

CROMWELL DELIVERS RECORD FIRST HALF OPERATING PROFIT

1H14 HIGHLIGHTS

- Statutory profit up 194% to \$86.7 million
- Half-year profit from operations up 59% over 1H13 to a record \$73.2 million
- Sale of 6 non-core assets for \$253 million and purchase of Northpoint Tower
- Increase in external AUM to \$1.2 billion, with funds management earnings up 285%
- Gearing reduced to 43%, with debt refinance well advanced
- Full year guidance of at least 8.4 cps earnings and 7.5 cps distributions maintained

Cromwell Property Group (ASX: CMW) today reported a 59% increase in profit from operations to a record \$73.2 million for the six months to 31 December 2013.

Profit from operations for the half-year was 4.26 cents per security, up 13.3% from 3.76 cents in the previous corresponding period, with distributions for the half-year up 3.3% to 3.75 cents per security.

Cromwell CEO Paul Weightman said the strong result is further evidence of the success of the Group's disciplined long-term investment strategy.

"With this result we have again achieved our long-term objective of providing defensive, superior risk-adjusted returns from commercial properties we own and manage," Mr Weightman said.

"The result was underpinned by a variety of factors including an increase in earnings from our existing portfolio, a boost from assets we acquired during the past 18 months, reductions in interest rates and a substantial increase in earnings from our funds management business."

Cromwell recorded a statutory profit of \$86.7 million for the half-year to 31 December 2013, compared with \$29.5 million for the previous corresponding six month period. The profit was positively impacted by non-cash items, in particular an increase in the fair value of investment properties of \$16.6 million, compared to a decrease of \$11.5 million in 1H13, and an increase in the fair value of interest rate derivatives of \$6.0 million.

PORTFOLIO UPDATE

The Group continued to execute its on-going long-term portfolio improvement strategy during the first half with the acquisition of Northpoint Tower in North Sydney for \$278.7 million in a 50/50 joint venture with Redefine Properties and the disposal of six smaller non-core assets for \$253 million.

Mr Weightman said the Group would continue to implement its investment strategy of recycling capital into higher quality assets which offered superior risk-weighted returns.

"In making each of our acquisitions over the past 18 months, including Northpoint, we have improved the expected overall performance of our portfolio in the future," Mr Weightman said. "Each acquisition has been complementary to the existing portfolio and has the ability to provide above average returns over the medium-to-long term."

During November and December 2013, Cromwell disposed of four industrial properties, one office tower and one retail asset.

These properties realised a gain on disposal of \$3.1 million above their most recent carrying value.

"The sale of these assets was undertaken because we believe we can better deploy the proceeds into more productive assets in the future," Mr Weightman said.

Net proceeds of \$253.2 million were received from these asset sales, with \$143.9 million being used to repay associated debt facilities, \$77.6 million being utilised for the Northpoint acquisition and the balance held in cash.

Cromwell's Net Tangible Assets (NTA) increased from \$0.70 at June 2013 to \$0.71 per security at December 2013 due to valuation increases averaging 0.6% of portfolio value.

FUNDS MANAGEMENT

Funds management earnings increased by 285% to \$3.2 million in 1H14, reflecting Cromwell's continuing success in delivering new products to the market and an increase in recurring revenue from assets under management.

Mr Weightman said the lift in earnings illustrated the value of Cromwell's funds management operations and the potential for further gains.

"This result highlights the attractiveness of having the funds management business, which can provide Cromwell with additional earnings growth to complement the strong property income stream," Mr Weightman said.

During the half-year, Cromwell launched a number of new funds. Cromwell Property Trust 12 was formed to acquire three properties, with Cromwell planning to raise approximately \$76 million in equity from external investors for the Trust. Approximately \$31 million had been raised at 31 December 2013, with the balance expected to be raised by June 2014.

Another key milestone during the half-year was the formation of the Cromwell Partners Trust (CPA) to acquire Northpoint Tower. CPA is owned 50% by Cromwell and 50% by Redefine Global (PTY) Limited, a subsidiary of Cromwell's largest securityholder, Redefine Properties.

Through Cromwell's investment in CPA, it receives not only a share of returns from the Northpoint property, but also fee income from managing the property and the trust.

Cromwell also launched an additional two open-ended property funds during the half-year, the Cromwell Direct Property Fund and the Cromwell Australian Property Fund. These funds are designed to provide a more diversified exposure to listed and unlisted property and complement existing funds.

"These funds will take some time to reach a size which can contribute materially to our financial results in the future, but we are confident they will in due course," Mr Weightman said.

"We also continue to invest in additional staff and a number of initiatives across our funds management business which will allow us to continually improve our service offering to investors in both Cromwell and our unlisted funds."

CAPITAL MANAGEMENT

During the half year, Cromwell continued its disciplined approach to capital management. Despite a significant expansion in the portfolio, net debt decreased by \$122.7 million due primarily to repayments funded from the proceeds of investment properties sold during the half year.

As a consequence of repayments and valuation increases, gearing decreased from 46% to 43% during the half-year and remains within the preferred range of 35-55%.

Interest expense for the half-year increased to \$37.0 million from \$33.8 million. This increase occurred as a result of the additional borrowings for properties acquired during the 2013 year.

Despite the increase in total interest cost, the average interest rate fell from 6.46% for the half-year ended 31 December 2012 to 5.98% for the half-year ended 31 December 2013. This fall in average rate reflected lower variable interest rates on the unhedged portion of Cromwell's debt as the Reserve Bank reduced the cash rate during the 2013 calendar year and some improvement in facility margins.

An increase in fair value of interest rate derivatives of \$6.0 million, following a decrease of \$2.3 million in 1H13, arose as a result of Cromwell's policy to hedge a portion of future interest expense.

Cromwell is also well advanced in discussions to refinance or extend the majority of its debt facilities, targeting a longer weighted average debt term and an improvement in pricing.

OUTLOOK

The outlook for Cromwell remains positive, despite the current slower pace of economic growth.

Cromwell's property portfolio was 96% leased at 31 December 2013, with a 6.2 year weighted average lease term. Importantly, 48% of rental income was underpinned by Government or Government owned/funded entities, and a further 34% from listed companies or their subsidiaries.

Cromwell has maintained guidance for the 2014 financial year of expected profit from operations of at least 8.4 cents per security, an increase of 11% over the 2013 year.

Distribution guidance is also expected to be maintained at 7.5 cents per security in the 2014 financial year, an increase of 3.5% on 2013 levels.

"This strong result for the 2014 financial year is expected to be underpinned by the solid property portfolio, continuing low interest rates and growth in the funds management business," Mr Weightman said. "This would be an exceptional outcome in the current climate and reflect the continuing resilience of our business model."

ENDS.

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