

The banner features a background image of a modern office building with a glass facade and a staircase. The text is overlaid on the left side, and the Cromwell Property Group logo is on the right.

ASX Announcement

19 February 2016

Cromwell

PROPERTY GROUP

CROMWELL DELIVERS STRONG RESULT BOOSTED BY FUNDS MANAGEMENT AND TRANSACTIONAL INCOME

1H16 HIGHLIGHTS

- Profit from operations up 22% to \$88.8 million (\$72.9 million 1H15)
- Operating profit per security of 5.1 cps (4.2 cps 1H15)
- Statutory Profit up 124% to \$195.5 million (\$87.2 million 1H15)
- Total AUM of \$9.8 billion down slightly from \$10.1 billion FY15
- Portfolio gearing of 29% down from 36% FY15
- Group gearing of 38% down from 45% FY15
- Cash and Cash Equivalents increased 135% to \$256 million from \$109 million FY15
- Short term lease expiry profile reduced 49% FY16 and 30% FY17 since 30 June 2015
- NTA up 12.3% to \$0.73 from \$0.65 FY15
- Capitalisation rates tightened by 0.37% to 7.52%

Global Real Estate Investment Manager Cromwell Property Group (ASX: CMW) today reported profit from operations of \$88.8 million for the six months to 31 December 2015. This was a 22% increase on the corresponding prior period and equates to a profit from operations of 5.1 cents per security (cps).

Cromwell CEO Paul Weightman said performance in the first half was strong and reflected the growing funds management business and a continued focus on strategic initiatives to actively manage the core portfolio through the property cycle.

“This half reflects the first full six months contribution from our European funds management business,” he said. “We have also taken the opportunity to realise value and benefit from the strong investor demand for well leased assets where it makes sense to do so. We prefer to ‘bank’ these opportunities when they present themselves and then look to recycle capital into higher value adding initiatives”.

Cromwell was active in the market during 1H16, acquiring and selling a number of assets in its funds management business, both in Australia and Europe, while also realising value on a number of balance sheet assets including 100 Waymouth Street in Adelaide, Bligh House in Sydney and Terrace Office Park in Brisbane.

The \$100+ million redevelopment of Northpoint Tower in North Sydney and the \$130 million new Department of Social Services national headquarters building at Tuggeranong Office Park, ACT were both ongoing during the period.

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

PROPERTY SEGMENT UPDATE

Property segment earnings increased 1.0% to \$70.4 million (\$69.7 million 1H15) despite \$169 million of assets being disposed of during the half. 100 Waymouth Street in Adelaide typifies Cromwell's approach. It delivered a valuation uplift of 26% from \$47.5 million to \$60.1 million post refurbishment and was then sold for \$73 million in December 2015.

Other disposals include Bligh House in Sydney which sold for \$68 million and Terrace Office Park in Brisbane which was sold for \$31 million in September after Cromwell sought, and received, a Development Approval for 521 apartments. The amount received represented a 41% premium to its previous valuation of \$22 million.

Overall the \$2.2 billion portfolio had a Weighted Average Lease Expiry (WALE) of 5.7 years. Government owned and funded entities contribute nearly half (47%) of gross income. Cromwell also continues to focus on proactively managing its lease expiries with a vacancy rate of 5.7% and the FY16 and FY17 lease expiry profiles have reduced 49% and 30% respectively since 30 June 2015.

"We are seeing increased demand for space in the Sydney market and are actively managing our other expiries. The team has made excellent progress on reducing the near term expiry profile and I'm confident this will continue over the next few months", Mr Weightman said.

During 1H16, portfolio valuations increased by \$105 million and capitalisation rates tightened by 0.37% to 7.52%. Net Tangible Assets (NTA), which does not take into account any value for the growing funds management business, increased by 12.3% to \$0.73.

Cromwell expects investor demand to continue to remain strong in the near term, further boosting valuations for assets albeit at a slower rate than in previous periods. Leasing conditions will remain difficult outside of Sydney where incentives have been reducing recently and some effective growth is expected.

WHOLESALE FUNDS MANAGEMENT SEGMENT UPDATE

Wholesale funds management earnings increased to \$10.7 million (\$0.3 million 1H15) primarily due to the inclusion of a full six months from the European business. The European business has seen some significant transactional activity in the period including;

- The Valad Netherlands Diversified Partnership launched, with €325m of its €500 million investment capacity now invested;
- A €320+ million asset management and sales process for the Bridge Portfolio in Germany was completed;
- Valad European Income Fund was extended for three years and €200+ million refinancing completed;
- 68,500 sqm Haagse Poort office building in The Hague was acquired for €114 million, the largest single office transaction in the Netherlands at the time; and
- The largest Polish retail letting of 2015, comprising 170,000 sqm of space generating €11 million of annual rental income was also completed.

"We have a competitive advantage that is difficult to replicate in a market of Europe's size and complexity. There are over 500 million people in the European Union with different

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

markets, cultures, languages and local rules, regulations and customs,” Mr Weightman said.

“Local teams, with a passion for property and the expertise and knowledge to make it all work, give us both the capacity and platform to provide our investors with a broad range of investment opportunities.”

“We are proceeding with operational integration across our international platform and are developing a common brand strategy. I am very excited about the opportunities that this will bring,” he added.

RETAIL FUNDS MANAGEMENT SEGMENT UPDATE

Retail funds management earnings were \$8.8 million (\$0.2 million 1H15) primarily due to performance fees arising from the decision by unitholders to sell the Cromwell Box Hill Trust asset.

“During the year, we received an unsolicited approach for the Box Hill ATO building. We recommended the proposed sale, which was put to a unitholder vote. The unitholders subsequently voted to sell and realised a significant premium for their investment”, said Mr Weightman.

Total Retail Funds Management AUM was steady at \$1.4 billion with the reduction in AUM from the sale of the Box Hill asset offset by increases in AUM in Cromwell’s other unlisted direct products and interests in Phoenix Portfolios (45% interest) and Oyster Property Group (50% interest) in New Zealand.

“The Cromwell Phoenix Core Listed Property Fund has been included on both BT and Macquarie Wrap just nine months after inception. Additionally, Oyster Property Group is performing well. Two private placement syndicates, and a retail syndication, all closed fully subscribed. We are very pleased with the performance of both businesses,” said Mr Weightman.

In September, Cromwell picked up the A-REIT award at the 2015 Professional Planner/Zenith Fund Awards for the third consecutive year and was runner up in the Direct Property award. Cromwell was also the 2015 Australian Property Institute’s Winner of the Commonwealth Bank of Australia Funds Management Award.

CAPITAL MANAGEMENT

Cromwell continues to focus on strengthening its capital position. Portfolio gearing, which removes the impact of the convertible bond, is just 29% while Group gearing as at 30 December 2015 was 38%, substantially down from 45% as at FY15. This is towards the lower end of Cromwell’s target gearing range. Cash and cash equivalents increased 135% to \$256 million and these funds are awaiting accretive opportunities for deployment.

Cromwell continued its hedging program during the year and with future interest rates capped through to May 2019. Moody’s Investors Service also recently assigned Cromwell with a Baa2 Secured Debt Rating for Cromwell’s secured debt and a Baa3 Issuer Rating.

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

“Cromwell’s secured debt platform, hedging programme and investment grade rating provide us with the flexibility required to manage any volatility that might arise over the short and medium term,” said Mr Weightman.

“Cromwell has gearing at the lower end of its target range, access to multiple sources of capital and a very strong cash position. We are ready to deploy these resources when the right opportunity comes along,” he added.

OUTLOOK

“Every market cycle is different, but we are cautiously optimistic,” said Mr Weightman.

“We are coming out of the once in a lifetime mining investment boom. The resultant fall in the Australian dollar has acted as an economic shock absorber, and while the hangover hasn’t gone yet, a lower dollar will slowly drive a transition to a broad based economy.”

“We are already starting to see the beginnings of an improvement in currency sensitive industries like tourism, education and exports in general and, dare I say it, even manufacturing. There will be a lag before this improvement flows into business and consumer confidence, and there will certainly be volatility along the way, but over the longer term, improved confidence will benefit services industries and also increase demand for property,” he added.

“While cap rates are currently tight, improving future tenant demand should mean improved leasing conditions. This won’t happen overnight but we are optimistic about property markets over the medium term. Asset selection and investment discipline remain the key to success but I am confident that the right opportunities will present themselves, and we will be ready to capitalise when they do”, he added.

The FY16 operating earnings forecast has been maintained at not less than 9.0 cps. The FY16 distributions forecast will increase 0.1 cps to 8.2 cps. This represents a profit from operations per security and distributions per security yield of 9.2% and 8.4% respectively based on a closing price of \$0.98 on 18 February 2016.

Media Enquiries:

Paul Weightman
Managing Director/CEO
+61 411 111 028
pweightman@cromwell.com.au

Cromwell Securityholder Enquiries:

Investor Services Centre
1300 276 693
invest@cromwell.com.au

ENDS.

About Cromwell Property Group

Cromwell Property Group (ASX:CMW) is a Global Real Estate Investment Manager. The Group is included in the S&P/ASX 200. As at 31 December 2015, Cromwell had a market capitalisation of \$1.8 billion, a direct property investment portfolio in Australia valued at \$2.2 billion and total assets under management of \$9.8 billion across Australia, New Zealand and Europe.

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