

CROMWELL DELIVERS RECORD \$146.7 MILLION OPERATING PROFIT

FY14 HIGHLIGHTS

- Operating Profit up 43% to a record \$146.7 million
- Statutory Profit up 295% to \$182.5 million
- Sale of six non-core assets for \$253 million
- Sale of 321 Exhibition Street post balance date for \$205.9m
- Increase in external AUM to \$1.3 billion, with external funds management earnings up 65%
- Gearing reduced to 37% post 321 Exhibition Street
- Debt platform consolidated with extended term and reduced pricing
- Hedging term extended to 4.7 years
- FY15 operating earnings per security expected to be at least 8.3 cps
- Targeting 3% distribution growth on FY14

Property and funds manager Cromwell Property Group (ASX: CMW) today reported a 43% increase in Operating Profit to a record \$146.7 million for the year to 30 June 2014.

Operating earnings per security (EPS) increased 12% to 8.5 cps, from 7.6 cps in FY13, while distributions per security (DPS) increased 5% to 7.6 cps, from 7.3 cps in FY13. The Group's distribution payout ratio was reduced from 95% to 90%.

Cromwell CEO Paul Weightman said the performance in FY14 reflected the quality of the Group's assets and tenants.

"Our portfolio has been structured to provide a good balance between defensive investments that provide security and stability and assets where we can add value with our proven management skills," he said. "This active management strategy was the primary factor in delivering like for like income growth of 1.4% in FY14 despite the very difficult office leasing market."

He said Cromwell would continue to be highly responsive to changing market conditions by adjusting and refining the portfolio to achieve the goal of maximising security holder returns over rolling 3 & 5 year periods.

The full year profit was positively impacted by non-cash items, in particular an increase in the fair value of investment properties of \$46.2 million. The increased valuations reflect demand for low risk assets that are underpinned by long leases.

Cromwell's Net Tangible Assets (NTA) per security increased by 4% from \$0.70 at June 2013 to \$0.73 at June 2014 due primarily to property valuation increases.

PORTFOLIO UPDATE

The acquisition of a number of properties in New South Wales over the last 18 months has resulted in a geographic bias towards the State. This has been a deliberate strategy in anticipation of a recovery in this market.

Net earnings from the Group's property portfolio increased 25% to \$220.4 million as a result of additional income from properties acquired towards the end of FY13 and the increased rental income from the Qantas Headquarters building after a refurbishment and expansion.

Cromwell continued to execute its on-going long-term portfolio improvement strategy during the year 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.

Subsequent to 30 June the Group announced the sale of 321 Exhibition Street for \$205.9 million.

Cromwell Property Group (ASX:CMW) comprising Cromwell Corporation Limited (ABN 44 001 056 980) and Cromwell Property Securities Limited (ABN 11 079 147 809 AFSL 238052) as responsible entity for Cromwell Diversified Property Trust (ABN 30 074 537 051 ARSN 102 982 598).

Further information and media releases can be found at the Cromwell website: www.cromwell.com.au

Mr Weightman said the decision to sell assets was based on the fact that, while many of them had performed well, future returns were not expected to be as good as those provided by other opportunities.

"The sale of the assets provided us with the opportunity to recycle the capital into new investments like Northpoint Tower which we believe has the potential to be an excellent investment for the long term," he said.

With the recent sale of 321 Exhibition Street in Melbourne Cromwell has approximately \$190 million of cash to pursue new opportunities.

As at 30 June, 2014, the Group's investment portfolio had a Weighted Average Lease Expiry (WALE) of 5.9 years and a vacancy rate of 2.4% compared to a CBD office average of 12.2% (JLL Research). Government (and government owned and funded entities) contribute 51% of gross income while the top 5 tenant entities account for 60% of income.

The Group has commenced a range of initiatives to manage some larger lease expiries in Canberra in FY17 and remains confident it can minimise the impact of them through active asset management.

Cromwell expects office markets to remain difficult with subdued growth in like for like property income in FY15 financial year.

FUNDS MANAGEMENT

External funds management earnings increased by 65% to \$5.5 million during the year with external Assets Under Management (AUM) now exceeding \$1.3 billion.

The Group continued to expand and diversify its range of managed funds during the year, launching three new unlisted property trusts including the now closed Cromwell Property Trust 12 and two funds that remain open for investment – the Cromwell Direct Property Fund and the Cromwell Australian Property Fund.

The Cromwell Phoenix Property Securities Fund continued to experience large monthly inflows with total funds under management of \$131 million as at 30 June 2014.

Mr Weightman said Cromwell's funds management operations provided a high growth alternative income stream to the Group's core property portfolio.

"The funds management business continues to grow strongly and has developed a clearly defined strategy and brand that will ensure its long term success and solidify its value to the broader Group," he said.

Mr Weightman said the Group's two new open funds – the Cromwell Direct Property Fund and the Cromwell Australian Property Fund – had the capacity to grow significantly and make a material contribution to the Group's earnings in the future.

"We have seen over time how a fund like the Cromwell Phoenix Property Securities Fund can grow strongly and consistently if the manager applies a smart, clearly articulated investment strategy that delivers above average returns."

The Group also diversified its suite of investment management partners during the year with the formation of the Cromwell Partners Trust (CPA) and the acquisition of a 50% interest in New Zealand based fund manager Oyster Group. Including Phoenix Portfolios, Cromwell now holds an interest in three different fund managers.

CPA, which is owned 50% by Cromwell and 50% by Redefine Properties, was created to acquire the Northpoint Tower asset in Sydney. 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.

The interest in Oyster Group was acquired for \$NZD7.5 million. Oyster has in excess of \$NZ650m of property assets under management through a combination of private property syndicates and institutional property management mandates.

CAPITAL MANAGEMENT

Cromwell continues to adopt a conservative approach to capital management and succeeded in reducing gearing from 46% at the end of FY13 to 42% at the end of FY14. Factoring in the post balance date sale of 321 Exhibition Street gearing has been reduced to 37%, which is at the lower end of the Group's preferred range of 35-55%.

Mr Weightman said the de-leveraging of the business was appropriate given the uncertain market outlook.

"While we will continue to actively manage the portfolio by disposing of assets where necessary and acquiring assets when the opportunity arises it is prudent that we keep debt under control," he said. "Paying down debt and building good cash reserves gives us the flexibility to adapt quickly to changes in market conditions."

Cromwell also undertook a major restructuring and enhancement of its debt platform in FY14 with the successful consolidation of seven individual facilities into a single platform. The new platform extends Cromwell's weighted average debt expiry from 1.4 years to 3.9 years as at the date of today's announcement and reduces the weighted average margin across all facilities to approximately 1.6%.

The platform provides Cromwell with greater flexibility for its future funding needs, as it allows for the issue of additional tranches to acquire new assets or refinance existing facilities and to create separate security pools over new assets.

The Group also continued its hedging program during the year and has hedged future interest rates through an interest rate cap to May 2019 over \$1bn of debt to minimise the risk of increases in interest rates in the future.

The combined impact of the new debt facility and hedging program provides Cromwell with a high level of comfort on the scale and cost of debt in the short and medium term.

OUTLOOK

Cromwell's strategic focus on preserving and enhancing EPS and DPS remains unchanged. The Group expects FY15 EPS of at least 8.3 cps. This represents an EPS yield of 8.0% based on a closing price of \$1.03 on 26 August 2014. Cromwell is targeting 3% distribution growth over FY14 DPS.

However, final earnings for the current year remain highly dependent on the deployment of cash resources. The timing and purpose of this deployment will likely impact guidance for the full year and Cromwell will provide updates when appropriate.

Mr Weightman said the Group remained confident despite the current economic uncertainty.

"We have built a strong, resilient portfolio that is capable of withstanding a range of external pressures and we will continue to actively manage the portfolio and make adjustments as we see necessary," he said. "We have also built a strong balance sheet with low debt and good cash reserves that leaves us well positioned to take advantage of any opportunities that arise."

Cromwell is also pleased to announce the appointment of Mr Michael Wilde as CFO. Mr Wilde has worked in a number of senior finance positions at Cromwell over nearly 10 years. Mr Daryl Wilson will continue as a executive director. However, he will now focus on growing the funds management business.

ENDS.

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