

CROMWELL PORTFOLIO UNDERPINS STRONG FIRST HALF

1H12 HIGHLIGHTS

- Operating earnings of \$37.0 million (3.8 cps), up 13%
- Statutory accounting loss of \$6.8 million (0.7 cps) impacted by fair value of interest rate swaps
- Earnings from property investments of \$37.5 million, up 15%
- Acquired HQ North Tower, Brisbane for \$186 million
- Agreed terms to re-acquire Bundall Corporate Centre, Gold Coast for \$63.4 million
- Successful completion of a 2 year capital raising programme places the Group in a position to drive earnings and NTA growth from capital recycling opportunities and funds management activities
- Commenced \$49 million equity raising for unlisted Ipswich City Heart Trust
- Launch of Cromwell Real Estate Partners, targeting wholesale opportunity fund investors
- Maintain guidance for FY12 operating earnings of 7.3 cps and distributions of 7.0 cps

Cromwell Property Group (ASX: CMW) has today reported a 13% increase in first half operating earnings to \$37.0 million, underpinned by the continuing strong performance of the Group's office property portfolio.

The statutory accounting result was negatively impacted by a non-cash adjustment to the fair value of interest rate swaps of \$27.5 million and the write-off of transaction costs of \$10.4 million following the acquisition of HQ North. These adjustments contributed to a loss of \$6.8 million (0.7 cps), compared to a profit in the same period last year of \$28.9 million.

The strength of the Group's operating earnings of 3.8 cps underpinned the payment of first half distributions totalling 3.5 cps.

Cromwell Chief Executive Officer Paul Weightman said the first half result reinforced the value of the Group's commitment to building a portfolio of defensive, high quality office assets.

"During the first half we continued to improve the portfolio with the addition of the HQ North and Bundall Corporate Centre properties in Queensland while enhancing the value of existing assets through the completion of initiatives including the extension of lease and major refurbishment and expansion of the Qantas building," he said.

"The strong increase in earnings from the underlying portfolio has again reinforced the value of our asset enhancement strategy and the importance of focussing on properties which provide superior risk adjusted returns over the long term."

Mr Weightman said that Cromwell would continue to build on its record of market outperformance by focussing on assets that offer the potential for superior returns through active management.

"The value of our strategy is evidenced by an exceptional leasing profile," he said. "Our Weighted Average Lease Term (WALT) of 6.3 years and average of only 6.2% lease expiry for FY12 and the next three financial years underpins the reliability of income from the portfolio and is among the best in the sector."

PORTFOLIO UPDATE

Significant enhancements to Cromwell's property portfolio during the first half included:

- Acquisition of North HQ, Fortitude Valley, Brisbane for \$186 million
- Agreed terms to re-acquire Bundall Corporate Centre, Gold Coast for \$63.4 million
- Executed documents to expand Qantas Global Headquarters and extend lease to 2032
- Continued upgrading of portfolio quality in terms of WALT, asset quality and income security

Mr Weightman said the acquisition of Bundall Corporate Centre was a prime example of the Group's ability to identify and acquire high quality assets with potential for growth.

It is the second time Cromwell has owned the Centre after having previously sold it for \$107 million in October 2007, having initially acquired it for \$52.9 million in 2005.

"Since selling the property in 2007 an additional 8,000 sqm office building has been built on the site and it now supports a passing income of \$7.4 million, equivalent to a yield of 11.5% on the purchase price," he said.

"We will continue to focus on portfolio optimisation. However, that focus will now shift from growing the size of the property portfolio to maintaining a balance of sales and acquisitions which further improve portfolio quality and future returns."

FUNDS MANAGEMENT

Cromwell currently manages four unlisted funds and has approximately \$530 million in external assets under management. To date the business has raised more than \$900 million, of which the majority was absorbed by the Group as part of its FY07 stapling.

"Cromwell expect to be able to organically grow revenues and earnings from funds management substantially in coming years, and this is now the primary short term focus," Mr Weightman said.

In December, Cromwell launched a \$49 million equity raising for the new Cromwell Ipswich City Heart Trust (ICH) which owns the land and will fund construction of the \$93 million¹ Ipswich City Heart building in Ipswich, Queensland. The Trust is a 7-year single property syndicate which will commence distributions at 7.75% pa paid monthly and forecast to increase to 8.00% pa from July 2013 and 8.25% from July 2014². The Trust's income is underpinned by a pre-commitment from the Queensland Government for a 15 year lease over 91% of the buildings net lettable area.

Transactional fees from the ICH raising will be largely realised in FY13 as the underlying building is constructed, and are an example of how the business provides a significant opportunity for future growth.

"We will continue to seek out properties which provide investors with the opportunity to invest in simple, transparent, yield-based products," Mr Weightman said. "With a distribution network of more than 14,000 retail investors and relationships with thousands of financial planners, we believe we can continue to grow the business well into the future."

Cromwell today also announced a move into wholesale funds management with the launch of Cromwell Real Estate Partners. The new venture will operate from Cromwell's expanded Sydney office. The business is a partnership between Cromwell and a team of 5 experienced professionals led by Steven Papadopoulos and Robert Percy.

Cromwell Real Estate Partners will concentrate on delivering superior risk weighted returns to wholesale investors through opportunistic real estate investment. There is now growing demand from many of the more astute wholesale investors for some exposure to higher return property investments, if risk is managed by partners with a strong track record of risk management and project delivery.

"We are excited by the number of property opportunities in the market at the moment," Mr Weightman said. "With core assets having stabilised in value, we are now seeing a significant increase in the number of core plus property deals available, some of which we believe represent extraordinary value and we expect this to continue on for some time."

Cromwell expects Cromwell Real Estate Partners to receive support from its established capital partners and investors. Whilst Cromwell will continue to focus its investment strategies on core office assets, it intends to co-invest in Opportunity Funds promoted by the new venture.

CAPITAL MANAGEMENT

The Group has no material debt maturities until June 2013 and a weighted average debt maturity of 2.5 years. Pro-forma gearing as at 31 December 2011, was 50%³, up slightly from 49% at 30 June 2011, with debt diversified across a syndicated facility and six bilateral facilities.

During the first half the Group raised a total of \$99 million in equity (at 68 cents per security) to acquire quality assets for medium term accretive growth. A further \$35 million was raised on the same terms in February 2012.

The closure of these raisings mark the successful completion of a 2 year capital raising programme under which \$318 million has been raised at, or close to, NTA. This capital has been applied in the acquisition of quality assets valued at \$823 million at the bottom of the cycle, capital works and improvements of \$210 million and in providing working capital for the Group's funds management business.

Cromwell remains one of the few A-REITs not to undertake a heavily discounted equity raising since the onset of the financial crisis. This, along with the superior performance of the underlying property portfolio has contributed significantly to outperformance of the key S&P/ASX 300 A-REIT Accumulation Index. Cromwell has outperformed the index by 13.2% and 15.0% per annum over 3 and 5 years respectively.

"Whilst our peers were forced to raise dilutive capital to fix the mistakes of the past, Cromwell has successfully raised capital over an extended period on average at NTA to fund portfolio improvement and future growth" said Mr Weightman "The success of the programme and the application to the funds have placed us in a position where we can deliver future growth in earnings and NTA without having to come back to the market for further capital and without having to sacrifice short term earnings.

OUTLOOK

The Group's forward 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 has retained its full year FY12 guidance of operating earnings of 7.3 cps and distributions per security of 7.0 cps. Given the strength of the property portfolio and potential for future growth in funds management earnings, the Group is also excited about the ability to continue to grow operating earnings and distributions in coming years.

ENDS.

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1] Based on "as if complete" valuation by M3property (Qld) Pty Ltd

2] Distributions and capital growth are not guaranteed. Subject to risks and assumptions in the PDS for the Cromwell Ipswich City Heart Trust

3] Calculated as (total borrowings less cash)/(total assets less cash) and adjusted for the impact of the Bundall Corporate Centre acquisition and additional equity raised since balance date