ASX Announcement
25 August 2016

Cromwell PROPERTY GROUP

STRONG TRANSACTIONAL INCOME BOOSTS CROMWELL'S $164.5 MILLION OPERATING PROFIT

FY16 HIGHLIGHTS

- Statutory profit of $329.6 million up 122% from $148.8 million in FY15
- Operating profit of $164.5 million up 14% from $144.9 million in FY15
- Operating profit per security of 9.41 cps.
- Distributions per security up 4.3% at 8.20 cps
- Cash and cash equivalents of $95.6 million ($109.0 million FY15)
- Valuations increased $250.3 million contributing to increased NTA of $0.81 ($0.65 FY15)
- Asset disposals of $209 million realising a net gain on sale of $19.4 million
- Total AUM increased to $10.3 billion ($10.1 billion FY15)
- FY17 operating profit per security to be not less than 8.40 cps.
- FY17 distributions per security to be not less than 8.34 cps

Global Real Estate Investment Manager Cromwell Property Group (ASX: CMW) today reported operating profit boosted by transactional income of $164.5 million for the year to 30 June 2016.

Operating profit per security was 9.41 cents per security (cps). Distributions per security increased 4.3% to 8.20 cps. These results were ahead of Cromwell's previous market forecasts of 9.00 cps and 8.10 cps respectively and continued Cromwell's trend of consistently growing distributions through the property cycle.

Cromwell Chief Executive Officer Paul Weightman said Cromwell's strategy of realising gains and recycling capital, and its internal management model, created value from active management of assets, generated performance fees, allowed it to act opportunistically and enabled it to effectively manage downside risk.

"FY16 was a year in which we benefitted from a number of one-off transactions. Looking through these one-off results at the trends in our core business, we have been successful at consistently growing distributions to investors," said Mr. Weightman.

"Our goal remains to provide investors with stable, secure and growing distributions", he added.

PORTFOLIO UPDATE

Portfolio valuations increased by $250.3 million during the year net of property improvements, lease costs and incentives. Net property earnings, on a like for like basis, increased 1.6% with increases in rental income being offset by some vacancy in Brisbane and Canberra. Overall tenant quality remains strong with Government and government related entities contributing 46% of gross income.

As at 30 June 2016, the portfolio had a Weighted Average Lease Expiry (WALE) of 6.3 years and a vacancy rate of 10.6% compared to the national CBD office average of 11.9% (JLL).

"Our NSW and VIC assets continue to perform well and we are actively managing the vacancy in our Queensland and Canberra assets", Mr Weightman said.

Cromwell expects tenant demand, outside of Sydney, to remain weak resulting in subdued growth in like for like property income in FY17 and FY18.

Cromwell was a net seller in FY16 selling $209 million of assets with a net gain of $19.4 million (1.1 cps) including:

Asset	Sale Value	Date Disposed
43 Bridge Street, Hurstville, NSW	$37 million	July 2015
4 Bligh Street, Sydney, NSW	$68 million	August 2015
Terrace Office Park, Brisbane, QLD	$31 million	September 2015
100 Waymouth Street, Adelaide, SA	$73 million	December 2015

A proportion of the proceeds were used to repay debt with the balance being held as cash.

“Given the heightened competition for assets in all markets, Cromwell’s preference is to recycle capital from disposals to value adding opportunities in its existing portfolio. We are investing $300 million for the future with the redevelopment of Northpoint Tower in North Sydney and the development of the new Department of Social Services national headquarters at Tuggeranong Office Park in ACT,” Mr Weightman said.

“Both projects are on track and will contribute earnings growth and valuation uplifts to the Group in the near future. Demolition works have just finished, and construction will begin next month, at Northpoint, while construction will finish shortly at Tuggeranong,” he added.

FUNDS MANAGEMENT

External funds management earnings increased to $29.0 million from $4.0 million in FY15. The wholesale component of earnings increased substantially from $2.6 million in FY15 to $19.0 million reflecting high trading activity and a full 12 months contribution from Europe.

Total Assets Under Management (AUM) increased by $0.2 billion to $10.3 billion. An increase in retail external AUM from the Group’s unlisted direct products and interests in Phoenix Portfolios (45% interest) and New Zealand’s Oyster Group (50% interest) offset lower wholesale AUM resulting from the realisation of assets in Europe.

During the year Cromwell’s European business traded €2.4 billion in assets on behalf of investors and had investment capacity of €1.0 billion as at 30 June 2016.

“The high level of trading activity generated good transactional fees,” said Mr Weightman.

“We have been unwilling to deploy investment capacity where we do not see value for our investors. Sentiment in the UK has stalled owing to uncertainty post Brexit but this is likely to lead to more private equity investment into the UK to take advantage of the uncertainty, and also to more investment into Europe,” he added.

Since its acquisition the European business has been progressively integrated into Cromwell’s platform. Cromwell will phase out the VALAD name and rebrand the business in early 2017. Changing sentiment in the UK, anticipated changes in investment deployment and a focus on funds that generate longer term reoccurring management fees are all factors that contributed to a write down of goodwill of $86 million.

"As we look to reposition our business to have a broader, more discretionary focus, we expect a number of older funds will naturally wind-down. We are required to account for the impact of this change, and given prevailing market conditions, both now and into the near future, have decided to take a quite conservative approach and write down a proportion of the goodwill associated with the business".

"Our European platform has a tremendous future. We made a number of senior hires during the year to bolster its capability. There are also a number of new products in the pipeline," Mr Weightman added.

Retail funds management earnings increased to $10.0 million from $1.4 million in FY15. This was mainly attributed to $7 million in performance and disposal fees realised from the sale of the asset in the Cromwell Box Hill Trust. Unitholders voted to sell after Cromwell received an unsolicited bid for the asset, at a 34% premium to its pre-construction 'as-if-complete' valuation.

In New Zealand, Oyster Group increased AUM by 34% to NZD$983 million. Growth was diverse and came from a broad range of initiatives including the NZD$100 million Cider building syndication which closed fully subscribed within a matter of days.

"Mark Schiele and the team at Oyster have had a very strong year and, with a number of additional initiatives in the pipeline, should shortly achieve NZD$1 billion in AUM," said Mr Weightman.

"That's a great testament to the strength of the business and the value they provide their investors," he added.

Distributions of $6.0 million were received for the June quarter from the Group's 9.83% stake in Investa Office Fund (ASX:IOF).

"Acquisition of the stake was opportunistic. We didn't believe the proposal on the table at the time adequately reflected the underlying value of IOF's portfolio, and we feel vindicated by the subsequent trading performance of IOF and its improved NTA at 30 June 2016," Mr Weightman said.

"Investa is weighted to the rising Sydney office market and we expect that the investment will continue to be accretive," he added.

CAPITAL MANAGEMENT AND OPERATIONAL PLATFORM
As at 30 June 2016:

- Cash and cash equivalents were $95.6 million
- Gearing was 43% down from 45%
- Net Tangible Assets (NTA) per security was $0.81 up from $0.65 at June 2015
- Portfolio gearing was 34% (36% on a look-through basis)

The Group's debt facilities continue to be well diversified across eight lenders and a Convertible Bond issue with varying maturity dates. Future interest rates are hedged through an interest rate cap to May 2019.

The average interest rate paid fell to 4.65% during FY16. This resulted in a debt interest expense reduction of $4.9 million and this trend is likely to continue as existing out of the money interest rate hedges continue to expire.

"Cromwell is a conservative business and has a clear focus on capital management, gearing levels and cash reserves. We place a priority on maintaining our ability to access diverse sources of capital at different points in the cycle," said Mr Weightman.

During the year Cromwell continued to invest in its operational capabilities. In addition to integrating the European platform, Cromwell undertook a range of new sustainability initiatives including the adoption of a global sustainability framework.

"We have been reporting on our Sustainability initiatives and performance since 2009," said Mr Weightman.

"We are committed to sustainable business practices and our new framework is designed to improve performance and support a responsible and balanced pathway to business success," he added.

Cromwell's 2016 GRESB submission was expanded to include all Australian assets and five European funds covering an additional 183 assets.

OUTLOOK

"We are making conservative assumptions in relation to transactional earnings and rental income for FY17. The impact of Brexit, the potential for geopolitical disruption, risks associated with the slowdown in the Chinese economy, a slowdown in residential construction in Australia and the impact of the US elections are all matters of concern," Mr Weightman said.

"We have started the year with a vacancy rate higher than our historical average, a domestic market that is, or is pretty close to being, fully valued, and lacklustre tenant demand outside of Sydney".

"On a positive note, whilst in the United Kingdom we are facing short term dislocation due to the fallout from Brexit the fundamentals are relatively robust in most of the rest of Europe," he said.

"Our European platform provides diversification benefits and we have a number of exciting opportunities in the pipeline. However we remain cautious and focused on managing the downside risks. Despite this we expect to continue our long term trend of growth in distributions per security, and this remains our core objective," Mr. Weightman concluded.

Taking into account the conservative assumptions in transactional revenue and rental income and the short term impact of the development programme on earnings the Group expects FY17 operating profit of not less than 8.40 cps and a distribution of not less than 8.34 cps.

This represents an operating profit per security and distributions per security yield of 7.92% and 7.73% respectively based on closing price of $1.06 on 24 August 2016.

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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 30 June 2016 Cromwell has a market capitalisation in excess of $1.8 billion, a direct property investment portfolio in Australia valued at $2.3 billion and total assets under management of $10.3 billion across Australia, New Zealand and Europe.