deliver solid growth in earnings and asset values beyond FY12 through structured increases in property rentals, minimal lease expiries over the next 4 years and the potential for organic growth in its funds management business. Cromwell also remains alert to any potential acquisition opportunities.

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