ASX Announcement

18 February 2015

CROMWELL DELIVERS $72.9 MILLION FIRST HALF OPERATING PROFIT

FIRST HALF HIGHLIGHTS

- Operating Profit of $72.9 million (1H14: $73.2 million)
- Statutory Profit of $87.2 million (1H14: $86.7 million)
- Increase in external AUM to more than $1.5 billion (excluding post balance date acquisition of Valad Europe)
- Conservative asset and capital management strategy maintained to reflect growing economic and valuation risks
- Gearing reduced to 36% following sale of 321 Exhibition Street for $207 million, $1.07 million above carrying value
- FY15 operating earnings forecast unchanged at 8.3 cps
- Forecasting 3% increase in distributions in FY15

Property and funds manager Cromwell Property Group (ASX: CMW) has forecast a 3% increase in full year distributions to 7.86 cents per security (cps) underpinned by the ongoing strength of the Group's $2.0 billion office-focussed Australian property portfolio.

The Group today reported a small increase in Statutory Profit to $87.2 million (1H14: $86.7 million) for the six months to 31 December 2014, with the result impacted by the timing of asset sales and the application of proceeds to debt reduction and low yielding cash deposits.

Operating earnings per security (EPS) fell from 4.26 cps in the first half of 2014 to 4.21 cps in the most recent half. Distributions per security (DPS) increased to 3.88 cps, from 3.75 cps in the previous corresponding half. The Group's distribution payout ratio was 92%.

Net Tangible Assets (NTA) per security increased from $0.73 at June 2014 to $0.74 at December 2014 as a result of increases in the valuations of investment properties.

Net earnings from the Group's property portfolio fell to $103.6 million as a result of the disposal of 321 Exhibition Street, Melbourne in July. Like for like net property earnings, taking into account only properties held in the first half and previous corresponding half, increased 1.9%.

Cromwell CEO Paul Weightman said the steady first half performance was as a result of the Group's desire to protect medium and long-term earnings and distributions.

"The decision to sell 321 Exhibition Street and to allocate the proceeds to debt reduction and cash has contributed to a relatively flat result in the half but ultimately strengthens the Group for the future," he said.

"Growing distributions per security in a sustainable way remains a key priority for the Group and it is essential we take opportunities to recycle capital from more mature assets into assets and investments that have potential for growth."

Mr Weightman said the Group would continue its active asset management strategy to ensure the portfolio remained well balanced between defensive investments that provide security and stability and assets where it can add value through repositioning and active management.

Cromwell continued to invest in its funds management business during the first half despite earnings falling to $0.4 million (2013: $2.7 million) as a result of fewer products having been brought to market. The Group's commitment to growing its funds management business was reflected in the post balance date acquisition of Valad Europe.

PORTFOLIO UPDATE

During the half, the Group continued to manage its portfolio to ensure an efficient balance between defensive investments and assets that can be improved or repositioned with active asset management.

The value of the portfolio increased $27.9 million during the half, or 1.6 cps, from the end of June 2014. A total of 12 properties, representing approximately 46% of the property portfolio, were revalued. The increase in valuations reflects ongoing demand from local and offshore investors for assets with long weighted leases.

As at 31 December 2014, the portfolio was 95.2% leased, with a weighted average lease term of 5.9 years. Nearly 47% of rental income is underpinned by Government or Government owned/funded entities.

During the half the Group completed the sale of 321 Exhibition Street in Melbourne. The sale was based on the assessment that future returns from the property were unlikely to achieve internal benchmarks and the capital tied up in the asset could be better utilised to reduce debt and improve cash reserves.

Of the $207 million received from the sale, $116.5 million was applied to debt reduction with the balance held in cash.

The first half result benefitted from the full impact of revenue associated with the December 2013 acquisition of Northpoint Tower in North Sydney. Cromwell's share of earnings from the property was $4.9 million in the first half, compared to $0.3 million the previous corresponding half. Cromwell has recently lodged a Development Application to undertake a major transformation of the asset.

Mr Weightman said the portfolio would continue to be affected by soft economic conditions and difficult leasing markets in Brisbane and Canberra.

"While the portfolio remains well leased, we have seen a small amount of persistent vacancy, concentrated most particularly in our Queensland assets. This has offset part of the increase in rentals from the balance of our portfolio," he said.

"Although our vacancy levels remain slightly higher than our historical averages, they remain well below current levels for major office markets, demonstrating the ability of our internal property management team to deliver above average results despite a difficult market."

The portfolio remains heavily weighted towards office property and New South Wales following the acquisition of the NSW Portfolio and Northpoint Tower. The Group continues to proactively manage a number of large leases that are due to expire in FY16 and FY17.

FUNDS MANAGEMENT

External funds management earnings fell during the half as a result of the timing of new product launches. As at 31 December 2014, external Assets Under Management (AUM) exceeded $1.5 billion with AUM distributed across seven unlisted property trusts and the Group's interests in Phoenix Portfolios (45% interest) and New Zealand's Oyster Property Group (50% interest).

During the first half the award-winning Cromwell Phoenix Property Securities Fund continued to experience strong inflows with funds under management (FUM) surpassing $200 million. The fund has been closed to new investments to mitigate capacity constraints and maintain the ability to pursue outperformance for the benefit of unitholders.

Late in the half Cromwell and Phoenix opened a new small cap fund which is only available to wholesale/eligible investors. The Cromwell Phoenix Opportunities Fund has already built an attractive three-year performance record and has a capacity limit of $50 million.

From 30 June 2014 to 31 December 2014 Oyster Property Group's AUM grew 11.9% to $692 million. Oyster secured two new third-party management mandates and settled more than $35.7million of new asset acquisitions.

Mr Weightman said the Group's funds management business was expected to contribute to future growth.

"While first half earnings were impacted by lower transactional income, we are committed to increasing the size and diversification of the funds management business," he said. "It is a complementary business to our core property operations and over time our goal is to have funds management contribute up to 20% of total Group earnings."

Subsequent to the first half balance date Cromwell announced the proposed acquisition of Valad Europe for $208.5 million. The acquisition, which is expected to be completed by April, provides Cromwell with ownership of another established, well respected funds management business that has a strong cultural and strategic fit with the Group's existing business.

Valad Europe operates across 13 countries in Europe and has $7.6 billion of AUM[1].

The acquisition will have limited impact on FY15 earnings but increases the Group's total external AUM to more than $9 billion and is expected to contribute to a major increase in funds management earnings in future years.

CAPITAL MANAGEMENT

Cromwell continues to adopt a conservative approach to capital management and reduced gearing from 42% at the end of June to 36% at the end of the first half, primarily as a result of paying down debt following the sale of 321 Exhibition Street.

Gearing remains at the lower end of the Group's preferred range of 35-55% and reflects the view that mitigating risk is a key priority in the current market.

Over the last 12-18 months the Group has adopted a strategy to mitigate external market risks by extending the tenure of debt, paying down debt, increasing cash reserves and hedging interest rates.

Mr Weightman said the de-leveraging of the business was a reflection of the challenges of the current market and Cromwell's view that the pursuit of yield was driving up asset values without appropriate provision being made for risk.

"Low levels of debt and high levels of cash will ensure the Group is well positioned to manage any external challenges that may arise," he said.

OUTLOOK

Mr Weightman said the outlook for Cromwell remained positive despite the current sluggish pace of economic growth.

The positive outlook is based on the expectation that the Group's property portfolio will continue to deliver consistent earnings into the future due to its underlying tenant and lease profile.

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 7.1% based on a closing price of $1.165 on 17 February 2015.

The lower earnings are primarily a function of the loss of income related to the Group's decision to take advantage of current high prices and sell the property at 321 Exhibition Street. Cromwell has not yet recycled the capital realised from the sale into another investment and holds the net proceeds in cash deposits, which are low yielding in the current market.

Cromwell has forecast FY15 distributions of 7.86 cps, representing and increase of 3% over FY14 DPS.

"This result will be underpinned by rental income from the Group's portfolio, continuing low interest rates and some growth in the funds management business," Mr Weightman said.

"This, if it can be achieved, would be an exceptional outcome in the current climate and would reflect the continuing resilience of our business model."

ENDS.

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[1] Including investment capacity