

CROMWELL OUTPERFORMS WITH FULL YEAR OPERATING EARNINGS

- Operating earnings up 23% to a record \$80.01 million (7.5 cps)
- Statutory accounting net profit of \$23.1 million (2.2 cps) impacted by interest rate swap re-valuations and the HQ North and Bundall Corporate Centre acquisition costs
- Acquisitions totalling \$249.5 million increased value of portfolio to \$1.72 billion with NTA of \$0.67 per security
- Full year distributions of 7.0 cps
- Offer to acquire all the units in unlisted Cromwell Property Fund (CPF) subject to CPF unitholder approval and other conditions
- Forecast FY13 operating earnings of minimum 7.5 cps and distributions of 7.25 cps

Cromwell Property Group (ASX: CMW) has today reported a 23% increase in operating earnings to a record \$80.01 million with the Group's \$1.72 billion portfolio of investment assets continuing to generate strong, stable cash flows.

The operating earnings, which equate to 7.5 cents per security (cps), exceeded previous guidance of 7.3 cps. The Group has forecast minimum operating earnings of 7.5 cps and a 3.6% increase in distributions to 7.25 cps for the full year to 30 June, 2013.

Income from property (net of outgoings) was up 28% on the previous year to \$150.97 million. The majority of this increase was attributable to 321 Exhibition Street, following refurbishment of the building in the previous financial year and the current year acquisitions of HQ North Tower and Bundall Corporate Centre investment properties.

Cromwell Chief Executive Officer Paul Weightman said the strong operating result reinforced the ability of the Group to continue to deliver growth in a weak economic environment.

"Excluding the impact of new assets our like for like net property earnings increased by 6.8% in 2012," he said. "This demonstrates the value of the strong leasing profile of the Group combined with the in house management which enables Cromwell to get the best out of each property."

As at 30 June, 2012, the Group's portfolio was 96.4% leased with a weighted average lease term of 6.2 years.

During the year the Group acquired two new properties – HQ North Tower in Brisbane for \$186 million and Bundall Corporate Centre on the Gold Coast for \$63.5 million.

"The quality and diversification of our assets continues to underpin the performance of the Group and we believe these new assets have considerably enhanced the overall portfolio," Mr Weightman said.

Statutory net profit of \$23.1 million (2011: \$88.1 million) was impacted by a fair value decrease of investment properties of \$12.4m. This included a \$1.5m increase in property values (net of leasing and capex costs) offset by one-off acquisition expenses of \$13.9m related to the acquisition of HQ North Tower & Bundall Corporate Centre. In addition, the value of interest rate swaps decreased by \$38.48 million (which will unwind over time as swaps expire).

Gearing levels remain constant from December 2011 and continue to be within the Group's preferred range of 35-55%. Cromwell has no material debt maturities until May 2014 and a weighted average debt expiry of 2.4 years.

Cromwell has taken advantage of recent low interest rates to extend its swap profile with a 2.6 year weighted average hedge term and 93% of debt hedged for FY13 at an average all-up cost of 6.6%.

The Group has also offered to acquire all the units in the unlisted Cromwell Property Fund (CPF) that it does not already own.

The transaction is subject to a number of conditions, including obtaining the necessary ASIC relief, approval by CPF unitholders at a general meeting and an independent expert concluding that the transaction is reasonable and in the best interests of CPF unitholders.

The independent directors of Cromwell Property Securities Limited, the responsible entity of the CPF, are recommending the transaction to unitholders in the absence of a superior proposal.

If the conditions are met, the transaction will result in each CPF unitholder receiving 0.2298 Cromwell stapled securities per CPF unit. Cromwell expects the transaction to result in approximately 32.4 million Cromwell stapled securities being issued before 28 September 2012 (the current tentative implementation date for the transaction).

The transaction would mean that Cromwell would move to 100% ownership of the five properties held by CPF, valued at approximately \$168 million as at 30 June 2012. The forecast key metrics of the proposed transaction for Cromwell are as follows:

Proposed CPF Transaction - Key Financial Impact Metrics for Cromwell

	Pre	Post
Operating Earnings (cps) FY13	7.5	7.6
Distributions (cps) FY13	7.25	7.25
WALT	6.2 Years	6.0 Years
Occupancy of Portfolio	96.4%	95.6%
NTA (cps excluding interest rate swaps)	\$0.71	\$0.71
Gearing	51%	53%

The transaction would provide stable distributions and a liquidity option for CPF investors, whilst enabling Cromwell to acquire a portfolio of value-add properties with minimal transaction costs.

Mr Weightman said the outlook for the Group remained positive, despite the continued sluggish pace of economic growth and soft consumer and investor confidence.

"The Group expects to achieve at least modest growth in both operating earnings and distributions per security in 2013, underpinned by our strong property portfolio and the funds management business which we believe has the potential to return to a period of significant growth.

The Group is forecasting minimum operating earnings of 7.5 cps for the year to 30 June, 2013, and 7.6 cps if the CPF transaction is concluded. Distributions will increase by 3.6% to 7.25 cps per annum, commencing with the September 2012 distribution (paid in November).

The FY13 result will be impacted by the loss of income from the 100 Waymouth Street building in Adelaide which is currently undergoing a \$12 million refurbishment. However, the works are expected to result in a significant increase in valuation once completed. Approximately 25% of the net lettable area is already leased for a 15 year term, with strong interest for the remaining space.

Mr Weightman said the Group would continue to divest property assets with lower growth profiles as part of an ongoing portfolio refinement strategy while continuing to pursue opportunities for value-adding acquisitions for the Group and for new syndicates. This strategy was reinforced by the sale of the Masters Distribution Centre in Victoria for \$39.4 million in June 2012.

"We are expecting a higher contribution from funds management operations in the 2013 financial year as a result of fees from the Cromwell Ipswich City Heart Trust and other potential syndicate opportunities as well as growth in our property securities funds under management (through our part ownership of Phoenix Portfolios Pty Ltd). We also expect the first fees from the Cromwell Real Estate Partners business, which we expect to be break even for the year," he said.

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