



# 2016 ANNUAL REPORT

**Cromwell**

PROPERTY GROUP



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**COVER IMAGE:  
CROMWELL RIVERPARK TRUST**

Cromwell Riverpark Trust unitholders voted to extend the term of the Trust for a further 5 years. Voting participation was exceptionally high at 83%.

## Cromwell Property Group

Cromwell Property Group (ASX: CMW) is a Global Real Estate Investment Manager. As at 30 June 2016, Cromwell had 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.

Cromwell Property Group (ASX: CMW) is included in the S&P/ASX 200 and the FTSE EPRA/NAREIT Global Real Estate Index. During the 2016 financial year, Cromwell delivered profit from operations up 13% to \$164.5 million. Distributions to securityholders were up 4.3% to 8.20 cents per security.

Cromwell has a clear focus on owning, managing and investing in commercial property. Investors benefit from our breadth and depth of experience and a global platform offering a diverse product range across key property sectors.

Cromwell's performance is underpinned by quality income producing Australian assets with strong tenant covenants, long weighted average lease expiries and fixed rental increments. **82% of earnings are derived from these assets.**

The Group also has a long term target of delivering 20% of earnings from funds management. Funds management delivered **18% of earnings** in FY16 benefitting from a number of transactional items. Cromwell will continue to build the funds management business to be able to consistently, year on year, deliver this target.

### THIS DOCUMENT IS ISSUED BY

#### Cromwell Property Group

consisting of

**Cromwell Corporation Limited** ABN 44 001 056 980 and

**Cromwell Diversified Property Trust**

ARSN 102 982 598 ABN 30 074 537 051

(the responsible entity of which is

**Cromwell Property Securities Limited**

AFSL 238052 ABN 11 079 147 809)

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Web: [www.cromwell.com.au](http://www.cromwell.com.au)

Email: [invest@cromwell.com.au](mailto:invest@cromwell.com.au)

### SECURITYHOLDER ENQUIRIES

All enquiries and correspondence regarding securityholdings should be directed to Cromwell's Investor Services Team on 1300 276 693.



**PROPERTY GROUP**



# FINANCIAL HIGHLIGHTS

## Another Robust Result

### Profit from operations

**\$164.5** million  
**9.41** cents per security

### Distributions

**8.20** cents per security  
**↑4.3%**

### Statutory Profit

**\$329.6** million  
**↑122%**

### Statutory Profit - Cents per Security

**18.86** cents per security  
**↑120%**

## Consistent Strategy, Consistent Results

- Deliver stable, secure and growing distributions to investors
- Maintain defensive characteristics of core property portfolio
- Transform assets in active property portfolio
- Recycle capital to maximise returns
- Grow Funds Management

Financial Results Summary	FY16	FY15	Change
Statutory profit (\$m)	329.6	148.8	122%
Statutory profit (cents per security)	18.86	8.58	120%
Property Investment (\$m)	135.4	141.7	(4%)
Property Management and Internal Funds Management (\$m)	0.2	(0.6)	133%
Funds Management Retail (\$m)	10.0	1.4	614%
Funds Management Wholesale (\$m)	19.0	2.6	631%
Development (\$m)	(0.1)	(0.2)	(50%)
Operating profit (\$m)	164.5	144.9	14%
Operating profit (cents per security)	9.41	8.35	13%
Distributions (\$m)	143.4	136.5	5%
Distributions (cents per security)	8.20	7.86	4%
Payout Ratio (%)	87%	94%	(8%)



## Conservative Capital Management

- Group gearing<sup>(1)</sup> reduced to 43%, (44% look-through)
- Portfolio gearing<sup>(2)</sup> of 34%, (36% look-through)
- Cash and cash equivalents of \$95.6 million
- NTA increased to \$0.81

Financial Position	Jun-16 (Actual) (\$'000)	Jun-15 (Actual) (\$'000)
<b>Total Assets</b>	<b>2,878,245</b>	<b>2,589,094</b>
<b>Total Liabilities</b>	<b>(1,378,109)</b>	<b>(1,294,883)</b>
<b>Net assets</b>	<b>1,500,136</b>	<b>1,294,211</b>
Securities on issue ('000)	1,752,331	1,739,759
<b>NTA per security</b> (excluding interest rate swaps)	<b>\$0.82</b>	<b>\$0.67</b>
<b>NTA per security</b> (including interest rate swaps)	<b>\$0.81</b>	<b>\$0.65</b>
<b>Gearing<sup>(1)</sup></b>	<b>43%</b>	<b>45%</b>
<b>Gearing (look-through)<sup>(1)</sup></b>	<b>44%</b>	<b>47%</b>

(1) Gearing calculated as (total borrowings less cash)/(total tangible assets less cash). Look-through gearing adjusts for the 50% interest in Northpoint Tower.

(2) Portfolio gearing removes impact of Convertible Bond and net IOF position.

## FY17 Guidance

- FY17 operating earnings guidance of not less than 8.40 cps
- FY17 distribution guidance of not less than 8.34 cps
- Conservative assumptions that recognise the potential downside risks including Brexit, China slow down, US elections and a residential construction downturn in Australia

## Trend in earnings and distribution growth since 2011

- Growth in earnings of 5.80% p.a. since FY11
- Growth in distributions of 3.22% p.a. since FY11

# CHAIRMAN'S REPORT



Geoffrey H Levy, AO

The 2016 financial year (FY16) saw continued heightened competition for quality commercial property assets throughout Australia. Offshore capital currently accounts for approximately 50% of transaction volumes and the rate of international acquisitions have only slowed due to the lack of new stock available in the Australian market given high transaction volumes over the last few years.

This continued interest in Australian assets means cap rates are on par with, if not tighter than, they were just before the GFC. This is uncharted territory and in a situation like this we believe it pays to be more cautious and err on the side of being conservative.

Cross-border capital is the 'market maker' in every major real estate market bar the largest, the USA. Capital providers are now also increasingly making allocation decisions on a global basis, trading off the pros and cons of investing in London against Paris, New York, Shanghai and Tokyo to Sydney and Melbourne.

These institutions are also increasingly looking for global partners who can help them deploy their capital smartly into each selected jurisdiction. Cromwell has a local presence in six of the top 10 largest commercial real estate markets and we are actively developing our platform to ensure we can meet the needs of our current and potential capital provider partners.

Cromwell was again a net seller of real estate assets during FY16, disposing of just under 10% of the balance sheet portfolio and recycling the capital into higher value-adding opportunities. This strategy differentiates Cromwell from most of our A-REIT peers who adopt more passive investment strategies. Our strategy isn't always appreciated by the market but we firmly believe that 'sweating' our securityholders' capital enables us to generate investment outperformance over time.

During the year Cromwell also undertook a range of new sustainability initiatives including the adoption of a global sustainability framework. Cromwell's 2016 GRESB submission was expanded to include all Australian assets as well as five European funds comprising a further 183 properties.

We are committed to sustainable business practices and both the new framework and GRESB results will help improve business performance and support a responsible and balanced pathway to business success. Further details will be published in our 2016 Sustainability Report.

Community engagement is also important to us and reflective of our culture. The Cromwell Property Group Foundation was able to donate \$130,000 to a number of worthy charities during the year.

The beneficiaries were:



- **Alzheimer's Australia Dementia Research Foundation and Alzheimer's Australia** each received \$25,000 after a successful auction of two unique rugby jerseys signed by all previous eight Rugby World Cup winning captains



- **Australian Liver Foundation (ALF)** ALF received a donation of \$50,000 to continue working on developing a new blood test to improve the early diagnosis of liver cancer



- **Trigeminal Neuralgia Association Australia** received \$30,000. Trigeminal neuralgia is a disorder of the trigeminal nerve that causes episodes of intense, electric shock-like pain in the face

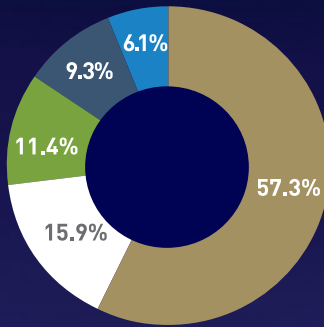
Details on the excellent work undertaken by these charities can be found on the Foundation website [www.cromwellfoundation.org.au](http://www.cromwellfoundation.org.au).

Finally I would like to take this opportunity to thank recently retired Robert Pullar for his 13 years of service as a Board member. I would also like to show my appreciation of my fellow Board members for their support and effort and finally congratulate CEO Paul Weightman and all of Cromwell's staff for their tireless efforts and an excellent set of results this year. We are blessed to have a very talented team of committed and skilled individuals at Cromwell. I would also like to acknowledge our securityholders - Cromwell exists primarily to provide them with secure, stable and growing distributions. We will continue to focus on delivering this core business objective in FY17.

**Geoffrey H Levy, AO**  
Chairman  
Cromwell Property Group

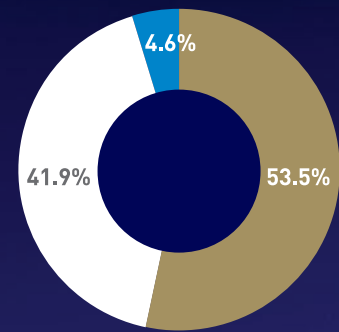


Assets Under Management<sup>(1)</sup>  
BY SECTOR



- Office
- Other
- Retail
- Industrial
- Property Securities

Assets Under Management<sup>(1)</sup>  
BY GEOGRAPHY



- Europe
- Australia
- New Zealand

ATO Dandenong,  
Victoria



(1) Assumes completion of properties currently under construction.



# CEO'S REPORT



CEO Paul Weightman

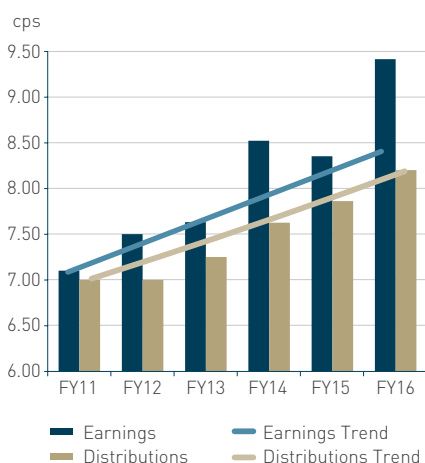
Strong transactional income boosted Cromwell's operating profit to \$164.5 million for the financial year to 30 June 2016 (FY16). Operating profit per security was 9.41 cents per security (cps). Distributions per security increased 4.3% to 8.20 cps. These results were ahead of Cromwell's previous market forecasts of 9.00 cps and 8.10 cps respectively and continued Cromwell's trend of consistently growing distributions through the property cycle.

Cromwell'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.

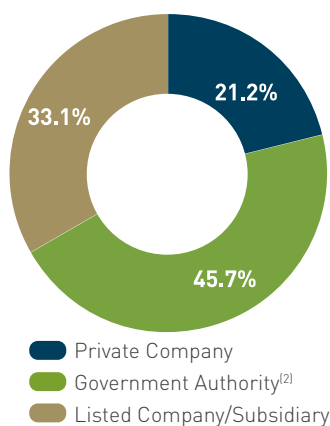
FY16 was a year in which Cromwell also strongly benefitted from a number of one-off transactional items. Looking through these one-off items at the trends in the core business, we have been successful in meeting our objective of consistently growing distributions to investors, averaging growth in distributions of 3.22% p.a. since FY11.

Distributions of \$6.0 million were also received for the June quarter from the Group's 9.83% stake in Investa Office Fund (ASX:IOF). The stake was acquired on 12th of April for \$4.24 per security.

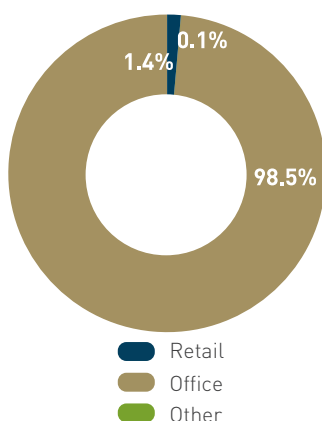
Acquisition of the stake was opportunistic. We didn't believe the takeover proposal on the table at the time adequately reflected the underlying value of Investa's portfolio, and we feel vindicated by the subsequent trading performance of IOF and its improved NTA at 30 June 2016. Investa is weighted to the rising Sydney office market and we expect that the investment will continue to be accretive.



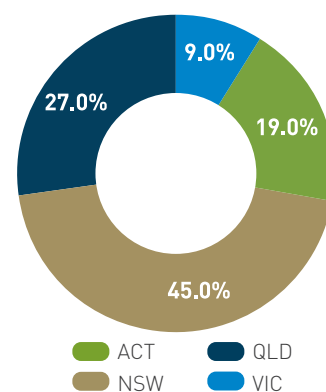
**Tenant Classification<sup>(1)</sup>**  
BY GROSS INCOME



**Sector Classification<sup>(1)</sup>**  
BY GROSS INCOME



**Geographic Diversification<sup>(1)</sup>**  
BY GROSS INCOME



## Property Segment Update

The Property Investment Segment delivered an operating profit of \$135.4 million, down 4% on the prior year. This was mainly due to the impact of asset sales during 2016. Net property earnings, on a like-for-like basis, increased 1.6% with increases in rental income being offset by some vacancy in Queensland and Canberra.

The like-for-like earning figures reflect the fact that the biennial market rent reviews for the assets in our NSW Government Portfolio have not been finalised and will be the subject of valuation determination in 2017. The reviews are capped at 8% and the assets represent 12.5% of our total portfolio by income.

Property valuations increased by \$250.3 million during the year net of property improvements, lease costs and incentives. Overall tenant quality remains strong with Government and Government related entities contributing 46% of gross income. 68 leasing deals were completed during the 12 months for over 97,000 square metres.

As at 30 June 2016, the portfolio had a Weighted Average Lease Expiry (WALE) of 6.34 years and a vacancy rate of 7.8%<sup>1</sup> 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.

Tenant demand outside of Sydney remains weak resulting in forecast subdued growth in like-for-like property income in FY17 and FY18. Retention rates across the portfolio of 76% (excluding the Woden asset) were positive given the varying conditions in the markets in which we operate.

Cromwell was a net seller in FY16 selling \$209 million of assets with a net gain of \$19.4 million (equivalent to 1.1 cents per security). A proportion of the proceeds were used to repay debt with the balance being held as cash. Unlike some of our peers, we do not recognise gains on sale of these non-core assets as operating income.

Given the heightened competition for assets in all markets, Cromwell's preference is to recycle capital from disposals to value-adding opportunities in our 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 the ACT.

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. We see opportunity to invest in, and add value to, other assets in our portfolio.

(1) By current passing gross income.

(2) Includes Government owned and funded entities.





Artist Impression  
Northpoint, Sydney





Haagse Poort  
The Hague

<b>Europe</b>	
<b>€2.4</b> billion	Traded in assets on behalf of investors
<b>Investment Capacity</b>	
<b>€1.0</b> billion	As at 30 June 2016
<b>Wholesale funds management earnings in FY16</b>	
<b>\$19.0</b> million	↑ from \$2.6 million in FY15

### Funds Management Wholesale

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 and wholesale funds management earnings increased from \$2.6 million in FY15 to \$19.0 million in FY16.

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.

Since its acquisition, the European business has been progressively integrated into Cromwell’s platform and we plan to phase out the VALAD name and rebrand the business in early 2017.

As we look to reposition the 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.

This is consistent with our commercial view that we would prefer not to carry large intangibles on our balance sheet.

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 under development and being actively promoted that will give us the opportunity to deploy capital in the future. We will continue to focus on growing our funds, and footprint, over time.





Artist Impression  
Cider Building, Ponsonby

Retail funds management earnings in FY16

**\$10.0**  
million

↑ from \$1.4 million in FY15

Oyster Group AUM

**NZ\$983**  
million

↑ 34%



Awards  
2016



## Funds Management - Retail

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.

During the year it was pleasing to see the funds management team receive industry recognition including winning the A-REIT award for the third consecutive year at the 2015 Professional Planner/Zenith Fund Awards<sup>(1)</sup>; the 2015 Australian Property Institute's Winner of the Commonwealth Bank of Australia Funds Management Award and the 2016 Morningstar Fund Manager of the Year Award, Listed Property Category<sup>(2)</sup>.

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

(1) The Professional Planner | Zenith Fund Awards are determined using proprietary methodologies. Fund Awards were issued October 9, 2015 and are solely statements of opinion and do not represent recommendations to purchase, hold, or sell any securities or make any other investment decisions. Ratings are subject to change.  
 (2) Morningstar Awards 2016 ©. Morningstar, Inc. All Rights Reserved. Awarded to Cromwell Funds Management Limited for Fund Manager of the Year Award, Listed Property Category, Australia.

### Cash and Cash Equivalents

**\$95.6**  
million

As at 30 June  
2016

### Group Gearing

**43%**

↓ down from  
45% in 2015

### Portfolio Gearing

**34%**

↓ down from  
36% in 2015

## Capital Management And Operational Platform

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 property cycle.

As at 30 June 2016 cash and cash equivalents were \$95.6 million and Group gearing was 43% down from 45% the previous year. Property portfolio gearing was 34% down from 36%. Net Tangible Assets (NTA) increased to \$0.81 on the back of the increase in property valuations.

The Group's debt facilities continue to be well diversified across eight lenders and the 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 swaps continue to expire.

The debt platform and hedging program initiatives are designed to provide a high level of comfort on the quantum and cost of debt over the short and medium term. We will continue to be proactive in managing both in 2017.

## Outlook

We continue to make 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 and associated increases in debt levels and debt servicing costs, a slowdown in residential construction in Australia and the impact of the US elections are all matters of concern.



**Expected FY17 Operating Profit**

not less  
than **8.40** cps

**Expected FY17 Distribution**

not less  
than **8.34** cps

We have also 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. However we remain cautious overall and focused on managing the downside risks. Despite this we do expect to continue our long term trend of growth in distributions per security, and this remains our core objective.

Taking into account our conservative assumptions in transactional revenue and rental income and the short term impact of our development program 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.

I would like to thank my fellow Board members for their support over the last 12 months. As always, it is the hard work of Cromwell's employees that have made this result possible and I would like to also thank them for their contribution.



**Paul Weightman**  
CEO  
Cromwell Property Group

## DIRECTORY

### Board of Directors:

Geoffrey H Levy, AO  
Michelle McKellar  
Richard Foster  
Jane Tongs  
Marc Wainer  
Andrew Konig  
Paul Weightman

### Company Secretary:

Lucy Laakso

All ASX and media releases as well as company news can be found on our webpage [www.cromwell.com.au](http://www.cromwell.com.au)

### Registered Office:

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TEL: +61 7 3225 7777  
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WEB: [www.cromwell.com.au](http://www.cromwell.com.au)

### Securities Registry:

Link Market Services Limited  
Level 15, 324 Queen Street  
Brisbane QLD 4000  
TEL: 1300 554 474 (+61 2 8280 7100)  
FAX: +61 2 8280 0303  
WEB: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### Listing:

Cromwell Property Group is listed on the Australian Securities Exchange (ASX code: CMW)

### Auditor:

Pitcher Partners  
Level 30, Central Plaza One  
345 Queen Street  
Brisbane QLD 4000  
TEL: +61 7 3222 8444  
FAX: +61 7 3221 7779  
WEB: [www.pitcher.com.au](http://www.pitcher.com.au)

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## Cromwell Property Group Annual Financial Report 30 June 2016

Consisting of the combined consolidated financial reports of  
Cromwell Corporation Limited (ABN 44 001 056 980) and  
Cromwell Diversified Property Trust (ARSN 102 982 598)

### **Cromwell Corporation Limited**

ABN 44 001 056 980  
Level 19, 200 Mary Street  
Brisbane QLD 4000

### **Cromwell Diversified Property Trust**

ARSN 102 982 598

Responsible Entity:

### **Cromwell Property Securities Limited**

ABN 11 079 147 809 AFSL 238052  
Level 19, 200 Mary Street  
Brisbane QLD 4000



**PROPERTY GROUP**



# DIRECTORS' REPORT

The Directors of Cromwell Corporation Limited and Cromwell Property Securities Limited as Responsible Entity for the Cromwell Diversified Property Trust (collectively referred to as the "Directors") present their report together with the consolidated financial statements for the year ended 30 June 2016 for both:

- the Cromwell Property Group ("Cromwell") consisting of Cromwell Corporation Limited (the "Company") and its controlled entities and Cromwell Diversified Property Trust (the "CDPT") and its controlled entities; and
- the CDPT and its controlled entities (the "Trust").

The shares of the Company and units of the CDPT are combined and issued as stapled securities in Cromwell. The shares of the Company and units of the Trust cannot be traded separately and can only be traded as stapled securities.

## 1. Directors and Officers

### (A) DIRECTORS

The persons who were Directors at any time during the financial year and up to the date of this report (unless otherwise stated) were:

#### **Mr Geoffrey H Levy (AO) – Independent Non-executive Chairman**

Mr Levy has extensive public company executive and directorship experience and is the former Chief Executive Officer of Investec Bank (Australia) Ltd and former Chairman of ASX listed Specialty Fashion Group Limited. He is the current Chairman of Monash Private Capital and its groups of companies and funds. He was appointed an Officer in the Order of Australia in the Queen's Birthday Honours List in June 2005. Mr Levy is Chairman of

Cromwell's Nomination & Remuneration Committee and a member of Cromwell's Investment Committee.

#### **Ms Michelle McKellar – Independent Non-executive Director**

Ms McKellar has over 30 years of property and portfolio management experience throughout the Asia-Pacific. Ms McKellar was responsible for establishing the CBRE business in New Zealand and served as the Hong Kong-based Managing Director of the company's Greater China operations. She subsequently served as the CEO of Jen Group of Companies and is a founding Director of China-based Dash Brands. She is a senior member of the Property Institute of New Zealand, and a Fellow of the Australian Institute of Company Directors. Ms McKellar is Chairman of Cromwell's Investment Committee and a member of Cromwell's Audit & Risk and Nomination & Remuneration Committees.

#### **Mr Richard Foster – Independent Non-executive Director**

Mr Foster has been a licensed real estate agent with substantial experience in the real property industry specialising in large-scale property acquisition for most of his professional life. He has also been closely involved with the acquisition and marketing of direct property investments valued in excess of \$1.2 billion. He has had substantial input to the growth and development of Cromwell's investment products. Mr Foster is a member of Cromwell's Audit & Risk, Investment and Nomination & Remuneration Committees.

#### **Ms Jane Tongs – Independent Non-executive Director**

Ms Tongs has over 20 years of management expertise, serving on the boards of insurance, funds management and other financial services entities. She is currently Chairman of the Netwealth Group and Chairman of the Lend Lease Australian Prime Property Fund Investors





**Geoffrey H Levy, AO**  
INDEPENDENT NON-EXECUTIVE  
CHAIRMAN



**Michelle McKellar**  
INDEPENDENT NON-EXECUTIVE  
DIRECTOR



**Richard Foster**  
INDEPENDENT NON-EXECUTIVE  
DIRECTOR



**Jane Tongs**  
INDEPENDENT NON-EXECUTIVE  
DIRECTOR



**Marc Wainer**  
NON-EXECUTIVE DIRECTOR



**Andrew Konig**  
NON-EXECUTIVE DIRECTOR



**Paul Weightman**  
MANAGING DIRECTOR / CEO

Committee and a Director of Australian Energy Marketing Operator Limited, Catholic Church Insurances Ltd and Warakirri Asset Management Ltd. Ms Tongs also served as director of Run Corp Limited from 2005 until her resignation in 2014. Ms Tongs is a Fellow of Chartered Accountants Australia and New Zealand and of CPA Australia and a member of the Australian Institute of Company Directors. Ms Tongs is Chairman of Cromwell's Audit & Risk Committee and a member of Cromwell's Nomination & Remuneration Committee.

#### **Mr Marc Wainer – Non-Executive Director**

Mr Wainer has more than 40 years experience in the property industry in South Africa. Marc is the Executive Chairman and an Executive Director of listed South African property group Redefine Properties Limited which he founded, and which is a substantial securityholder of Cromwell Property Group. He also is a Non-executive Director of Redefine International P.L.C., a listed property investment company in the United Kingdom and also serves as a Non-executive Director of Redefine BDL Hotel Group which owns and manages a portfolio of hotels in the United Kingdom.

#### **Mr Andrew Konig – Non-Executive Director**

Mr Konig was appointed as Financial Director and to the board of Redefine Properties in January 2011 and elected as Chief Executive Officer in August 2014. He is Chairman of the Executive Committee and member of the Investment Committee, and holds external appointments as Executive Director of Fountainhead Manco, Non-executive Director of Delta Property Fund and Echo Polska Properties and an alternate Director to Marc Wainer on the Redefine International PLC Board. Mr Konig is a qualified Chartered Accountant with 23 years of commercial and financial experience, and was previously Group Financial Director of Independent News and Media. He is responsible for the management of Redefine and for ensuring the Board's strategy is implemented as well as all aspects of regulatory compliance, corporate activity and communications.

#### **Mr Paul Weightman – Managing Director/ Chief Executive Officer**

Mr Weightman has been the key driver of Cromwell's success since inception in 1998. He has extensive experience in property development and investment, financial structuring, public listings, mergers and acquisitions, revenue matters and joint ventures. Mr Weightman was Cromwell's Executive Chairman from 1998 – 2008 and has acted as a director of companies in the property, energy and retail sectors. He practised as a solicitor for more than 20 years and holds degrees in commerce and law and is a Fellow of the Royal Institute of Chartered Surveyors. Mr Weightman is a member of Cromwell's Investment Committee.

#### **Mr Robert Pullar (resigned) – Non-executive Director**

Mr Pullar resigned on 25 November 2015. Mr Pullar is a Director of the Brisbane based property development company, Citimark Properties and a member of the Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors.

#### **Mr Geoffrey Cannings (resigned) – Alternate Director**

Mr Cannings resigned on 7 December 2015. Mr Cannings was the alternate Director for Mr Wainer and Mr Konig until his resignation.

All Directors of the Company are also Directors of Cromwell Property Securities Limited, the Responsible Entity of the CDPT.

#### **(B) COMPANY SECRETARY**

##### **Ms Lucy Laakso – appointed 10 August 2015**

Ms Laakso has over 15 years experience in the financial services industry, having worked as a legal practitioner and in the areas of company secretariat, corporate governance, compliance and business banking. Prior to joining Cromwell, Lucy was an in-house lawyer at a fund manager and a manager in the company secretariat/compliance team at a private investment advisory firm. Before that, she worked at a Top 20 ASX-listed financial services company

in areas including corporate secretariat, compliance and business banking. Lucy also has private practice experience at a top tier firm. She holds a Juris Doctor (First Class Honours), an MBA (specialising in Corporate Governance) and a Bachelor of Business.

#### Ms Nicole Riethmuller (resigned)

Ms Riethmuller resigned on 10 August 2015.

Ms Riethmuller has over 15 years experience as a corporate lawyer and has a Bachelor of Laws and a Bachelor of Commerce from the University of Queensland.

### (C) DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of the Board) and number of meetings attended by each of the Directors of the Company during the financial year were:

Directors	Board of Directors		Nomination & Remuneration Committee		Audit & Risk Committee		Investment Committee	
	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend
G Levy	10	12	4	4	-	-	8	8
M McKellar	10	12	2	4	8	10	8	8
R Foster	12	12	4	4	5	6	8	8
J Tongs	10	12	4	4	10	10	-	-
M Wainer	11	12	-	-	-	-	-	-
A Konig	10	12	-	-	-	-	-	-
P Weightman	12	12	-	-	-	-	8	8
R Pullar	4	5	3	3	4	4	2	4

## 2. Principal Activities

The principal activities of Cromwell during the financial year consisted of property investment, funds management, property management and property development. The Trust's principal activity during the financial year was property investment.

There were no significant changes in the nature of Cromwell's or the Trust's principal activities during the financial year.

## 3. Dividends/ Distributions

The table below shows details of Cromwell's and the Trust's quarterly dividends and distributions paid during the year:

	Dividend per security	Distribution per security	Total per security	Total \$M	Franked amount per security	Record date	Payment date
<b>2016</b>							
Interim distribution	-	1.9925¢	1.9925¢	34.7	-	30-Sep-15	11-Nov-15
Interim distribution	-	1.9925¢	1.9925¢	34.9	-	31-Dec-15	10-Feb-16
Interim distribution	-	2.1075¢	2.1075¢	36.9	-	31-Mar-16	11-May-16
Final distribution	-	2.1075¢	2.1075¢	36.9	-	30-Jun-16	18-Aug-16
	-	8.2000¢	8.2000¢	143.4	-		
<b>2015</b>							
Interim distribution	-	1.9375¢	1.9375¢	33.6	-	30-Sep-14	12-Nov-14
Interim distribution	-	1.9375¢	1.9375¢	33.6	-	31-Dec-14	11-Feb-15
Interim distribution	-	1.9925¢	1.9925¢	34.6	-	31-Mar-15	13-May-15
Final distribution	-	1.9925¢	1.9925¢	34.7	-	30-Jun-15	13-Aug-15
	-	7.8600¢	7.8600¢	136.5	-		



## 4. Review of Operations

### (A) FINANCIAL PERFORMANCE

Cromwell recorded a profit of \$329.6 million for the year ended 30 June 2016 (2015: profit of \$148.8 million). The Trust recorded a profit of \$371.4 million for the year ended 30 June 2016 (2015: profit of \$156.7 million).

The profit for the year includes a number of items which are non-cash in nature or occur infrequently and/or relate to realised or unrealised changes in the values of assets and liabilities and in the opinion of the Directors, need to be adjusted for in order to allow securityholders to gain a better understanding of Cromwell's underlying profit from operations. The most significant of these items impacting the profit of Cromwell not considered part of underlying operating profit were:

- An increase in the fair value of investment properties of \$263.2 million (2015: increase of \$32.4 million);
- Gain on sale of investment properties of \$19.4 million (2015: gain on sale of \$1.0 million);
- Decrease in recoverable amount of goodwill of \$86.2 million (2015: \$nil); and
- An increase in the fair value of interest rate derivatives of \$5.4 million (2015: decrease of \$1.8 million).

Cromwell recorded an operating profit of \$164.5 million for the year ended 30 June 2016 compared with an operating profit of \$144.9 million for the previous year. Operating profit is considered by the Directors to reflect the underlying earnings of Cromwell. It is a key metric taken into account in determining distributions for Cromwell but is a measure which is not calculated in accordance with International Financial Reporting Standards ("IFRS") and has not been reviewed by Cromwell's auditor.

A reconciliation of operating profit, as assessed by the Directors, to statutory profit is as follows:

	Cromwell	
	2016	2015
	\$M	\$M
<b>Operating profit</b>	<b>164.5</b>	144.9
<i>Reconciliation to profit for the year</i>		
Gain on sale of investment property	19.4	1.0
Gain/(loss) on disposal of other assets	(0.3)	0.3
Business combination costs	–	(2.4)
Other transaction costs	(1.8)	–
Fair value net gains/(write-downs):		
Investment properties	263.2	32.4
Derivative financial instruments	10.6	(1.8)
Investments at fair value through profit or loss	6.0	(1.2)
Non-cash property investment income/(expense):		
Straight-line lease income	2.3	5.5
Lease incentive amortisation	(13.7)	(11.8)
Lease cost amortisation	(1.5)	(1.2)
Other non-cash expenses:		
Amortisation of finance costs	(5.8)	(4.4)
Net exchange gains/(loss) on foreign currency borrowings	(5.5)	1.6
Decrease in recoverable amounts	(86.6)	–
Amortisation and depreciation, net of deferred tax expense <sup>(1)</sup>	(7.7)	(2.9)
Relating to equity accounted investments <sup>(2)</sup>	(11.3)	(3.0)
Net foreign exchange gains/(losses)	(2.2)	(7.9)
Net tax losses incurred/(utilised) <sup>(3)</sup>	–	(0.3)
<b>Profit for the year</b>	<b>329.6</b>	<b>148.8</b>

(1) Comprises depreciation of plant and equipment and amortisation of intangible assets, including management rights and associated deferred tax liability.

(2) Comprises fair value adjustments included in share of profit of equity accounted entities.

(3) Comprises tax expense attributable to changes in deferred tax assets recognised as a result of carried forward tax losses.

Operating profit on a per security basis is considered by the Directors to be the most important measure of underlying financial performance for Cromwell as it reflects the underlying earnings of Cromwell as well as the impact of changes in the number of securities on issue. Operating profit and distributions on a per security basis are shown below.

	2016	2015
	Cents	Cents
Profit per security (per statutory accounts)	18.86	8.58
Operating profit per stapled security	9.41	8.35
Distributions per security	8.20	7.86

Operating profit per security for the 2016 financial year was 9.41 cents (2015: 8.35 cents). This represents an increase of approximately 12.7% over the previous year and mainly reflects the increased contribution being made by the funds management business. The change in operating profit per security has arisen as a result of a number of key factors:

- An increase in Cromwell's earnings from external funds management;
- A decrease in property earnings due to assets sold during the year; and
- An increase in employee benefits costs and administration costs associated with Cromwell's European business.

## (B) SEGMENT CONTRIBUTIONS

The contribution to profit from operations of each of the 5 segments of Cromwell was:

	2016	2016	2015	2015
	\$M	%	\$M	%
Property investment (i)	135.4	82.3%	141.7	97.7%
Property/internal funds management (ii)	0.2	0.1%	(0.6)	(0.4%)
External funds management – retail (iii)	10.0	6.1%	1.4	1.0%
External funds management – wholesale (iv)	19.0	11.6%	2.6	1.8%
Property development (v)	(0.1)	(0.1%)	(0.2)	(0.1%)
<b>Total operating profit</b>	<b>164.5</b>		<b>144.9</b>	

### (i) Property investment

During the year Cromwell continued to focus on improving the lease expiry profiles of key assets. This resulted in successful leasing outcomes across the portfolio particularly in Sydney and Melbourne based assets with both, the 700 Collins Street, VIC and 475 Victoria Avenue, NSW assets, starting the 2017 financial year with a better leasing profile than that which they started the 2016 financial year. Cromwell also secured excellent leasing outcomes for 207 Kent Street, NSW as well as lease renewals in two of the larger Brisbane assets; HQ North and Synergy, QLD. Cromwell still faces vacancies at the 13 Keltie Street property in the ACT going into 2017. Tuggeranong Office Park in the ACT will remain fully leased during 2017, albeit at a reduced market based rental for the second half of 2017. Other assets in Brisbane, Canberra and Tasmania face issues as a result of soft leasing markets with vacancy rates, particularly in the Brisbane market, being at historic lows. Cromwell received one off rent surrender and make good amounts totalling \$5.5 million (2015: \$nil).

Construction has continued for a second and fully leased commercial office building on the surplus land of the Tuggeranong Office Park investment property. Total costs of construction are expected to be \$171.8 million and will be funded from cash reserves and a new \$159.5 million loan facility. The building, once completed, which is expected to be in August 2017, will have an NLA of 30,700sqm and be leased for 15 years to the Commonwealth of Australia.

During the first half of the year Cromwell continued to take advantage of the current high prices being paid for assets in the Australian commercial property market through the sale of four buildings. The sale of these buildings was undertaken as Cromwell believes the proceeds can be better deployed into more productive assets in the future. Earnings of the Property Investment segment for the current period are therefore not directly comparable to the previous corresponding period.



Buildings sold during the year were:

- Henry Waymouth Centre, Adelaide, SA sold in December 2015 for \$73.0 million which was 18% above its 30 June 2015 valuation and resulted in a gain on sale of \$10.9 million;
- 43 Bridge Street, Hurstville, NSW sold in July 2015 for \$37.0 million which was 19% above the property's last independent valuation;
- 4 Bligh Street, Sydney, NSW sold in August 2015 for \$68.0 million which was 10% above the property's last independent valuation; and
- Terrace Office Park, Bowen Hills, QLD sold in September 2015 for \$31.0 million which was 38% above the property's carrying value resulting in an \$8.5 million gain on sale.

\$41.4 million of sale proceeds from the sale of Terrace Office Park and Henry Waymouth Centre were used to repay debt with the balance held in cash.

As a result of the sales, net earnings from the property portfolio after property outgoings costs but before interest expense were \$192.0 million (2015: \$203.2 million), a decrease of 5.5% on the previous year.

In order to assist comparability between periods, Cromwell also measures the change in like-for-like net property earnings, taking into account only properties held in both the current financial year and the previous financial year. On this basis, net property earnings increased by 1.6% during the current financial year. This reflects a continuing difficult leasing market. While the portfolio remains well leased, we have seen a small amount of persistent vacancy, concentrated most particularly in our Canberra and Queensland assets. This has offset part of the increase in rentals from the balance of our portfolio. 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.

Valuations for investment properties increased by \$250.3 million during the year (2015: \$25.3 million), net of property improvements, leasing incentives and lease costs. This is equivalent to an increase in value of approximately 11.9% or 14.3 cents per stapled security from June 2015 valuations.

	2016	2015
	\$M	\$M
Change in valuations, net of property improvements, lease costs and incentives	250.3	25.3
Non-cash adjustments for straight-lining of rentals and lease amortisation	12.9	7.5
Acquisition transaction costs (properties acquired during the year)	-	(0.4)
<b>Increase in fair value of investment properties</b>	<b>263.2</b>	<b>32.4</b>

Increases were concentrated in properties in the Sydney and Melbourne metropolitan areas with long weighted average lease expiries ("WALE"). The single largest increase was for the Qantas Headquarters which has a WALE of 15.2 years. Other large increases were recorded at the 700 Collins Street, Melbourne, and 475 Victoria Avenue, Sydney investment properties following successful leasing outcomes during the year. Likewise, the Queensland assets of HQ North and Synergy saw valuations increase following successful lease extension negotiations with major tenants. The Tuggeranong Office Park, ACT investment property increased in value as a result of the successful negotiations with the Commonwealth of Australia and the commencement of construction of the new building for that site.

### Interest expense

Interest expense for the year decreased to \$49.0 million (2015: \$57.8 million). This decrease occurred as a result of reduced borrowings following the repayment of debt from the sale proceeds of the Terrace Office Park and the Henry Waymouth Centre. The average interest rate fell from 5.73% for the prior year to 5.27% in the current year.

The fair value gain of interest rate derivatives of \$5.4 million (2015: loss of \$5.5 million) arose as a result of Cromwell's policy to hedge a portion of future interest expense. Cromwell has hedged future interest rates through various types of swap contracts over 100% of its debt at 30 June 2016 (2015: 100%) to minimise the risk of changes in interest rates in the future. All hedging contracts expire between February 2016 and May 2019.

### (ii) Property management and internal funds management

Property management and internal funds management recorded an operating profit for the year of \$0.2 million (2015: loss of \$0.6 million). Staffing levels and associated costs increased compared with the prior year as a result of the new construction projects at Tuggeranong and Northpoint and the expansion of Cromwell's overall operations. The benefit to Cromwell of projects such as Tuggeranong will be realised through the uplift in asset valuations rather than segment operating profit. The Tuggeranong property has increased in value by 16% since 30 June 2015. This is the direct result of the construction project and strengthens Cromwell's balance sheet and improves the NTA.

On 12 April 2016, Cromwell announced it had acquired a 9.83% stake in Investa Office Fund which forms part of this segment. Cromwell received distribution income of \$5.9 million from its investment during the current financial year and paid interest of \$1.1 million on the borrowings used to partly fund the acquisition.

### (iii) External funds management – retail

External retail funds management profit increased to \$10.0 million for the current year from \$1.4 million for the prior year. The increased profit for the year is mainly attributable to \$7.0 million earned in performance and disposal fees from Cromwell's unlisted fund, the Cromwell Box Hill Trust which sold its investment property at a 34% premium to its pre-construction "as-if-complete" valuation just after the property reached practical completion.

Total external retail funds under management increased to \$1.7 billion compared with \$1.4 billion at 30 June 2015 despite the sale of the Box Hill property and subsequent return of that Trust's funds to its investors. Cromwell's current retail funds open to investors continued to grow.

The Cromwell Direct Property Fund increased in invested funds by 33% over the year. The fund now holds three investment properties. 64 Allara Street is a six-level A-grade office building located in the Canberra CBD. Masters Parafield is a purpose built retail complex located within the Adelaide Parafield Airport precinct. Construction on this property was completed in June 2016. The major tenant is Woolworths Limited with a 15 year non-cancellable lease. The third property is a Bunnings Home Improvements and Hardware Store at Munno Para, South Australia. Construction on this property was completed shortly after year end with the main tenant's lease commencing in August 2016. In August 2016, the Fund acquired a further 10,124,000 units in the Cromwell Riverpark Trust for \$15,100,000. Cromwell will continue to identify quality assets that fit into the fund's target asset size and risk profile.

The Cromwell Phoenix Opportunities Fund, which was launched by Cromwell in December 2014 and is designed to provide a more diversified exposure to listed "small cap" equities, also continued to gain investor interest with an increase in invested funds of almost 140% since 30 June 2015.

The Cromwell Phoenix Core Listed Property Fund was launched by Cromwell in March 2015. The fund invests in ASX listed property and property related securities and has so far raised \$5.6 million in investor funds.

Cromwell's New Zealand based funds management joint venture, Oyster Property Group, continued to perform above expectations during the year. Oyster Property Group had NZD\$870 million of assets under management at 30 June 2016, up from NZD\$733 million at 30 June 2015.

Cromwell remains committed to increasing the size and diversification of its funds management business, which it believes is highly complementary to its internally managed property portfolio and property and facilities management activities. We continue to invest in a number of initiatives across our retail funds management business which will allow us to continually improve our service offering to investors in both Cromwell and our unlisted funds.

### (iv) External funds management – wholesale

External wholesale funds management profit increased to \$19.0 million (2015: \$2.6 million) mostly as a result of the contribution of Valad Europe, a pan-European wholesale fund manager which was acquired by Cromwell on 31 March 2015. The European funds management business contributed \$16.6 million, including convertible bond finance costs, for the year. The European funds management business has three funds which have investment capacity and during the financial year a total of €404.4 million of investment properties were successfully acquired for these funds. The business secured portfolios and other mandates to the amount of €498.5 million during the year. Other funds are in sell down mode and €1,529.2 million of investment properties were sold during the financial year. The resulting acquisition and disposal fees amounted to \$12.7 million out of total funds management fees of \$75.4 million.



The European funds management business also received a performance fee (promote) during the financial year of \$6.0 million relating to the Gemini mandate. This workout mandate was awarded to the European business in 2012 by the fund's receiver in order to recover the maximum value from the portfolio which consisted of office, logistics, and retail and leisure investment properties located throughout the United Kingdom. The European funds management business also received performance fees for two other funds totalling \$0.7 million.

As at 30 June 2016 the European funds management business had assets under management valued at €3.68 billion (\$5.51 billion) and investment capacity of €955 million (\$1.43 billion). A key assumption that underpinned Cromwell's initial assessment in 2015 of goodwill attaching to the European business related to the timing of the deployment of that investment capacity. Recent uncertainty in the financial markets in Europe resulting in part from the vote in the United Kingdom to leave the European Union has led Cromwell to adopt considerably more conservative assumptions on the timing of the deployment of investment capacity and in turn to reduce the carrying value of the recoverable amount of goodwill by \$86.2 million. This reduction is not reversible under current accounting standards if investment capacity is subsequently deployed. Similarly, the value of potential revenues from investment capacity under new funds or mandates promoted or secured by Cromwell in the future are not able to be recognised as goodwill under current accounting standards.

Cromwell's Australian wholesale fund, Cromwell Partners Trust ("CPA") continued with its management of the Northpoint property. The property is undergoing a major redevelopment of its retail space and development of a 190 room hotel on site. Preliminary construction works associated with the major redevelopment have commenced and resulted in 26% lower earnings from CPA as a number of tenancies needed to be terminated or were not renewed to make way for the works.

#### (v) Property development

Development activity during this financial year continued to be extremely limited, with a small amount of industrial land held for development or re-sale when the opportunity arises. Cromwell does not seek to undertake any material amount of speculative development.

### (C) FINANCIAL POSITION

	Cromwell		Trust	
	2016	2015	2016	2015
Total assets (\$M)	<b>2,878.3</b>	2,589.1	<b>2,828.0</b>	2,489.4
Net assets (\$M)	<b>1,500.2</b>	1,294.2	<b>1,472.4</b>	1,233.6
Net tangible assets (\$M) <sup>(1)</sup>	<b>1,422.5</b>	1,130.7	<b>1,472.4</b>	1,233.6
Net debt (\$M) <sup>(2)</sup>	<b>1,152.4</b>	1,041.4	<b>1,124.7</b>	1,105.2
Gearing (%) <sup>(3)</sup>	<b>43%</b>	45%	<b>44%</b>	45%
Stapled securities issued ('M)	<b>1,752.3</b>	1,739.8	<b>1,752.3</b>	1,739.8
NTA per stapled security	<b>\$0.81</b>	\$0.65	<b>\$0.84</b>	\$0.71
NTA per stapled security (excluding interest rate swaps)	<b>\$0.82</b>	\$0.67	<b>\$0.85</b>	\$0.72

(1) Net assets less deferred tax assets, intangible assets and deferred tax liabilities.

(2) Borrowings less cash and cash equivalents and restricted cash.

(3) Net debt divided by total tangible assets less cash and cash equivalents and restricted cash.

All of Cromwell's property assets, except for the vacant block of land at Sturton Road in South Australia were externally revalued at June 2016. The weighted average capitalisation rate (WACR) was 7.07% across the portfolio, compared with 7.84% at June 2015.

Net debt increased by \$111.0 million as a result of new debt of \$153 million to finance the acquisition of a 9.8% interest in the Investa Office Fund and the construction of a new building on the Tuggeranong Office Park site partly offset by debt repayments from proceeds of investment property sales. Gearing decreased from 45% to 43% during the year as a result of an 11.9% increase in property valuations.

An additional 12.6 million stapled securities were issued during the year at an average issue price of \$0.89, comprising the continuing operation of the distribution reinvestment plan which resulted in the issue of 10.0 million securities during the year, whilst a further 2.5 million were issued due to the exercise of performance rights.

NTA per security has increased during the year from \$0.65 to \$0.81, primarily as a result of an increase in property valuations which contributed 14.3 cents to the increase in NTA.

## **(D) OUTLOOK**

### **Distribution and operating profit**

Distributions are expected to increase to a total annual distribution of 8.34 cents for the 2017 financial year with operating profit of no less than 8.4 cents per stapled security.

### **Property investment**

Returns from the Property Investment segment are expected to be lower in 2017. While 2016 saw excellent leasing outcomes for Cromwell, the 13 Keltie Street, ACT investment property commences 2017 with 36% occupancy and the Vodafone Call Centre, TAS will commence 2017 vacant. In Brisbane, the 200 Mary Street, QLD investment property will commence 2017 with 58% occupancy. Cromwell will continue to focus on delivering positive leasing outcomes for all property assets but the current leasing markets in Canberra and Queensland are expected to result in some downtime before these properties return to full occupancy. 2016 also saw the Property Investment segment boosted by one off revenues totalling \$5.5 million which may not be replicated in 2017.

### **External funds management - retail**

Cromwell will continue to look for appropriate assets for the Cromwell Direct Property Fund which will generate transactional funds management income. Cromwell will also look for other property syndication opportunities during 2017.

On 7 July 2016, the unit holders of Cromwell Riverpark Trust voted to extend the term of their Trust for another 5 years. At 30 June 2016, Cromwell Riverpark Trust had an NTA of \$1.52 per unit and will increase distributions to 11.0 cents per annum following the extension. This will result in Cromwell earning an interim performance fee in 2017 as well as on-going funds management fees.

Cromwell's other unlisted funds should all perform as expected and provide Cromwell with recurring funds management fees.

Provided Cromwell can acquire property assets for the Cromwell Direct Property Fund and/or successfully launch another property syndication then operating profit in 2017 from the retail funds management business is expected to be consistent with the operating profit in 2016.

### **External funds management - wholesale**

The European business faces a number of short term challenges in 2017 as a consequence of recent uncertainty in the financial markets in Europe resulting in part from the vote in the United Kingdom to leave the European Union. In the short term this has led to a slow down in the deployment of existing investment capacity and resulting deferral or loss of transaction and funds management fees. It may be the case that the disruption in financial markets in Europe leads to an increase in transactional activity or accelerated capital raising in funds promoted and managed in Europe. It may also be the case that Cromwell may receive performance fees in 2017, and that these may be accelerated or deferred depending on market conditions over the balance of the financial year. Cromwell has adopted conservative assumptions in forecasting transactional and funds management revenues and potential performance fees from European business in 2017.

Cromwell's Australian wholesale fund, Cromwell Partners Trust ("CPA") will continue with its management of the Northpoint property. The property will continue with its major redevelopment of its retail space during 2017. This will likely see the results for the Trust be similar to 2016 until the redevelopment is completed.

### **Overall**

2016 was an excellent year for Cromwell and one which exceeded our expectations for transactional revenue as a result of one off performance fees from Cromwell Box Hill Trust, the performance fee from the Gemini fund in Europe, non-recurring revenue from the property portfolio and distributions from the opportunistic acquisition of the investment in the Investa Office Fund. We have adopted conservative assumptions for transaction revenue and funds management revenue in 2017. Notwithstanding those assumptions, we expect to demonstrate a consistent upward trend in operating earnings from 8.3 cents per security in 2015 to no less than 8.4 cents per security in 2017, and resulting increase in distributions from 8.20 cents per security in 2016 to no less than 8.34 cents per security in 2017.

This outcome, if achieved, will be a further strong endorsement of our strategy and business model.



Cromwell's objective is to continue to grow operating profit and distributions per security, maintaining a capacity to derive transactional revenue where possible, growing funds management revenues in a sustainable way and continuously improving the capacity of our property portfolio to deliver above average returns over the medium and long term from active management of our assets and our portfolio. We will continue to manage the risk and cost of our debt, maintaining appropriate protection to the downside with the opportunity to benefit from the trend of lower global interest rates.

## 5. Significant Changes in the State of Affairs

Changes in the state of affairs of Cromwell during the financial year are set out within the financial report. There were no significant changes in the state of affairs of Cromwell during the financial year other than as disclosed in this report and the accompanying financial report.

## 6. Subsequent events

No matter or circumstance has arisen since 30 June 2016 that has significantly affected or may significantly affect:

- Cromwell's and the Trust's operations in future financial years; or
- the results of those operations in future financial years; or
- Cromwell's and the Trust's state of affairs in future financial years.

## 7. Environmental regulation

The Directors are not aware of any particular and significant environmental regulation under a law of the Commonwealth, State or Territory relevant to Cromwell.

## 8. Trust Disclosures

### Issued Units

Units issued in the Trust during the year are set out in note 10 in the accompanying financial report. There were 1,752,331,208 (2015: 1,739,759,298) issued units in the Trust at balance date.

### Value of Scheme Assets

The total carrying value of the Trust's assets as at year end was \$2,828.0 million (2015: \$2,489.4 million). Net assets attributable to unitholders of the Trust were \$1,467.2 million (2015: \$1,228.0 million) equating to \$0.84 per unit (2015: \$0.71 per unit).

The Trust's assets are valued in accordance with policies stated in notes 5, 6, 7 and 12 of the financial statements.

### AIFMD Remuneration Disclosure

The senior management and staff of Cromwell whose actions have a material impact on the risk profile of the Trust are considered to be the key management personnel identified in the Remuneration Report which is included in this Directors' Report.

The amount of the aggregate remuneration paid by Cromwell to those key management personnel in respect of the financial year ending 30 June 2016 was \$5,014,845. This amount is comprised of fixed remuneration of \$3,819,297 and variable remuneration of \$1,195,548.

This remuneration disclosure is being made to satisfy Cromwell Property Securities Limited's obligations under AIFMD. References to "remuneration", "staff" and "senior management" should be construed accordingly.

## 9. Indemnifying officers or auditor

Subject to the following, no indemnity or insurance premium was paid during the financial year for a person who is or has been an officer of Cromwell. The constitution of the Company provides that to the extent permitted by law, a person who is or has been an officer of the Company is indemnified against certain liabilities and costs incurred by them in their capacity as an officer of the Company.

Further, the Company has entered into a Deed of access, insurance and indemnity with each of the Directors and the company secretary. Under the deed, the Company agrees to, amongst other things:

- indemnify the officer to the extent permitted by law against certain liabilities and legal costs incurred by the officer as an officer of the Company and its subsidiaries;
- maintain and pay the premium on an insurance policy in respect of the officer; and
- provide the officer with access to board papers and other documents provided or available to the officer as an officer of the Company and its subsidiaries.

Cromwell has paid premiums for Directors and officers' liability insurance with respect to the Directors, company secretary and senior management as permitted under the *Corporations Act 2001*. The terms of the policy prohibit disclosure of the nature of the liabilities covered and the premiums payable under the policy. No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an auditor of the Company or any of its controlled entities.

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## 10. Rounding of amounts to the nearest one hundred thousand dollars

Cromwell is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument amounts in the Directors' report and financial report have been rounded off to the nearest one hundred thousand dollars, or in certain cases to the nearest dollar.

## 11. Auditor

Pitcher Partners continues in office in accordance with section 327 of the *Corporations Act 2001*.

The Company may decide to employ Pitcher Partners on assignments additional to their statutory duties where the auditor's expertise and experience with the Company and/or the Cromwell are important.

The Directors have considered the position and, in accordance with advice received from the Audit & Risk Committee, are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* as none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* and all non-audit services have been reviewed by the Audit & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor.

Details of the amounts paid or payable to the auditor and its related parties for non-audit services provided to the Cromwell are set out below:

	2016	2015
	\$	\$
<b>Non-audit services</b>		
Due diligence services	23,000	400,000
<b>Total remuneration for non-audit services</b>	<b>23,000</b>	<b>400,000</b>

The auditor receives remuneration for audit and other services relating to other entities for which Cromwell Funds Management Limited and Cromwell Real Estate Partners Pty Ltd, both controlled entities, act as responsible entity. The remuneration is disclosed in the relevant entity's financial reports and totalled \$99,500 [2015: \$92,000].

Amounts paid to PwC, who acted as the component auditor for an overseas component of Cromwell in the current year, and its network firms for non-audit services were as follows:

	2016	2015
	\$	\$
<b>Non-audit services</b>		
Tax compliance services – Australia	349,810	222,786
Tax compliance and other services - overseas	88,695	392,857
<b>Total remuneration for non-audit services</b>	<b>438,505</b>	<b>615,643</b>

## 12. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached to this report.

## 13. Remuneration Report

The remuneration report is presented for the financial year ending 30 June 2016. The report forms part of the Directors' Report and has been prepared and audited in accordance with the requirements of the *Corporations Act 2001*. This report is where we explain how performance has been linked to reward outcomes that forge a clear alignment between Cromwell staff and securityholders.

This report outlines the remuneration for Non-Executive Directors as well as Executive Directors and other key management personnel ("KMP"). KMP are defined as those employees who have authority and responsibility for planning, directing and controlling the activities of Cromwell. The report is set out under the following headings:

- (a) Remuneration principles – governance, policy, objectives;
- (b) Link between remuneration and performance;
- (c) Details of remuneration;
- (d) Details of remuneration: cash bonuses and performance rights;
- (e) Equity based compensation;
- (f) Employment contracts and termination provisions; and
- (g) Details of equity instrument holdings, loans, etc.

### (A) REMUNERATION PRINCIPLES

#### Governance

Cromwell has appointed a nomination and remuneration committee ("Committee"). The Committee advises the Board on remuneration policy, practices and strategies.

During the financial year the members of the Committee were:

Mr G Levy	Non-executive Director and Chairman of the Committee following the resignation of Mr R Pullar;
Mr R Pullar	Non-executive Director and Chairman of the Committee until his resignation on 25 November 2015;
Ms M McKellar	Non-executive Director
Mr R Foster	Non-executive Director
Ms J Tongs	Non-executive Director

The committee calls upon external consultants if and when necessary and also makes use of various professional and industry publications in assisting them in their considerations. The Chairman of the Committee who is also the Chairman of the Board, has also consulted directly with certain proxy advisors and some institutional investors to understand their viewpoint on issues relating to remuneration generally and given the specific nature and circumstances of Cromwell's business operations and economic environment.

An important change made to Cromwell's remuneration policy during the year has been the adoption by Cromwell of a staff values initiative. This is outlined in more detail below and now forms 50% of every staff members annual performance review. The employee value system cements what Cromwell believes has been the cornerstone of its corporate culture and the underlying basis for its ongoing success.

Further information on the role and activities of the Committee is available on Cromwell's website and the Corporate Governance Statement to be released with the Annual Report.



## Remuneration policy

Cromwell is committed to setting and achieving objectives that best serve the interests of Cromwell's securityholders. Cromwell's remuneration strategy is designed to align behaviours with the Cromwell's objectives.



## Objectives

Fundamentally, Cromwell aims to support or enhance its operating earnings per security in any given financial year in a way that does not unduly increase the risk profile of Cromwell. Cromwell also seeks to operate within a framework that facilitates both sustainable growth and Cromwell outperforming its peers in the medium to long term.

Cromwell believes its past performance supports its view that the best way to achieve its objectives, and thus serve the interests of securityholders, is to provide a remuneration package to its employees, and particularly KMPs, that is designed to align KMPs interests with those of long-term minded securityholders by specifically designing their performance indicators to their particular role and responsibilities.

This is achieved by providing remuneration packages which consist of the following three elements (or a combination thereof) where appropriate:

1. Fixed component in the form of a cash salary;
2. An at-risk cash bonus that is linked solely to performance of a tailored set of objectives, where appropriate; and
3. At risk longer term equity payment. This third element is equity based remuneration aimed at alignment and retention.

The mix of these three elements, their key features and how they are applied to the KMPs of Cromwell are summarised below.

### Summary of remuneration elements by personnel

KMP	Fixed pay element	At-risk cash element	At-risk equity element
<b>Non-executive Directors</b>	Fixed pay amounts to each Director reflects the demands made on, and the responsibilities of each Director and with regard to market comparative levels. Total amount payable to all Non-executive Directors is approved by securityholders from time to time. Total amount payable, in aggregate, currently stands at \$1,000,000.	None.	None.
<b>Executive Director – CEO</b>	Set at an amount to reflect the demands, responsibilities, and skill levels required, with cognisance to the market.	Amount set by the Board annually with cognisance to the market. Payable based on reaching or exceeding key performance indicators set by the Board. For more detail refer to the <i>Remuneration packages</i> section below.	Amount set by the Board and approved by securityholders. Annual grant of performance rights with three year vesting terms. Grant requires the passing of annual performance hurdles set by the Board. Must meet 70% of annual hurdles in two out of the three years comprising the vesting period. Hurdles are assessed at the end of the vesting period. For more detail refer to section <i>Remuneration packages</i> below.
<b>Other KMP</b>	Set at an amount to reflect the demands, responsibilities and skill levels required, with cognisance to the market.	None.	Annual grant of performance rights with three year vesting terms. Grant requires the passing of annual performance hurdles set by the Board and the CEO over a three year period. Must meet 70% of annual hurdles in two out of the three years comprising the vesting period. Hurdles are assessed at the end of the vesting period. For more detail refer to section <i>Remuneration packages</i> below.

It is important to note the Committee retains the discretion to award equity based remuneration to employees, based on the recommendation of the CEO. This element of remuneration is seen as an alignment tool by the Board.

### (B) LINK BETWEEN REMUNERATION AND PERFORMANCE

Cromwell's key financial measures for the last five years are set out below:

	2016	2015	2014	2013	2012
Operating earnings per security	<b>9.4 cents</b>	8.3 cents	8.5 cents	7.6 cents	7.5 cents
Change over previous year	<b>13%</b>	(2%)	12%	1%	6%
Distribution per security	<b>8.2 cents</b>	7.9 cents	7.6 cents	7.3 cents	7.0 cents
Change over previous year	<b>4%</b>	4%	4%	4%	0%
Gearing	<b>43%</b>	45%	42%	46%	51%
Change over previous year	<b>(4%)</b>	7%	(9%)	(10%)	4%
KMP remuneration as % of operating earnings	<b>3.0%</b>	2.7%	3.8%	5.3%	6.1%
Change over previous year	<b>11%</b>	(29%)	(28%)	(13%)	(18%)

Cromwell has seen sustained growth in distributions per security over the last five years and growth in operating earnings per security in four of the last five years. At the same time, KMP remuneration has remained stable which has seen the level of remuneration compared with the level of earnings and distributions decrease over time. This reflects Cromwell's adherence to a disciplined approach to managing the business for the benefit of securityholders.

As Cromwell continues to grow both its property portfolio and its funds management business, the total remuneration paid to KMP may increase but this will reflect the increase in size and complexity of Cromwell and will be reliant on increase in returns to securityholders.

### Key performance indicators and employee values

Performance of staff is annually assessed based on two equally weighted measures; achievement of Cromwell Employee Values and meeting key performance indicators relevant to that employee.

#### Key performance indicators

The key performance indicators (KPIs) for each KMP take into account their role within Cromwell generally as well as their expected contribution to the achievement of Cromwell's objectives. The KPIs are designed to best incentivise each KMP to meet Cromwell's objectives and therefore best serve the interests of securityholders. 50% of an employee's annual performance score comes from meeting KPIs and the balance from living Cromwell employee values.

Although the specific KPIs are different for each of the KMP, the overriding principles in accordance with which they are determined are the same. The principles involve the assessment of each KMP's performance according to a traditional balanced scorecard methodology. The balanced scorecard methodology assigns performance and responsibility criteria across four broad categories.

The weightings of these categories for any individual are set and assessed in consideration of their role, qualifications and experience. However, generally the weightings will be within the bands set out below:

Financial Measures:	40 – 70%	Customer Measures:	10 – 30%
Internal Business Measures:	10 – 30%	Innovation & Learning Measures:	10 – 30%

The Chief Executive Officer is responsible for setting KPI targets and assessing annually whether those targets have been met. The KPI targets for the Chief Executive Officer are set, revised and reviewed annually by the Committee and the Board.

These categories are:

**Financial Measures:** Includes both the performance of Cromwell and the employees' business unit. Cromwell focuses on maintaining individual securityholder alignment by using operating earnings per security as the major financial metric. Other financial metrics include but are not limited to:

Metric	Required outcome
Distribution per security	Sustainable growth in distributions per security.
Gearing	Maintain total gearing profile of 35% LVR at market peak to 55% LVR at market trough.
Net debt/EBITDA	Ensure the ratio of net debt to EBITDA does not exceed 6 times.
Debt terms	Mitigate debt risks by maintaining 12 months minimum expiry profile of debt.
Interest rates	Maintain an interest rate hedging profile that provides a high degree of certainty of distributions for 2 years.
Long term net operating income growth	Achieve like-for-like net operating income growth that supports earnings and distribution targets, noting in some years investment is required at the expense of short term growth to secure long term growth.
Lease expiries	Focus on lease expiries in core portfolio and maintain vacancy rates at set targets.
Portfolio management	Meet agreed maintenance/lifecycle capex targets.
Active portfolio	Execute asset management plans for active portfolio.
Funds management	Successfully promote and launch new funds and maintain performance of current open retail funds.
Cash reserves	Maximise returns from cash reserves.



**Internal Business Measures:** Concentrate on improvement of people, systems and processes to create efficiency and accuracy to support long term business growth. The processes emphasise adherence to governance requirements.

**Customer Focussed Measures:** Cromwell surveys securityholders, tenants, fund investors and other stakeholders to ascertain customer relationship trends and set KPIs for employees to meet the needs identified by those trends, and to coincide with longer term corporate objectives.

**Innovation & Learning Measures:** Focuses on the growth of individuals, departments and corporate culture to innovate and extend current capabilities throughout Cromwell.

### **Cromwell employee values**

Cromwell has implemented a staff values initiative that outlines and identifies the values and behaviours that Cromwell believes are vital to its culture and the ongoing success and performance of Cromwell. These values and behaviours require all Cromwell staff to be: principled, empathetic, collegiate, diligent, courageous, accountable, humble, committed and spirited.

These values and behaviours have been an important part of Cromwell's culture for many years and a core reason for Cromwell's success. All staff are now reviewed on how well they demonstrate Cromwell's Employee Values as part of their annual performance review. 50% of an employee's annual performance score comes from meeting Cromwell's values.

### **Remuneration packages**

#### **Fixed pay**

All employees, including all KMP (other than Non-Executive Directors) receive a remuneration package that includes a fixed pay component. Fixed pay is based on market conditions and can be within a range from the lower end of market to the higher end of market depending on the employee's mix of fixed versus at risk remuneration. Geographical market based factors are taken into consideration when determining fixed pay components and the mix between fixed versus at risk remuneration.

KMP are remunerated at the market median level of their fixed pay, adjusted for factors such as the external market environment and the employee's position, qualifications and responsibility within Cromwell. In assessing the level of fixed pay relative to the market, weighting is given to Cromwell's and the employee's performance over the total employment period.

#### **At-risk cash bonus (short term incentives)**

Short term incentives are generally included as part of the remuneration package for those employees that can have a material impact on the key marginal drivers of operating earnings in any given financial year. These include, but not limited to, such factors as: leasing outcomes, changes in property earnings, interest expense, funds management earnings, and changes in the investment property portfolio.

Cromwell does not generally take into account non-financial performance indicators in assessing whether or not relevant employees are entitled to short term incentives.

Short term incentives are generally paid as cash bonuses, and once paid there are no forfeiture provisions.

### **Equity based compensation**

#### **Overview**

The granting of equity based compensation to employees, that are considered important to the longer term success of Cromwell, is to ensure alignment between these employees, and the securityholders. No employee has an automatic entitlement to any equity based compensation which is a form of deferred remuneration.

Participating employees are offered a choice of compensation in the form of either performance rights, issued under Cromwell's performance rights plan (PRP) or access to a limited recourse interest free loan facility, under Cromwell's security loan plan (SLP), to fund the acquisition of stapled securities in Cromwell.

If performance rights issued under the PRP vest, employees will be issued one stapled security per performance right exercised. Performance rights do not give a participating employee the right to vote at securityholder meetings or the right to receive a distribution from Cromwell. Any stapled securities acquired by virtue of a loan under the SLP will give the participating employee the right to vote at security holder meetings, and the right to receive distributions from

Cromwell, on the same terms as other stapled securities on issue. However, the relevant stapled securities will be security for the participating employee's obligations under the SLP and any distributions received must be used to repay or reduce the loan amount.

Every three years, the maximum value of the Executive Directors' participation in Cromwell's equity based compensation arrangements is discussed and agreed by the Board (using the allocation method discussed below) and put to securityholders for approval.

### **Awarding**

Each year the Board (on recommendation from the Committee) considers whether to grant equity based compensation to the Executive Directors and, if so, to what value. In December 2015, 1,254,530 performance rights were granted to the Chief Executive Officer, vesting in September 2018.

Each year the Committee delegates authority to the Chief Executive Officer to determine which employees other than Executive Directors will receive equity based compensation and, if so, to what value. The Committee considers and, if appropriate, ratifies the Chief Executive Officer's determination.

Allocations for participating employees, other than the Executive Directors, are determined annually after the end of each financial year.

In determining the total value of equity based compensation to be granted in any one year the performance of Cromwell as a whole is considered. This involves an assessment of whether Cromwell has met its objectives, including a review of Cromwell's key financial measures.

The actual value awarded to a participating employee was determined by taking into account the following:

- the employee's performance during the previous financial year as assessed against their KPI's. An employee must have achieved at least 70% of their KPIs in the previous financial year; and
- the employee's level of fixed pay. The maximum value of performance rights to be allocated to any employee other than an executive director is generally limited to 25% of their fixed pay.

Once a value had been allocated, the participating employee is given the option of participation in the PRP, the SLP or a combination of the two. If participation in the PRP is selected, the actual number of performance rights granted to the participating employee is determined by dividing the total value awarded to that employee by the fair value of each performance right at grant date.

Once performance rights are granted, the participating employees will need to meet performance hurdles before they vest. Although the Committee (or the Chief Executive Officer under delegated authority) may impose other conditions, generally performance rights will vest if an employee achieves 70% or greater of their KPIs in two out of the three years comprising the vesting period and are still employed by Cromwell at the end of that three year vesting period. Performance hurdles are assessed at the end of the vesting period. If the performance hurdles are not met, the performance rights will be forfeited. Forfeited performance rights are not re-tested. Performance rights will also lapse if not exercised within the exercise period.

In addition to the above, performance rights and stapled securities issued under the SLP will also be forfeited if an employee resigns, has their employment terminated or commits an act which brings Cromwell into disrepute.

Aggregate, and employee, allocation limits are also in place to ensure a balance between the cost of equity based compensation and the benefit of retaining valuable employees. The employee limits also serve to mitigate the risk to Cromwell of non-payment by an employee under the SLP.

Once a value has been allocated, the participating employee is given the option of participation in either the PRP, the SLP or a combination of the two. If participation in the PRP is selected, the actual number of performance rights that are then granted to the participating employee is determined by dividing the total value awarded to that employee by the fair value of each performance right at grant date. The fair value at grant date for performance rights is determined using a Black-Scholes option pricing model that takes into account the exercise price (including the discount to market value at grant date), the term of the performance right, the security price at grant date, expected price volatility of the underlying securities, the expected dividend/distribution yield and the risk free interest rate for the term of the performance right. The valuation of performance rights is discussed in more detail in section (e) below.

Under the PRP, if performance rights vest they allow eligible employees to obtain stapled securities at a discount to market value. The discount is taken into account when determining the value to be issued to a participating employee. Since grants under the PRP are made in value terms, the lower the exercise price the lower the number of performance rights granted and, therefore, the lower the number of securities that may be issued.

To determine the maximum loan amount, where participation in the SLP is selected, the value of the equity based compensation is treated as an interest rate reduction benefit during the loan period (usually expected to be three years). The loan is then used to acquire stapled securities at their "current market value", being the average of the daily volume weighted average price for all sales of CMW stapled securities on ASX, including special crossings, during the previous 10 trading days.

During the loan period the participating employee cannot deal with the stapled securities acquired under the SLP. At the end of the loan period, provided performance hurdles are met and the outstanding loan balance is less than the market value of stapled securities, the loan balance is immediately repayable. Upon repayment the participating employee will be able to deal with the stapled securities. If the participating employee does not repay the outstanding loan balance, or if the outstanding loan balance is greater than the market value of the stapled securities, the stapled securities will be forfeited.

While there was no long term equity based incentive scheme in 2016, the Board is considering the implementation of one for future years when and if appropriate. While Cromwell is predominantly a real estate investment trust, with the majority of operating profit being derived from passive rent collection, the Board has taken a view that a traditional equity based long term incentive scheme may drive inappropriate behaviour. However, as Cromwell positions itself to earn more operating profit from transactional and funds management business segments, certain longer term incentives may become a desirable management tool.

### Remuneration package – CEO

The remuneration packages of the Chief Executive Officer for the last three years comprised the following components:

	Financial year	Fixed pay \$	At-risk cash bonus \$	Equity based compensation \$
Paul Weightman	2016	1,350,000 (53%)	800,000 (32%)	385,063 (15%)
	2015	1,100,000 (67%)	250,000 (15%)	289,002 (18%)
	2014	1,050,000 (71%)	250,000 (17%)	171,953 (12%)

#### Fixed pay

The board increased the fixed pay component of the CEO from \$1,100,000 to \$1,350,000 for 2016. In determining the FY16 fixed pay component for the CEO, the board considered the enlargement of the role with the acquisition of the European business and the need to bring fixed remuneration closer in line to market. The awarded fixed pay for 2016 was around 50<sup>th</sup> percentile of the peer group. The increase was awarded following a detailed benchmarking exercise against the peer group.

#### At-risk cash bonus

The Board increased the available at risk cash bonus pool for the CEO from \$250,000 to \$800,000 for 2016. The increase was undertaken after benchmarking similar awards from CEO's and senior executives of the peer group. The increase in the at risk cash bonus pool is also a reflection of the increased focus on funds management, the global nature of the business, global travel commitments, and the enlargement of the role. The potential at risk cash bonus pool of \$800,000 puts Cromwell within the 25<sup>th</sup> percentile of its peer group.

The purpose of the at-risk cash bonus is to focus the CEO's efforts on those key marginal drivers and outcomes that are priorities for Cromwell for the relevant financial year and to motivate the CEO to strive to achieve stretch performance objectives. The key marginal drivers and outcomes for each year are chosen by the Board on the basis that they are expected to have a significant short and long term impact on the success of Cromwell.



The Board's assessment of performance against key marginal drivers and outcomes for 2016 is provided in the following table:

Key marginal driver – 2016	Commentary	Overall rating
Earnings per security	Actual operating EPS of 9.41 cps versus guidance of 9.0cps	Exceeded
Sustainable growth in distribution per security	Distribution growth of 3.8% versus guidance of 3.0%.	Exceeded
Integration of European business	Refer below for detailed commentary	On target
Minimise 2017 portfolio rental contraction	Refer below for detailed commentary	Progress Made
Appropriate succession planning for the CEO	The succession plan for all KMPs is fluid and constantly reviewed by the Board.	On target

No other KMP was awarded a short term incentive in 2016 as their remuneration was fixed and had been increased as referred to below.

#### **Successful integration of European business**

The CEO and other KMP spent considerable time during the year working closely with the European team in order to achieve the following key outcomes:

- Implementation of Cromwell's Employee Values across the entire group including the European business;
- Beginning the rebranding of the European business as Cromwell and refreshing the brand globally;
- Reorganising and expanding the European business' management base to allow better focus on maintaining current transactional based revenue streams while positioning the business for growth by also allowing a new focus on more reliable and stable annuity style revenue streams; and
- Implementing a growth strategy that looks at launching more discretionary, long-term funds. This will leverage off the current skill base and revenue sources of the European business.

These are all ongoing and are being implemented gradually over the 2016 and 2017 financial years.

#### **Minimise 2017 portfolio rental contraction**

Successful leasing in Sydney and Melbourne and lease renewals has underwritten significant rental income in future years. Cromwell continues to focus on the potential challenges in parts of the Canberra portfolio as it looks to reposition assets such as Tuggeranong Office Park and 13 Keltie Street, Woden. Currently these Canberra assets remain in transition.

Overall, returns from the Property Investment segment are expected to be lower in 2017 until occupancy levels in the Canberra and Brisbane investment properties can be improved.

Based on the quality of the above results: the CEO was granted 87.5% of the possible at risk cash bonus for 2016.

#### **Equity based compensation**

At the 2015 AGM, securityholders voted to increase the maximum value of the equity pool available to the CEO to \$800,000 per annum. As described previously, the CEO's KPI's for equity based awards are the same as those for determining the at risk cash bonus. The assessment of performance against the CEO KPIs is tabled above.

The CEO's long term equity plan differs from other Cromwell employees, in that the amount awarded in any given year reflects the maximum equity based compensation payable, as approved by securityholders, multiplied by the annual review score.

#### **Non-executive Directors remuneration**

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. The Board determines remuneration of Non-Executive Directors within the maximum amount approved by security holders from time to time. This maximum currently stands at \$1,000,000 per annum in total for fees to be divided among the Non-Executive Directors in such a proportion and manner as they agree.

Non-Executive Directors are paid a fixed remuneration, comprising base fees or salary and superannuation (if applicable). Non-Executive Directors do not receive bonus payments or participate in security-based compensation plans, and are not provided with retirement benefits other than statutory superannuation.

	2016 \$	2015 \$
Chairman	203,500	203,500
Non-Executive Director	93,500	93,500
Audit & Risk Committee – Chairman	19,800	19,800
Audit & Risk Committee – Member	13,200	13,200
Nomination & Remuneration Committee – Chairman	8,250	8,250
Nomination & Remuneration Committee – Member	5,500	5,500
Investment Committee	-	-

The Non-Executive Directors' fees were increased as at 26 November 2014. Prior to this the last increase was in November 2011. The current and previous year rates are shown above. From 1 July 2016, fees and payments to Non-Executive Directors will be increased annually in line with CPI.

### (C) DETAILS OF REMUNERATION

Remuneration paid, payable, or otherwise made available, directly or indirectly, to key management personnel is set out below. Key management personnel of Cromwell are the Non-executive Directors, the Chief Executive Officer and his direct reports who form Cromwell's Executive Management Group (EMG). The EMG has the authority and responsibility for planning, directing and controlling the activities of Cromwell.

Key management personnel during the year were:

#### Non-executive Directors:

Mr G Levy (AO)	Chairman
Ms M McKellar	Director
Mr R Foster	Director
Ms J Tongs	Director
Mr M Wainer	Director
Mr A Konig	Director
Mr R Pullar	Director – resigned 25 November 2015
Mr G Cannings	Alternate Director to Mr Wainer and Mr Konig – resigned 7 December 2015

#### Executive Management Group (EMG):

Mr Paul Weightman	Managing Director/Chief Executive Officer
Mr M Wilde	Chief Financial Officer
Ms J Clark	Chief Operations Officer, Property Licensee
Mr D Horton	Head of Property

The table below outlines the cash remuneration and at-risk cash bonus received as well as the value of equity based compensation that were expensed during the year in accordance with applicable statutory accounting rules.

		Short-term			Post-employment	Long-term	Security based payments	Total	Total performance related	
		Salary <sup>(7)</sup> and fees	Non-monetary benefits	At-risk cash bonus	Total short term	Super-annuation	Long service leave			Equity based compensation
		\$	\$	\$	\$	\$	\$			\$
<b>Non-Executive Directors</b>										
G Levy	2016	184,611	-	-	184,611	17,330	-	-	201,941	-
	2015	178,344	-	-	178,344	16,943	-	-	195,287	-
M McKellar	2016	111,049	-	-	111,049	-	-	-	111,049	-
	2015	108,078	-	-	108,078	-	-	-	108,078	-
R Foster	2016	96,577	-	-	96,577	9,175	-	-	105,752	-
	2015	87,089	-	-	87,089	8,273	-	-	95,362	-
J Tongs	2016	107,380	-	-	107,380	10,201	-	-	117,581	-
	2015	63,185	-	-	63,185	5,898	-	-	69,083	-
M Wainer	2016	92,541	-	-	92,541	-	-	-	92,541	-
	2015	90,065	-	-	90,065	-	-	-	90,065	-
A Konig	2016	81,917	-	-	81,917	-	-	-	81,917	-
	2015	41,880	-	-	41,880	-	-	-	41,880	-
R Pullar <sup>(1)</sup>	2016	43,337	-	-	43,337	4,117	-	-	47,454	-
	2015	101,120	-	-	101,120	9,606	-	-	110,726	-
G Cannings <sup>(2)</sup>	2016	9,303	-	-	9,303	955	-	-	10,258	-
	2015	20,103	-	-	20,103	1,910	-	-	22,013	-
D Usasz <sup>(3)</sup>	2015	40,274	-	-	40,274	3,826	-	-	44,100	-
M Watters <sup>(4)</sup>	2015	26,542	-	-	26,542	-	-	-	26,542	-
<b>Executive Management Group (EMG)</b>										
P Weightman	2016	1,267,587	157,900	700,000	2,125,487	19,308	175,612	385,063	2,705,470	40%
	2015	972,414	157,900	250,000	1,380,314	18,783	33,558	289,002	1,721,657	31%
M Wilde	2016	419,025	8,100	-	427,125	19,308	23,156	47,117	516,706	9%
	2015	268,442	-	-	268,442	15,677	4,775	31,202	320,096	10%
J Clark	2016	408,278	-	-	408,278	19,308	14,028	63,368	504,982	13%
	2015	382,019	-	-	382,019	18,783	16,576	36,866	454,244	8%
D Horton	2016	496,627	-	-	496,627	19,308	3,259	-	519,194	0%
	2015	57,775	-	-	57,775	2,167	90	-	60,032	0%
D Wilson <sup>(5)</sup>	2015	333,559	-	-	333,559	12,498	6,597	10,646	363,300	3%
M McCarthy <sup>(6)</sup>	2015	202,716	5,203	-	207,919	-	-	-	207,919	0%
<b>Total remuneration</b>	2016	<b>3,318,232</b>	<b>166,000</b>	<b>700,000</b>	<b>4,184,232</b>	<b>119,010</b>	<b>216,055</b>	<b>495,548</b>	<b>5,014,845</b>	
	2015	2,973,605	163,103	250,000	3,386,708	114,364	61,596	367,716	3,930,384	

(1) Mr Pullar resigned on 25 November 2015.

(2) Mr Cannings resigned on 7 December 2015.

(3) Mr Usasz resigned on 26 November 2014.

(4) Mr Watters resigned on 26 November 2014.

(5) Mr Wilson resigned from Cromwell as a director on 25 February 2015.

(6) Mr McCarthy resigned as KMP on 30 June 2015.

(7) Includes any change in accruals for annual leave.

Mr Wilde and Ms Clark have both received promotions with much broader roles over a much larger business. Increases in their respective remuneration to market are anticipated to also occur in 2017.



## (D) DETAILS OF REMUNERATION: CASH BONUSES AND PERFORMANCE RIGHTS

For each at-risk cash bonus and grant of performance rights options (equity based compensation) included in the tables in section (c) above, the percentage of the available at-risk cash bonus paid, or equity based compensation that vested, during the year and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below.

The performance rights are subject to vesting conditions as outlined above. No performance rights will vest if the conditions are not satisfied, hence the minimum value of performance rights yet to vest is \$nil. The maximum value of the performance rights yet to vest has been determined as the amount of the grant date fair value of the performance rights that is yet to be expensed at balance date. References to options in the table below relate to performance rights.

Name	At-risk cash bonus		Equity based compensation				
	Cash bonus paid %	Cash bonus forfeited %	Years options granted	Options vested in 2016 %	Options forfeited in 2016 %	Years options may vest	Maximum value of grant to vest \$
P Weightman	87.5%	12.5%	2014/15/16	100% <sup>(1)</sup>	–	2017/18/19	589,714
M Wilde	–	–	2014/15/16	100% <sup>(2)</sup>	–	2017/18/19	76,588
J Clark	–	–	2014/15/16	–	–	2017/18/19	99,953
D Horton	–	–	–	–	–	–	–
M McCarthy	–	–	–	–	–	–	–

(1) Relates to performance rights issued in 2011.

(2) Relates to performance rights issued in 2013.

## (E) EQUITY BASED COMPENSATION

Details of the PRP are set out in part (a) of the remuneration report.

All Executive Directors and employees of Cromwell are considered for participation in the PRP subject to a minimum period of service and level of remuneration, which may be waived by the Committee. Grants to Executive Directors are subject to securityholder approval.

Consideration for granting performance rights, grant periods, vesting and exercise dates, exercise periods and exercise prices are determined by the Board or Committee in each case. Performance rights carry no voting rights. When exercised, each performance right is convertible into one stapled security.

The terms and conditions of each grant of performance rights under the PRP affecting remuneration for key management personnel in the current or future reporting periods are included in the table below:

Grant date	Expiry date	Exercise price	No of performance rights granted	Assessed value per right at grant date
18-Dec-2013	01-Oct-2016	–	57,078	75.7¢
18-Dec-2013	01-Oct-2016	\$0.50	165,929	30.2¢
18-Dec-2013	01-Jan-2017	\$0.50	1,531,654	29.1¢
16-Oct-2014	01-Oct-2017	–	50,827	74.4¢
16-Oct-2014	01-Oct-2017	\$0.50	1,704,120	28.5¢
02-Nov-2015	02-Dec-2018	–	204,604	78.2¢
11-Dec-2015	10-Oct-2018	\$0.50	1,254,530	35.9¢

Details of changes during the 2016 year in performance rights on issue to key management personnel under the PRP are set out below.

	Opening balance	Granted	Exercised	Forfeited	Lapsed	Closing balance
P Weightman	4,305,765	1,254,530 <sup>(1)</sup>	(1,333,334) <sup>(1)</sup>	-	-	4,226,961
M Wilde	132,908	95,908 <sup>(2)</sup>	(25,003) <sup>(2)</sup>	-	-	203,813
J Clark	429,272	108,696 <sup>(3)</sup>	-	-	-	537,968
D Horton	-	-	-	-	-	-
M McCarthy	-	-	-	-	-	-
	<b>4,867,945</b>	<b>1,459,134</b>	<b>(1,358,337)</b>	<b>-</b>	<b>-</b>	<b>4,968,742</b>

(1) The value at grant date was \$450,000. The value at exercise date was \$153,200.

(2) The value at grant date was \$75,002. The value at exercise date was \$15,000.

(3) The value at grant date was \$85,002.

The assessed fair value at grant date of performance rights granted is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in part (c) of the remuneration report. Fair value at grant date for performance rights with no market based vesting conditions are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the performance right, the security price at grant date, expected price volatility of the underlying securities, the expected dividend/distribution yield and the risk-free interest rate for the term of the performance right.

A total of 2,375,686 performance rights were granted during 2016 (2015: 4,463,229) of which 1,459,134 (2015: 2,281,632) were issued to key management personnel. The model inputs for performance rights granted during the 2016 year are disclosed in note 18.

Plan rules contain a restriction on removing the "at risk" aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the "at risk" aspect of an instrument before it vests without explicit approval from the Board.

At 30 June 2016 no performance rights on issue had vested.

## (F) EMPLOYMENT CONTRACTS AND TERMINATION PROVISIONS

### Paul Weightman (CEO)

Remuneration and other terms of employment for the Chief Executive Officer are formalised in an employment agreement. Cromwell may terminate the agreement without notice for gross misconduct; otherwise, Cromwell may terminate the agreement on six months notice, or payment of entitlements for this period in lieu of notice. Mr Weightman may terminate the agreement at any time with six months notice. Other major provisions of the agreement are as follows:

- Term of agreement – Commencing 1 July 2006, no fixed termination date.
- Base salary, inclusive of superannuation, of \$1,369,308, to be reviewed annually by the remuneration committee.
- Performance cash bonus of up to \$800,000 with targets to be reviewed annually by the remuneration committee.

### All other executives

Remuneration and other terms of employment for other executives are contained under standard employment contracts. There are no termination payments due under the contracts other than statutory entitlements for accrued leave. Remuneration is reviewed annually.

### Termination provisions

There are no fixed term conditions in executive employment contracts. Minimum termination periods for executives are outlined below and adhered to in all cases except in the case of serious breaches of the employment contract.

	Notice period employee	Notice period Cromwell
Managing Director/CEO	6 months	6 months
All other key management personnel	1-3 months	1-3 months

## (G) DETAILS OF EQUITY INSTRUMENT HOLDINGS, LOANS AND OTHER TRANSACTIONS

### Security holdings

The number of stapled securities in Cromwell and units in the CDPT held during the financial year by key management personnel of Cromwell Corporation Limited, including their personally related parties, are set as follows.

	Balance at 1 July	Performance rights exercised	Net purchases (sales)	Balance at 30 June
<b>Non-Executive Directors</b>				
Mr G Levy (AO)	2,777,630	–	472,370	3,250,000
Ms M McKellar	817,965	–	33,000	850,965
Mr R Foster	2,517,998	–	(420,000)	2,097,998
Ms J Tongs	122,000	–	23,000	145,000
Mr M Wainer <sup>(1)</sup>	–	–	–	–
Mr A Konig <sup>(2)</sup>	–	–	–	–
<b>Executive Management Group (EMG):</b>				
Mr Paul Weightman	18,254,833	1,333,334	–	19,588,167
Mr M Wilde	95,720	25,003	–	120,723
Ms J Clark	71,032	–	–	71,032
Mr D Horton	–	–	–	–
	<b>24,657,178</b>	<b>1,358,337</b>	<b>108,370</b>	<b>26,123,885</b>

(1) Mr Wainer is a Director of Redefine Properties Limited which indirectly owns Redefine Australia Investments Limited, which owns 446,538,850 (2015: 227,076,125) stapled securities in Cromwell.

(2) Mr Konig is a Director of Redefine Properties Limited which indirectly owns Redefine Australia Investments Limited, which owns 446,538,850 (2015: 227,076,125) stapled securities in Cromwell.

### Loans to key management personnel

Cromwell has provided loans to Mr P Weightman, a Director of the Company, for the exercise of his employee options under Cromwell's Performance Rights Plan. Each loan term is three years, limited recourse and interest free. The outstanding balance at balance date was \$1,066,067.

### Other transactions with key management personnel

Cromwell rents an apartment, located at 185 Macquarie Street, Sydney, which is owned by Mr Weightman, a Director of the Company. Total rent paid during 2015 was \$98,982 (2015: \$93,600). The payment of rent is on normal commercial terms and conditions and at market rates.

The Directors' Report, including the Remuneration Report, is signed in accordance with a resolution of the Directors.



PL Weightman  
Director  
Dated this 24th day of August 2016



## PITCHER PARTNERS

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WARWICK FACE  
NIGEL BATTERS  
COLE WILKINSON  
SIMON CHUN

The Directors  
Cromwell Corporation Limited and  
Cromwell Property Securities as Responsible  
Entity for Cromwell Diversified Property Trust  
Level 19  
200 Mary Street  
BRISBANE QLD 4000

### Auditor's Independence Declaration

As lead auditor for the audit of Cromwell Corporation Limited and Cromwell Diversified Property Trust for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Cromwell Corporation Limited and the entities it controlled during the year and Cromwell Diversified Property Trust and the entities it controlled during the year.

*Pitcher Partners*  
PITCHER PARTNERS

*N Batters*

N BATTERS  
Partner

Brisbane, Queensland  
24 August 2016

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# Consolidated Income Statements

for the year ended 30 June 2016

	Notes	Cromwell		Trust	
		2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Revenue</b>					
Rental income and recoverable outgoings		215.4	236.0	215.5	234.8
Funds management fees		96.9	24.1	-	-
Share of profits – equity accounted investments		-	7.9	-	6.7
Interest		4.7	5.6	8.1	5.4
Distributions		8.2	2.3	6.0	0.3
Other revenue		0.4	0.6	0.1	0.2
<b>Total revenue</b>		<b>325.6</b>	<b>276.5</b>	<b>229.7</b>	<b>247.4</b>
<b>Other income</b>					
Gain on sale of investment properties	5(b)	19.4	1.0	19.4	1.0
Fair value net gain from:					
Investment properties	5	263.2	32.4	263.2	32.4
Derivative financial instruments		10.6	-	5.4	-
Investments at fair value through profit or loss		6.0	-	2.5	0.2
<b>Total revenue and other income</b>		<b>624.8</b>	<b>309.9</b>	<b>520.2</b>	<b>281.0</b>
<b>Expenses</b>					
Property expenses and outgoings		36.4	40.3	41.8	44.7
Funds management costs		2.3	1.8	-	-
Property development costs		0.1	0.2	-	-
Finance costs	8(b)	65.9	62.3	56.5	61.7
Employee benefits expense	20	59.2	28.7	-	-
Administration and overhead costs		25.9	11.2	12.2	11.7
Share of loss – equity accounted investments		2.1	-	3.0	-
Amortisation and depreciation		9.2	3.3	-	-
Fair value net loss from:					
Derivative financial instruments		-	1.8	-	5.5
Investments at fair value through profit or loss		-	1.2	-	-
Business combination costs		-	2.5	-	-
Other transaction costs		1.8	-	-	-
Decrease in recoverable amounts		86.6	-	35.3	-
Net foreign currency losses		2.2	7.9	-	0.7
<b>Total expenses</b>		<b>291.7</b>	<b>161.2</b>	<b>148.8</b>	<b>124.3</b>
<b>Profit before income tax</b>		<b>333.1</b>	<b>148.7</b>	<b>371.4</b>	<b>156.7</b>
Income tax expense	4(a)	3.5	(0.1)	-	-
<b>Profit for the year</b>		<b>329.6</b>	<b>148.8</b>	<b>371.4</b>	<b>156.7</b>
<i>Profit for the year is attributable to:</i>					
Company shareholders		(77.1)	(8.1)	-	-
Trust unitholders		406.7	156.9	371.4	156.9
Non-controlling interests		-	-	-	(0.2)
<b>Profit for the year</b>		<b>329.6</b>	<b>148.8</b>	<b>371.4</b>	<b>156.7</b>
<b>Earnings per security</b>					
Basic earnings per company share/trust unit (cents)	3(a)	(4.42¢)	(0.47¢)	21.26¢	9.05¢
Diluted earnings per company share/trust unit (cents)	3(a)	(4.42¢)	(0.47¢)	21.20¢	9.05¢
Basic earnings per stapled security (cents)	3(b)	18.86¢	8.58¢		
Diluted earnings per stapled security (cents)	3(b)	18.81¢	8.55¢		

The above consolidated income statements should be read in conjunction with the accompanying notes.

# Consolidated Statements of Comprehensive Income

for the year ended 30 June 2016

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Profit for the year</b>	<b>329.6</b>	<b>148.8</b>	<b>371.4</b>	<b>156.7</b>
<b>Other comprehensive income</b>				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	7.6	6.2	1.1	0.6
Income tax relating to this item	0.1	-	-	-
<b>Other comprehensive income, net of tax</b>	<b>7.7</b>	<b>6.2</b>	<b>1.1</b>	<b>0.6</b>
<b>Total comprehensive income</b>	<b>337.3</b>	<b>155.0</b>	<b>372.5</b>	<b>157.3</b>
<i>Total comprehensive income is attributable to:</i>				
Company shareholders	(71.5)	(3.6)	-	-
Trust unitholders	408.8	158.6	372.5	157.5
Non-controlling interests	-	-	-	(0.2)
<b>Total comprehensive income</b>	<b>337.3</b>	<b>155.0</b>	<b>372.5</b>	<b>157.3</b>

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheets

as at 30 June 2016

	Notes	Cromwell		Trust	
		2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Current Assets</b>					
Cash and cash equivalents		41.6	109.0	39.2	48.6
Receivables	15(a)	32.8	18.5	13.9	4.3
Other financial assets	15(b)	54.0	23.8	-	-
Current tax assets		1.7	1.0	-	-
Other current assets		4.0	4.2	1.1	1.6
		<b>134.1</b>	<b>156.5</b>	<b>54.2</b>	<b>54.5</b>
Investment properties classified as held for sale	5	-	36.6	-	36.6
<b>Total current assets</b>		<b>134.1</b>	<b>193.1</b>	<b>54.2</b>	<b>91.1</b>
<b>Non-Current Assets</b>					
Investment property	5	2,274.0	2,101.0	2,274.0	2,101.0
Equity accounted investments	6	86.7	77.2	74.5	71.5
Investments at fair value through profit or loss	7	296.2	37.6	259.7	2.0
Derivative financial instruments	9	0.5	6.1	0.5	6.1
Receivables	15(a)	1.1	0.6	165.1	217.6
Intangible assets	16	78.3	165.7	-	-
Property, plant and equipment		3.1	3.6	-	-
Inventories		3.0	3.0	-	-
Deferred tax assets	4(c)	1.3	1.2	-	-
<b>Total non-current assets</b>		<b>2,744.2</b>	<b>2,396.0</b>	<b>2,773.8</b>	<b>2,398.2</b>
<b>Total assets</b>		<b>2,878.3</b>	<b>2,589.1</b>	<b>2,828.0</b>	<b>2,489.3</b>
<b>Current Liabilities</b>					
Trade and other payables	15(c)	52.1	46.3	31.5	32.0
Dividends/distributions payable		36.9	34.7	37.4	34.9
Borrowings	8	129.8	64.3	129.8	40.5
Derivative financial instruments	9	20.3	28.5	11.0	14.3
Provisions		3.3	2.8	-	-
Current tax liability		2.2	-	-	-
Unearned income		10.0	10.2	8.8	10.1
<b>Total current liabilities</b>		<b>254.6</b>	<b>186.8</b>	<b>218.5</b>	<b>131.8</b>
<b>Non-Current Liabilities</b>					
Borrowings	8	1,118.2	1,093.5	1,134.1	1,113.2
Derivative financial instruments	9	3.0	10.7	3.0	10.7
Provisions		0.4	0.6	-	-
Deferred tax liabilities	4(c)	1.9	3.3	-	-
<b>Total non-current liabilities</b>		<b>1,123.5</b>	<b>1,108.1</b>	<b>1,137.1</b>	<b>1,123.9</b>
<b>Total liabilities</b>		<b>1,378.1</b>	<b>1,294.9</b>	<b>1,355.6</b>	<b>1,255.7</b>
<b>Net assets</b>		<b>1,500.2</b>	<b>1,294.2</b>	<b>1,472.4</b>	<b>1,233.6</b>
<b>Equity</b>					
Contributed equity	10	106.5	105.4	1,287.5	1,277.4
Other reserves	11	17.9	11.4	1.7	0.6
Retained earnings/(accumulated losses)		(129.4)	(52.3)	178.0	(50.0)
<b>Equity attributable to shareholders/unitholders</b>		<b>(5.0)</b>	<b>64.5</b>	<b>1,467.2</b>	<b>1,228.0</b>
<b>Non-controlling interests</b>					
Trust unitholders		1,505.2	1,229.7	-	-
Non-controlling interests		-	-	5.2	5.6
<b>Total equity</b>		<b>1,500.2</b>	<b>1,294.2</b>	<b>1,472.4</b>	<b>1,233.6</b>

The above consolidated balance sheets should be read in conjunction with the accompanying notes.

# Consolidated Statements of Changes in Equity

for the year ended 30 June 2016

Cromwell	Notes	Attributable to equity holders of the company					Non-controlling interest (Trust)	Total equity
		Contributed equity	Other reserves	Accumulated losses	Total			
		\$M	\$M	\$M	\$M	\$M		
<b>Balance at 1 July 2015</b>		<b>105.4</b>	<b>11.4</b>	<b>(52.3)</b>	<b>64.5</b>	<b>1,229.7</b>	<b>1,294.2</b>	
Profit for the year		-	-	(77.1)	(77.1)	406.7	329.6	
Other comprehensive income		-	5.6	-	5.6	2.1	7.7	
<b>Total comprehensive income</b>		<b>-</b>	<b>5.6</b>	<b>(77.1)</b>	<b>(71.5)</b>	<b>408.8</b>	<b>337.3</b>	
<i>Transactions with equity holders in their capacity as equity holders:</i>								
Contributions of equity, net of transaction costs	10	1.1	-	-	1.1	10.1	11.2	
Dividends/distributions paid/payable	2	-	-	-	-	(143.4)	(143.4)	
Employee performance rights		-	0.9	-	0.9	-	0.9	
<b>Total transactions with equity holders</b>		<b>1.1</b>	<b>0.9</b>	<b>-</b>	<b>2.0</b>	<b>(133.3)</b>	<b>(131.3)</b>	
<b>Balance at 30 June 2016</b>		<b>106.5</b>	<b>17.9</b>	<b>(129.4)</b>	<b>(5.0)</b>	<b>1,505.2</b>	<b>1,500.2</b>	
<b>Balance at 1 July 2014</b>		<b>104.4</b>	<b>5.9</b>	<b>(44.2)</b>	<b>66.1</b>	<b>1,197.9</b>	<b>1,264.0</b>	
Profit for the year		-	-	(8.1)	(8.1)	156.9	148.8	
Other comprehensive income		-	4.5	-	4.5	1.7	6.2	
<b>Total comprehensive income</b>		<b>-</b>	<b>4.5</b>	<b>(8.1)</b>	<b>(3.6)</b>	<b>158.6</b>	<b>155.0</b>	
<i>Transactions with equity holders in their capacity as equity holders:</i>								
Contributions of equity, net of transaction costs	10	1.0	-	-	1.0	9.7	10.7	
Dividends/distributions paid/payable	2	-	-	-	-	(136.5)	(136.5)	
Employee performance rights		-	1.0	-	1.0	-	1.0	
<b>Total transactions with equity holders</b>		<b>1.0</b>	<b>1.0</b>	<b>-</b>	<b>2.0</b>	<b>(126.8)</b>	<b>(124.8)</b>	
<b>Balance at 30 June 2015</b>		<b>105.4</b>	<b>11.4</b>	<b>(52.3)</b>	<b>64.5</b>	<b>1,229.7</b>	<b>1,294.2</b>	

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



# Consolidated Statements of Changes in Equity

for the year ended 30 June 2016

Trust	Notes	Attributable to equity holders of the CDPT					Non-controlling interest \$M	Total equity \$M
		Contributed equity	Other reserves	Accumulated losses	Total (CDPT)			
		\$M	\$M	\$M	\$M			
<b>Balance at 1 July 2015</b>		<b>1,277.4</b>	<b>0.6</b>	<b>(50.0)</b>	<b>1,228.0</b>	<b>5.6</b>	<b>1,233.6</b>	
Profit for the year		-	-	371.4	371.4	-	371.4	
Other comprehensive income		-	1.1	-	1.1	-	1.1	
<b>Total comprehensive income</b>		<b>-</b>	<b>1.1</b>	<b>371.4</b>	<b>372.5</b>	<b>-</b>	<b>372.5</b>	
<i>Transactions with equity holders in their capacity as equity holders:</i>								
Contributions of equity, net of transaction costs	10	10.1	-	-	10.1	0.2	10.3	
Distributions paid/payable	2	-	-	(143.4)	(143.4)	(0.6)	(144.0)	
<b>Total transactions with equity holders</b>		<b>10.1</b>	<b>-</b>	<b>(143.4)</b>	<b>(133.3)</b>	<b>(0.4)</b>	<b>(133.7)</b>	
<b>Balance at 30 June 2016</b>		<b>1,287.5</b>	<b>1.7</b>	<b>178.0</b>	<b>1,467.2</b>	<b>5.2</b>	<b>1,472.4</b>	
<b>Balance at 1 July 2014</b>		<b>1,267.7</b>	<b>-</b>	<b>(70.4)</b>	<b>1,197.3</b>	<b>6.3</b>	<b>1,203.6</b>	
Profit for the year		-	-	156.9	156.9	(0.2)	156.7	
Other comprehensive income		-	0.6	-	0.6	-	0.6	
<b>Total comprehensive income</b>		<b>-</b>	<b>0.6</b>	<b>156.9</b>	<b>157.5</b>	<b>(0.2)</b>	<b>157.3</b>	
<i>Transactions with equity holders in their capacity as equity holders:</i>								
Contributions of equity, net of transaction costs	10	9.7	-	-	9.7	-	9.7	
Distributions paid/payable	2	-	-	(136.5)	(136.5)	(0.5)	(137.0)	
<b>Total transactions with equity holders</b>		<b>9.7</b>	<b>-</b>	<b>(136.5)</b>	<b>(126.8)</b>	<b>(0.5)</b>	<b>(127.3)</b>	
<b>Balance at 30 June 2015</b>		<b>1,277.4</b>	<b>0.6</b>	<b>(50.0)</b>	<b>1,228.0</b>	<b>5.6</b>	<b>1,233.6</b>	

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Statements of Cash Flows

for the year ended 30 June 2016

	Notes	Cromwell		Trust	
		2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Cash flows from operating activities</b>					
Receipts in the course of operations		354.7	293.2	244.9	261.9
Payments in the course of operations		(150.2)	(104.3)	(70.7)	(77.0)
Interest received		4.2	5.3	6.8	4.1
Distributions received		8.7	8.6	6.4	6.5
Finance costs paid		(54.8)	(56.6)	(54.7)	(56.7)
Income tax paid		(3.5)	(2.0)	-	-
<b>Net cash provided by operating activities</b>	17	<b>159.1</b>	<b>144.2</b>	<b>132.7</b>	<b>138.8</b>
<b>Cash flows from investing activities</b>					
Payments for investment properties		(74.9)	(62.8)	(74.9)	(62.9)
Proceeds from sale of investment properties		206.9	206.9	206.9	206.9
Payment for acquisition of subsidiary, net of cash acquired		-	(198.7)	-	-
Payment of business combination costs		-	(2.4)	-	-
Payment for equity accounted investments		(18.6)	-	(12.7)	-
Proceeds from adjustments to equity accounted investments		-	0.4	-	-
Payments for investments at fair value through profit or loss		(261.8)	(4.3)	(256.3)	(3.5)
Proceeds from sale of investments at fair value through profit or loss		3.4	12.4	1.0	12.4
Receipt of capital return distributions from investments at fair value through profit or loss		4.0	-	-	-
Payments for intangible assets		(0.9)	(0.7)	-	-
Payments for property, plant and equipment		(0.7)	(1.5)	-	-
Loans to related entities and directors		(14.0)	(0.7)	(13.3)	(211.3)
Proceeds from repayment of related party loans		12.6	-	35.6	-
Net transfer to restricted funds		(30.2)	-	-	-
Payment for other transaction costs		(1.8)	-	-	-
<b>Net cash used in investing activities</b>		<b>(176.0)</b>	<b>(51.4)</b>	<b>(113.7)</b>	<b>(58.4)</b>
<b>Cash flows from financing activities</b>					
Proceeds from bank borrowings		186.9	220.1	186.9	220.1
Repayment of bank borrowings		(79.8)	(166.5)	(79.8)	(166.5)
Repayment of other borrowings		(23.8)	-	-	-
Payment of loan transaction costs		(4.1)	(6.2)	(4.0)	(2.2)
Proceeds from issue of stapled securities		1.0	1.1	0.9	1.0
Payment of dividends/distributions		(130.9)	(125.6)	(132.0)	(126.9)
Payment of equity issue transaction costs		(0.1)	-	(0.1)	-
Payment for derivative financial instruments		-	(16.9)	-	(16.9)
<b>Net cash used in financing activities</b>		<b>(50.8)</b>	<b>(94.0)</b>	<b>(28.1)</b>	<b>(91.4)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(67.7)</b>	<b>(1.2)</b>	<b>(9.1)</b>	<b>(11.0)</b>
Cash and cash equivalents at 1 July		109.0	117.8	48.6	67.5
Effects of exchange rate changes on cash and cash equivalents		0.3	(7.6)	(0.3)	(7.9)
<b>Cash and cash equivalents at 30 June</b>		<b>41.6</b>	<b>109.0</b>	<b>39.2</b>	<b>48.6</b>

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

for the year ended 30 June 2016

## About this report

Cromwell Property Group ("Cromwell") was formed by the stapling of Cromwell Corporation Limited ("the Company") and its controlled entities, and Cromwell Diversified Property Trust ("CDPT") and its controlled entities ("the Trust"). The Financial Reports of Cromwell and the Trust have been presented jointly in accordance with ASIC Corporations (Stapled Group Reports) Instrument 2015/838 relating to combining accounts under stapling and for the purpose of fulfilling the requirements of the Australian Securities Exchange.

The format of Cromwell's annual financial report has been changed to provide users of the financial report with a clearer understanding of relevant balances and transactions that drive Cromwell's financial performance and financial position free of immaterial and superfluous information. Plain English is used in commentary or explanatory sections of the notes to the financial statements to also improve readability of the financial report. Additionally, amounts in the consolidated financial statements have now been rounded off to the nearest one hundred thousand dollars, unless otherwise indicated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

The notes have been organised into the following five sections for reduced complexity and ease of navigation:

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## Results

This section of the annual financial report provides further information on Cromwell's and the Trust's financial performance, including the performance of each of Cromwell's five segments, details of quarterly distributions, the earnings per security calculation as well as details about Cromwell's income tax items.

### 1. Operating Segment Information

#### OVERVIEW

Operating segments are distinct business activities from which an entity earns revenues and incurs expenses and the results of which are regularly reviewed by the chief operating decision maker (CODM). Cromwell has five operating segments which are regularly reviewed by the Chief Executive Officer (CEO), Cromwell's CODM, in order to make decisions about resource allocation and to assess the performance of Cromwell. Segment profit/(loss), also referred to as operating profit, is considered to reflect the underlying earnings of Cromwell and is a key metric taken into account in determining distributions for Cromwell.

Operating segments below are reported in a manner consistent with the internal reporting provided to the CEO.

<b>Cromwell's operating segments:</b>	<b>Business activity</b>
Property investment	The ownership of investment properties located throughout Australia. This includes investment properties held by the Trust and Cromwell's equity accounted joint venture investment in Cromwell Partners Trust. Property investment is the Trust's only reportable segment.
Property/internal funds management	Property management includes property and facility management, leasing and project management for the Trust and all Cromwell managed investment schemes. Internal funds management includes the management of the Trust.
External funds management – retail	The establishment and management of external funds for retail investors is considered external retail funds management. Cromwell currently manages nine external retail funds with combined assets under management of \$1.7 billion as at 30 June 2016 (2015: \$1.4 billion). Cromwell's joint venture investments in Oyster Property Funds Limited and Phoenix Portfolios Pty Ltd are also reported as external retail funds management.
External funds management - wholesale	The establishment and management of external funds for wholesale investors is considered external wholesale funds management. Cromwell's main activities in this segment currently comprise Cromwell's European business, which was acquired in the 2015 financial year, the management of the Cromwell Partners Trust as well as the Portgate joint venture. The segment has combined assets under management of \$5.6 billion as at 30 June 2016 (2015: \$6.0 billion).
Property development	Property development, including development management, development finance and property development related joint venture activities.

#### ACCOUNTING POLICIES

##### Revenue

###### Rental revenue

Rental revenue from investment property is recognised on a straight-line basis over the lease term. Lease incentives granted are considered an integral part of the total rental revenue and are recognised as a reduction in rental income over the term of the lease, on a straight-line basis.

###### Funds management revenue

Funds management revenue includes equity raising fees, loan establishment fees, acquisition fees as well as property management fees and fund administration fees. Revenue is recognised proportionally to the rendering of the respective service provided. Performance fees are only recognised when the outcome can be reliably measured.

###### Interest revenue

Interest revenue is recognised as it accrues using the effective interest method.



## Dividend and distribution revenue

Revenue from dividends and distributions is recognised when declared.

## Expenses

Property expenses and outgoings which include rates, taxes and other property outgoings and other expenses are recognised on an accruals basis.

## Segment allocation

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arms-length" basis and are eliminated on consolidation.

## Segment profit/(loss)

Segment profit/(loss), internally referred to as operating profit, is based on income and expenses excluding adjustments for unrealised fair value adjustments and write downs, gains or losses on all sale of investment properties and certain other non-cash income and expense items.

A reconciliation of total segment profit to statutory profit as per income statement is provided in section (c) below.

## (A) SEGMENT RESULTS

The table below shows segment results as presented to the Chief Executive Officer. For further commentary on individual segment results refer to the Directors' Report.

30 June 2016	Property investment	Property/ internal funds management	Funds management – retail	Funds management – wholesale	Property development	Cromwell
	\$M	\$M	\$M	\$M	\$M	\$M
<b>Segment revenue</b>						
Sales – external customers	226.9	5.4	14.8	76.6	–	323.7
Sales – intersegmental	1.0	17.6	–	–	–	18.6
Operating profit of equity accounted investments	7.2	–	1.7	0.3	–	9.2
Distributions	–	5.9	0.1	2.2	–	8.2
Interest	3.5	0.9	0.2	0.1	–	4.7
Other revenue	0.1	0.3	–	–	–	0.4
<b>Total segment revenue</b>	<b>238.7</b>	<b>30.1</b>	<b>16.8</b>	<b>79.2</b>	<b>–</b>	<b>364.8</b>
<b>Segment expenses</b>						
Property expenses and outgoings	34.9	–	–	–	–	34.9
Funds management costs	–	–	2.3	–	–	2.3
Property development costs	–	–	–	–	0.1	0.1
Finance costs	49.0	1.1	–	4.6	–	54.7
Expenses – intersegmental	17.6	1.0	–	–	–	18.6
Employee benefits expense	–	21.0	1.6	36.6	–	59.2
Administration and overhead costs	1.8	6.8	0.6	16.3	–	25.5
<b>Total segment expenses</b>	<b>103.3</b>	<b>29.9</b>	<b>4.5</b>	<b>57.5</b>	<b>0.1</b>	<b>195.3</b>
<b>Segment profit before income tax</b>	<b>135.4</b>	<b>0.2</b>	<b>12.3</b>	<b>21.7</b>	<b>(0.1)</b>	<b>169.5</b>
Income tax expense/(benefit)	–	–	2.3	2.7	–	5.0
<b>Segment profit/(loss)</b>	<b>135.4</b>	<b>0.2</b>	<b>10.0</b>	<b>19.0</b>	<b>(0.1)</b>	<b>164.5</b>

30 June 2015

	Property investment	Property/ internal funds management	Funds management – retail	Funds management – wholesale	Property development	Cromwell
	\$M	\$M	\$M	\$M	\$M	\$M
<b>Segment revenue</b>						
Sales – external customers	242.3	4.9	4.9	14.3	–	266.4
Sales – intersegmental	1.0	17.6	–	–	–	18.6
Operating profit of equity accounted investments	9.7	–	1.2	–	–	10.9
Distributions	–	–	0.3	2.1	–	2.4
Interest	4.3	1.1	0.1	–	–	5.5
Other revenue	–	0.3	–	–	–	0.3
<b>Total segment revenue</b>	<b>257.3</b>	<b>23.9</b>	<b>6.5</b>	<b>16.4</b>	<b>–</b>	<b>304.1</b>
<b>Segment expenses</b>						
Property expenses and outgoings	39.1	–	–	–	–	39.1
Funds management costs	–	–	1.8	–	–	1.8
Property development costs	–	–	–	–	0.2	0.2
Finance costs	57.8	–	–	1.7	–	59.5
Expenses – intersegmental	17.6	0.9	0.1	–	–	18.6
Employee benefits expense	–	18.2	2.3	8.2	–	28.7
Administration and overhead costs	1.1	6.0	0.7	3.4	–	11.2
<b>Total segment expenses</b>	<b>115.6</b>	<b>25.1</b>	<b>4.9</b>	<b>13.3</b>	<b>0.2</b>	<b>159.1</b>
<b>Segment profit before income tax</b>	<b>141.7</b>	<b>(1.2)</b>	<b>1.6</b>	<b>3.1</b>	<b>(0.2)</b>	<b>145.0</b>
Income tax expense/(benefit)	–	(0.6)	0.2	0.5	–	0.1
<b>Segment profit/(loss)</b>	<b>141.7</b>	<b>(0.6)</b>	<b>1.4</b>	<b>2.6</b>	<b>(0.2)</b>	<b>144.9</b>

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**(B) SEGMENT ASSETS AND LIABILITIES**

30 June 2016

	Property investment	Property/ internal funds management	Funds management – retail	Funds management – wholesale	Property development	Cromwell
	\$M	\$M	\$M	\$M	\$M	\$M
Segment assets	2,403.2	278.6	25.0	168.5	3.0	2,878.3
Segment liabilities	(1,005.4)	(130.5)	(4.3)	(238.0)	–	(1,378.1)
<b>Segment net assets</b>	<b>1,397.8</b>	<b>148.1</b>	<b>20.7</b>	<b>(69.5)</b>	<b>3.0</b>	<b>1,500.2</b>
<b>Other segment information</b>						
Decrease in recoverable amount - goodwill	–	–	–	86.2	–	86.2
Equity accounted investments	74.5	–	8.5	3.7	–	86.7
<i>Acquisition of non-current segment assets*:</i>						
Investments in associates	12.8	–	1.4	4.8	–	19.0
Investments at fair value through profit or loss	–	256.0	0.3	5.5	–	261.8
Intangible assets	–	0.7	–	0.2	–	0.9

\* For additions to investment property, forming part of the property investment segment, refer to note 5.

30 June 2015

	Property investment	Property/ internal funds management	Funds management – retail	Funds management – wholesale	Property development	Cromwell
	\$M	\$M	\$M	\$M	\$M	\$M
Segment assets	2,271.7	47.0	13.1	254.3	3.0	2,589.1
Segment liabilities	(1,038.0)	(2.9)	(0.4)	(253.6)	–	(1,294.9)
<b>Segment net assets</b>	<b>1,233.7</b>	<b>44.1</b>	<b>12.7</b>	<b>0.7</b>	<b>3.0</b>	<b>1,294.2</b>
<b>Other segment information</b>						
Equity accounted investments	71.5	–	5.7	–	–	77.2
<i>Acquisition of non-current segment assets:</i>						
Investments at fair value through profit or loss	–	–	3.5	36.0	–	39.5
Intangible assets	–	0.6	0.1	161.8	–	162.5

**(C) RECONCILIATIONS TO CONSOLIDATED INCOME STATEMENT**

Segment profit reconciles to profit as shown in the consolidated income statement as follows:

	2016 \$M	2015 \$M
<b>Segment profit</b>	<b>164.5</b>	<b>144.9</b>
<i>Reconciliation to profit:</i>		
Gain on sale of investment properties	19.4	1.0
Gain/(loss) on disposal of other assets	(0.3)	0.3
Business combination costs	–	(2.4)
Other transaction costs	(1.8)	–
Fair value net gain/(loss) from:		
Investment properties	263.2	32.4
Derivative financial instruments	10.6	(1.8)
Investments at fair value through profit or loss	6.0	(1.2)
Equity accounted investments	(11.3)	(3.0)
Non-cash property investment income/(expense):		
Straight-line lease income	2.3	5.5
Lease incentive and lease cost amortisation	(15.2)	(13.0)
Other non-cash expenses:		
Decrease in recoverable amounts	(86.6)	–
Non-operating finance costs	(11.3)	(2.8)
Amortisation and depreciation	(7.7)	(2.9)
Net foreign exchange losses	(2.2)	(7.9)
Net tax losses utilised	–	(0.3)
<b>Profit for the year</b>	<b>329.6</b>	<b>148.8</b>

Total segment revenue reconciles to total revenue and other income as shown in the consolidated income statement as follows:

	2016 \$M	2015 \$M
<b>Total segment revenue</b>	<b>364.8</b>	304.1
<i>Reconciliation to total revenue and other income:</i>		
Straight-line lease income	2.3	5.5
Lease incentive amortisation	(13.7)	(11.8)
Gain on sale of investment property	19.4	1.0
Gain on sale of other assets	–	0.3
Fair value net gain from investment properties	263.2	32.4
Fair value net gain on investments at fair value through profit or loss	6.0	–
Fair value net gain on derivative financial instruments	10.6	–
Operating profit from equity accounted investments	(9.2)	(3.0)
Intersegmental sales	(18.6)	(18.6)
<b>Total revenue and other income</b>	<b>624.8</b>	309.9

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## (D) OTHER SEGMENT INFORMATION

### Geographic information

Cromwell has operations in three distinct geographical markets. These are Australia through the Cromwell Property Group and Australian funds it manages, United Kingdom and Europe through its European business acquired in the prior year as Valad Europe, and New Zealand through its Oyster Property Funds Limited joint venture.

Non-current assets for the purpose of the disclosure below include inventories, investment property, property, plant and equipment and intangible assets.

	Revenue from external customers		Non-current operating assets	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Geographic location</b>				
Australia	267.1	269.4	2,285.5	2,108.1
United Kingdom and Europe	78.1	15.2	77.9	165.2
New Zealand	1.0	0.8	–	–
	<b>346.2</b>	285.4	<b>2,358.4</b>	2,273.3

### Major customers

Major customers of Cromwell that account for more than 10% of Cromwell's revenue are listed below. All of these customers form part of the property investment segment.

	2016 \$M	2015 \$M
<b>Major customer</b>		
Commonwealth of Australia	46.7	54.3
Qantas Airways Limited	27.8	26.8
New South Wales State Government	26.5	32.8
Queensland State Government	22.1	22.1
	<b>123.1</b>	136.0



## 2 Distributions

### OVERVIEW

Cromwell's aim is to provide investors with superior risk adjusted returns, including stable annual distributions. When determining distribution rates Cromwell's board considers a number of factors, including forecast earnings, anticipated capital and lease incentive expenditure requirements over the next three to five years and expected economic conditions. Cromwell aims to return 85 – 95 % of profit of Cromwell's five segments (operating profit) which excludes unrealised fair value adjustments and other non-cash income and expenses (refer note 1).

### (A) DISTRIBUTIONS FOR THE YEAR

Distributions paid/payable by Cromwell and the Trust during the year were as follows:

2016	2015	2016 cents	2015 cents	2016 \$M	2015 \$M
11 November 2015	12 November 2014	1.9925¢	1.9375¢	34.7	33.6
10 February 2016	11 February 2015	1.9925¢	1.9375¢	34.9	33.6
11 May 2016	13 May 2015	2.1075¢	1.9925¢	36.9	34.6
18 August 2016	13 August 2015	2.1075¢	1.9925¢	36.9	34.7
		8.2000¢	7.8600¢	143.4	136.5

There were no dividends paid or payable by the Company in respect of the 2016 and 2015 financial years. All of Cromwell's and the Trust's distributions are unfranked.

### (B) FRANKING CREDITS

Currently, Cromwell's distributions are paid from the Trust. Franking credits are only available for future dividends paid by the Company. The franking account balance as at 30 June 2016 is \$4,300,000 (2015: \$3,100,000).

## 3 Earnings per Security

### OVERVIEW

This note provides information about Cromwell's earnings on a per security basis. Earnings per security (EPS) is a measure that makes it easier for users of Cromwell's financial report to compare Cromwell's performance between different reporting periods. Accounting standards require the disclosure of two EPS measures, basic EPS and diluted EPS. Basic EPS information provides a measure of interests of each ordinary issued security of the parent entity in the performance of the entity over the reporting period while diluted EPS information provides the same information but takes into account the effect of all dilutive potential ordinary securities outstanding during the period, such as Cromwell's performance rights.

Below in (a) earnings per share of the Company, the parent entity of Cromwell, and its controlled entities ("CCL") and earnings per unit of the Trust are presented as required by accounting standards. As both measures do not provide an EPS measure for the Cromwell group as a whole (b) provides earnings per stapled security information.

### (A) EARNINGS PER SHARE/UNIT

	2016	CCL 2015	2016	Trust 2015
Basic earnings per company share/trust unit (cents)	(4.42)	(0.47)	21.26	9.05
Diluted earnings per company share/trust unit (cents)	(4.42)	(0.47)	21.20	9.02
<i>Earnings used to calculate basic and diluted earnings per company share/trust unit:</i>				
Profit for the year (\$M)	329.6	148.8	371.4	156.7
Less: Profit attributable to non-controlling interests (\$M)	(406.7)	(156.9)	-	0.2
<b>Profit/(loss) attributable to ordinary equity holders of the Company/Trust (\$'000)</b>	<b>(77.1)</b>	<b>(8.1)</b>	<b>371.4</b>	<b>156.9</b>

## (B) EARNINGS PER STAPLED SECURITY

	2016	Cromwell	2015
Basic earnings per stapled security (cents)	<b>18.86</b>		8.58
Diluted earnings per stapled security (cents)	<b>18.81</b>		8.55
<i>Earnings used to calculate basic and diluted earnings per stapled security:</i>			
<b>Profit for the year attributable to ordinary stapled security holders of Cromwell (\$M)</b>	<b>329.6</b>		148.8
<i>Weighted average number of stapled securities used in calculating earnings per company share/trust unit/stapled security:</i>			
Weighted average number of securities used in calculating basic earnings per company share/trust unit/stapled security (number)	<b>1,747,252,494</b>		1,734,643,541
<i>Adjustment for calculation of diluted earnings per company share/trust unit:</i>			
Performance rights (number)	<b>4,720,269</b>		5,374,532
<b>Weighted average number of ordinary securities and potential ordinary securities used in calculating earnings per company share/trust unit/stapled security</b>	<b>1,751,972,763</b>		1,740,018,072

## ACCOUNTING POLICY

### Basic earnings per security

Basic earnings per security is calculated by dividing profit/(loss) attributable to equity holders of the Company/CDPT/Cromwell, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary securities outstanding during the financial year, adjusted for bonus elements in ordinary securities issued during the year.

### Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account the after income tax effect of interest and other financing costs associated with potentially ordinary securities and the weighted average number of securities assumed to have been issued for no consideration in relation to dilutive potential ordinary securities.

## (C) INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES

### Performance rights

Performance rights granted under Cromwell's Performance Rights Plan are considered to be potential ordinary stapled securities and have been included in the determination of diluted earnings per stapled security to the extent to which they are dilutive. The performance rights have not been included in the determination of basic earnings per stapled security. Details relating to Cromwell's performance rights are set out in note 18.

### Convertible bonds

Convertible bonds issued during the prior year are considered to be potential ordinary stapled securities, however have not been included in the determination of diluted earnings. The ASX market price of the Cromwell stapled security had been below the convertible bond conversion price of \$1.1503 throughout the year. Additionally, the actual Euro currency translation rate at balance date was more favourable to bondholders than the fixed conversion rate. Therefore, the convertible bond is currently considered to be non-dilutive.

## 4 Income Tax

### OVERVIEW

This note provides detailed information about Cromwell's income tax items and accounting policies. This includes a reconciliation of income tax expense if Australia's company income tax rate of 30% was applied to Cromwell's profit before income tax as shown in the income statement to the actual income tax expense/benefit as well as an analysis of Cromwell deferred tax balances.

Accounting standards require the application of the "balance sheet method" to account for Cromwell's income tax. Accounting profit does not always equal taxable income. There are a number of timing differences between the recognition of accounting expenses and the availability of tax deductions or when revenue is recognised for accounting purpose and tax purposes. These timing differences reverse over time but they are recognised as deferred tax assets and deferred tax liabilities in the balance sheet until they are fully reversed. This is referred to as the "balance sheet method".

### Taxation of the Trust

Under current Australian income tax legislation, the Trust and its sub-Trusts are not liable for income tax on their taxable income (including assessable realised capital gains) provided that the unitholders are presently entitled to the income of the Trust. Accordingly, Cromwell only pays tax on Company taxable earnings and there is no separate tax disclosure for the Trust.

### A) INCOME TAX EXPENSE

	Cromwell	
	2016 \$M	2015 \$M
Current tax expense	5.5	0.3
Deferred tax expense	(1.5)	(0.4)
Adjustment in relation to prior periods	(0.5)	-
<b>Income tax expense</b>	<b>3.5</b>	<b>(0.1)</b>
<i>Deferred tax expense</i>		
Decrease/(increase) in deferred tax assets	-	0.1
Increase/(decrease) in deferred tax liabilities	(1.5)	(0.5)
<b>Total deferred tax expense</b>	<b>(1.5)</b>	<b>(0.4)</b>

### B) NUMERICAL RECONCILIATION BETWEEN INCOME TAX EXPENSE/(BENEFIT) AND PRE-TAX PROFIT

	Cromwell	
	2016 \$M	2015 \$M
<b>Profit before income tax</b>	<b>333.1</b>	<b>148.7</b>
Tax at Australian tax rate of 30% (2015: 30%)	99.3	44.6
<i>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</i>		
Trust income – refer above for Taxation of the Trust	(120.0)	(45.4)
Non-deductible expenses	24.9	1.0
Change in tax losses recognised	-	(0.5)
Adjustment in relation to prior periods	(0.5)	-
Difference in overseas tax rate	(0.2)	0.2
<b>Income tax expense/(benefit)</b>	<b>3.5</b>	<b>(0.1)</b>

## (C) DEFERRED TAX

### (i) Deferred tax assets

	2016	Cromwell	2015
	\$M		\$M
<i>Deferred tax assets are attributable to:</i>			
Interests in managed investment schemes	(1.9)		(1.9)
Employee benefits	1.4		1.1
Transaction costs and sundry items	0.3		0.3
Unrealised foreign currency losses	(0.1)		-
Tax losses recognised	1.6		1.7
<b>Total deferred tax assets</b>	<b>1.3</b>		<b>1.2</b>
<i>Movements:</i>			
Balance at 1 July	1.2		1.3
Credited/(charged) to profit or loss	-		(0.1)
Credited/(charged) to other comprehensive income	0.1		-
<b>Balance at 30 June</b>	<b>1.3</b>		<b>1.2</b>

The amount of temporary differences and carried forward tax losses recognised as a deferred tax asset is based on projected earnings over a limited period that the Directors considered to be probable. Projected earnings are re-assessed at each reporting date. Unrecognised tax losses at balance date were \$21,500,000 (2015: \$25,100,000).

### (ii) Deferred tax liabilities

	2016	Cromwell	2015
	\$M		\$M
<i>Deferred tax liabilities are attributable to:</i>			
Intangible assets – management rights	1.9		3.3
<b>Total deferred tax liabilities</b>	<b>1.9</b>		<b>3.3</b>
<i>Movements:</i>			
Balance at 1 July	3.3		-
Recognised on business combination	-		3.7
(Credited)/charged to profit or loss	(1.5)		(0.5)
Foreign exchange differences	0.1		0.1
<b>Balance at 30 June</b>	<b>1.9</b>		<b>3.3</b>

The deferred tax liability relates to an overseas tax jurisdiction. In accordance with AASB 112 *Income Taxes* the deferred tax liability was not offset against the deferred tax assets of the group, which relate to the Australian tax jurisdiction.

## ACCOUNTING POLICY

### Income tax

Cromwell's income tax expense for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. Deferred tax is not recognised for the recognition of goodwill on business combination and for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

### **Tax consolidation**

The Company and its wholly-owned entities (this excludes the Trust and its controlled entities) have formed a tax-consolidated group and are taxed as a single entity. The head entity within the tax-consolidated group is Cromwell Corporation Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group, using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts referred to in the following section. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustment to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recoverability, is recognised by the head entity only.

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### **Nature of tax funding arrangements and tax sharing arrangements**

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement, which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.



## Operating Assets

This section of the annual financial report provides further information on Cromwell's and the Trust's operating assets. These are assets that individually contribute to Cromwell's revenue and include investment properties, joint ventures and investments in listed and unlisted securities.

### 5. Investment Properties

#### OVERVIEW

Investment properties are properties (land, building or both) held solely for the purpose of earning rental income and/or for capital appreciation. Cromwell's investment property portfolio comprises 24 commercial properties of which 21 properties are predominantly office use with the remaining three being retail properties and vacant land.

This note provides further details on Cromwell's investment property portfolio, including details of individual properties, details of sales and acquisitions as well as details on the fair value measurement of the properties.

#### (A) DETAILS OF CROMWELL'S AND THE TRUST'S INVESTMENT PROPERTIES

	Title	Independent valuation date	Independent valuation		Carrying amount		Fair value adjustment	
			2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
200 Mary Street, QLD	(1)	Jun 2016	68.0	70.5	68.0	70.5	(4.7)	(7.7)
Terrace Office Park, QLD	(1)	SOLD	-	22.0	-	22.0	-	(2.5)
Oracle Building, ACT	(2)	Jun 2016	27.6	28.1	27.6	28.1	(0.2)	(0.8)
Henry Waymouth Centre, SA	(1)	SOLD	-	62.1	-	62.1	-	5.9
Village Cinemas, VIC	(1)	Jun 2016	15.0	14.3	15.0	14.5	0.5	-
Vodafone Call Centre, TAS	(1)	Jun 2016	5.0	5.0	5.0	5.0	0.4	(8.8)
Regent Cinema Centre, NSW	(1)	Jun 2016	13.7	13.7	13.7	14.3	(0.6)	0.7
700 Collins Street, VIC	(1)	Jun 2016	231.0	175.0	231.0	195.0	33.1	3.3
19 National Circuit, ACT	(2)	Jun 2016	25.5	28.5	25.5	28.5	(2.9)	(2.3)
475 Victoria Avenue, NSW	(1)	Jun 2016	183.0	142.0	183.0	142.0	36.8	11.6
Synergy, QLD	(1)	Jun 2016	77.5	71.0	77.5	70.0	9.5	(0.3)
Tuggeranong Office Park, ACT	(2)	Jun 2016	123.6	107.0	173.1 <sup>(1)</sup>	109.3	16.6	(33.0)
TGA Complex, ACT	(2)	Jun 2016	48.0	51.0	48.0	51.0	(3.0)	(14.3)
203 Coward Street, NSW	(2)	Jun 2016	435.0	345.0	435.0	353.0	79.4	11.6
HQ North, QLD	(1)	Jun 2016	214.0	200.0	214.0	200.0	12.0	1.9
Bundall Corporate Centre, QLD	(1)	Jun 2016	83.0	71.0	83.0	71.0	10.8	-
43 Bridge Street, NSW	(1)	SOLD	-	-	-	-	-	5.2
13 Keltie Street, ACT	(2)	Jun 2016	48.4	53.6	48.4	53.6	(5.4)	2.1
Sturton Road, SA	(1)	Dec 2015	1.6	1.8	1.6	1.8	(0.2)	(0.3)
147-163 Charlotte Street, QLD	(1)	Jun 2016	37.3	35.0	37.3	35.0	2.0	6.5
146-160 Mary Street, QLD	(1)	Jun 2016	37.3	39.5	37.3	39.5	(2.3)	3.5
4-6 Bligh Street, NSW	(1)	SOLD	-	62.0	-	67.4	-	8.4
117 Bull Street, NSW	(1)	Jun 2016	23.1	18.5	23.1	18.5	4.6	1.6
11 Farrer Place, NSW	(1)	Jun 2016	27.9	24.7	27.9	24.7	3.2	0.8
207 Kent Street, NSW	(1)	Jun 2016	227.5	200.0	227.5	200.0	26.9	16.1
84 Crown Street, NSW	(1)	Jun 2016	32.6	29.2	32.6	29.2	2.8	2.3
2-24 Rawson Place, NSW	(1)	Jun 2016	200.0	158.0	200.0	162.5	37.5	19.7
2-6 Station Street, NSW	(1)	Jun 2016	38.9	32.5	38.9	32.5	6.4	1.2
<b>Total investment properties</b>			<b>2,224.5</b>	<b>2,061.0</b>	<b>2,274.0</b>	<b>2,101.0</b>	<b>263.2</b>	<b>32.4</b>

(1) Freehold;

(2) Leasehold.

## ACCOUNTING POLICIES

### Investment properties

Investment properties are initially measured at cost including transaction costs and subsequently measured at fair value, with any change therein recognised in profit or loss.

Fair value is based upon active market prices, given the assets' highest and best use, adjusted if necessary, for any difference in the nature, location or condition of the relevant asset. If this information is not available, Cromwell uses alternative valuation methods such as discounted cash flow projections or the capitalised earnings approach. The highest and best use of an investment property refers to the use of the investment property by market participants that would maximise the value of that investment property.

The carrying value of the investment property includes components relating to lease incentives and other items relating to the maintenance of, or increases in, lease rentals in future periods.

Investment properties under construction are classified as investment property and carried at fair value. Finance costs incurred on investment properties under construction are included in the construction costs.

### Lease incentives

Lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including up front cash payments, rent free periods, or a contribution to certain lessee costs such as fit out costs or relocation costs. They are recognised as an asset in the balance sheet as a component of the carrying amount of investment property and amortised over the lease period as a reduction of rental income.

### Initial direct leasing costs

Initial direct leasing costs incurred by Cromwell in negotiating and arranging operating leases are recognised as an asset in the balance sheet as a component of the carrying amount of investment property and are amortised as an expense on a straight-line basis over the lease term.

## (A) MOVEMENTS IN INVESTMENT PROPERTIES

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Balance at 1 July	2,101.0	2,249.5	2,101.0	2,249.5
Additions	-	8.0	-	8.0
Capital Works				
Construction costs	47.2	-	47.2	-
Property improvements	2.1	16.5	2.1	16.5
Lifecycle	2.6	6.8	2.6	6.8
Disposals	(150.9)	(205.8)	(150.9)	(205.8)
Transferred to held for sale	-	(36.6)	-	(36.6)
Straight-lining of rental income	2.3	5.5	2.3	5.5
Lease costs and incentives	21.7	37.7	21.7	37.7
Amortisation of lease costs and incentives	(15.2)	(13.0)	(15.2)	(13.0)
Net gain/(loss) from fair value adjustments	263.2	32.4	263.2	32.4
<b>Balance at 30 June</b>	<b>2,274.0</b>	<b>2,101.0</b>	<b>2,274.0</b>	<b>2,101.0</b>

## (B) INVESTMENT PROPERTY SOLD

Details of investment properties sold during the year are as follows:

	Gross sale price \$M	Carrying amount at 30 June 2015 \$M	Last independent valuation \$M	Gain on sale recognised \$M
Terrace Office Park, QLD	31.0	22.0	22.0	8.5
Henry Waymouth Centre, SA	73.0	62.1	62.1	10.9
4-6 Bligh Street, NSW <sup>(1)</sup>	68.0	67.4	62.0	-
43 Bridge Street, NSW <sup>(1)</sup>	37.0	36.6	31.0	-
<b>Total investment property sold during the year</b>	<b>209.0</b>	<b>188.1</b>	<b>177.1</b>	<b>19.4</b>

(1) Both investment properties, 4-6 Bligh Street, NSW and 43 Bridge Street NSW, were carried at their expected sale price. The difference between the sale price and independent valuation amount was recognised as a fair value gain in the 2015 financial year. 43 Bridge Street, NSW was classified as investment property held for sale as at 30 June 2015 as the sale contract for the property was unconditional as at that date.

In the previous year Cromwell sold the investment property located at 321 Exhibition Street, VIC for \$208 million. This property was carried at \$205.9 million at 30 June 2014. The last independent valuation prior to the sale of the property was \$190 million. A gain on sale of \$1.1 million was recognised for the year ended 30 June 2015 in relation to the transaction.

## (C) INVESTMENT PROPERTY UNDER CONSTRUCTION

In May 2015 Cromwell and the Trust commenced the construction of a second \$172 million building on the excess land at Tuggeranong Office Park in the ACT. The Commonwealth of Australia has agreed to a 15 year lease of the modern 30,700 square metre property due to commence in mid/late 2017. Cromwell and the Trust spent \$49.5 million on construction costs (including interest on the project funding facility) during the year. These costs are included in the carrying amount of the Tuggeranong Office Park investment property.

## (D) FAIR VALUE MEASUREMENT

Cromwell's investment properties, with an aggregate carrying amount of \$2,274.0 million, are measured using the fair value model as described in AASB 140 *Investment Property*. Fair value is thereby defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Property valuations

At balance date the adopted valuations for Cromwell's investment properties are all based on independent external valuations, except for the vacant block of land at Sturton Road, SA, which was independently valued at 31 December 2015. Cromwell's valuation policy requires all properties to be valued by an independent professionally qualified valuer with a recognised relevant professional qualification at least once every two years.

All property valuations utilise a combination of valuation models based on discounted cash flow ("DCF") models and income capitalisation models supported by recent market sales evidence.

## Key inputs used to measure fair value:

DCF method	Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit terminal value. The DCF method involves the projection of a series of cash flows on a real property asset. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this perpetually, using an appropriate, market derived capitalisation rate, to derive a capital value, with allowances for capital expenditure reversions such as lease incentives and required capital works payable in the near future and overs/unders when comparing market rent with passing rent.
Annual net property income	Annual net property income is the contracted amount for which the property space is leased. In the net property income, the property owner recovers outgoings from the tenant.
Net market rent	A net market rent is the estimated amount for which a property or space within a property could be leased between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion.
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of the property. The rate is determined with regards to market evidence (and the prior external valuation for internal valuations).
Adopted discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence (and the prior external valuation for internal valuations).
Weighted average lease expiry ("WALE")	WALE is used to measure the overall tenancy risk of a particular property to assess the likelihood of a property being vacated. WALE of a property is measured across all tenants' remaining lease terms (in years) and is weighted with the tenants' income against total combined income.
Occupancy	Property occupancy is used to measure the proportion of the lettable space of a property that is occupied by tenants under current lease contracts and therefore how much rent is received from the property as percentage of total rent possible if the property was fully occupied.

All the significant inputs noted above are not observable market data, hence investment property valuations are considered level 3 fair value measurements (refer fair value hierarchy described in note 12).

Significant unobservable inputs associated with the valuations of Cromwell's investment properties are as follows:

Inputs	Range	Weighted average
Capitalisation rate (%)	5.5 – 11.0	7.1
Discount rate (%)	7.25 – 12.0	8.4
Annual net property income (\$M)	0.5 – 22.6	13.4
WALE (years)	0 – 16.5	8.4
Occupancy (%)	0.0 – 100.0	93.9

## Sensitivity information

The relationships between the significant unobservable inputs and the fair value of investment properties are as follows:

Inputs	Impact of increase in input on fair value	Impact of decrease in input on fair value
Capitalisation rate	Decrease	Increase
Discount rate	Decrease	Increase
Annual net property income	Increase	Decrease
WALE	Increase	Decrease
Occupancy	Increase	Decrease

### Highest and best use

Fair value for investment properties is calculated for the highest and best use whether or not current use reflects highest and best use. All of Cromwell's investment properties current use is also their highest and best use, with the exception of the following:

- 147-163 Charlotte Street, QLD; and
- 146-160 Mary Street, QLD.

The properties, which are adjacent to each other, have been valued based on a development feasibility model for a residential re-development. Significant unobservable inputs included a discount rate of 10% and completion value of \$219.0 million.

### (E) AMOUNTS RECOGNISED IN PROFIT AND LOSS FOR INVESTMENT PROPERTIES

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Rental income and recoverable outgoings	215.4	236.0	215.5	234.8
Property expenses and outgoings	(36.4)	(40.3)	(41.8)	(44.7)
	179.0	195.7	173.7	190.1

### (F) NON-CANCELLABLE OPERATING LEASE RECEIVABLE FROM INVESTMENT PROPERTY TENANTS

The investment properties are generally leased to tenants on long term operating leases with rentals payable monthly. Minimum lease payments under the non-cancellable operating leases of Cromwell's investment properties not recognised in the financial statements are receivable as follows:

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Within one year	146.9	179.3	146.9	179.3
Later than one year but not later than five years	385.3	407.7	385.3	407.7
Later than five years	496.7	537.0	496.7	537.0
	1,028.9	1,124.0	1,028.9	1,124.0

## 6 Equity Accounted Investments

### OVERVIEW

This note provides an overview and detailed financial information of Cromwell's and the Trust's investments that are accounted for using the equity method of accounting. These include joint ventures where Cromwell or the Trust have joint control over an investee together with one or more joint venture partners and investments in associates, which are entities over which Cromwell is presumed to have significant influence but not control or joint control by virtue of holding 20% or more of the associates' issued capital and voting rights, but less than 50%.

Cromwell's and the Trust's equity accounted investments are as follows:

	Ownership interest		Carrying amount	
	2016 %	2015 %	2016 \$M	2015 \$M
<b>Cromwell and Trust equity accounted investments:</b>				
CPA – joint venture (owned by Trust)	50	50	74.5	71.5
<b>Cromwell equity accounted investments:</b>				
Oyster – joint venture	50	50	7.5	4.9
Portgate – joint venture	28	–	3.3	–
Others			1.4	0.8
<b>Total equity accounted investments</b>			<b>86.7</b>	<b>77.2</b>



## ACCOUNTING POLICY

### Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Interests in joint venture entities are accounted for in Cromwell's financial statements using the equity method. Cromwell's share of its joint ventures' post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or distributions receivable from joint ventures are recognised in Cromwell's financial statements as a reduction of the carrying amount of the investment.

When Cromwell's share of losses in a joint venture equals or exceeds its investment in the joint venture, including any other unsecured receivables, Cromwell does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. Unrealised gains on transactions between Cromwell and its joint ventures are eliminated to the extent of Cromwell's investment in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

For joint operations Cromwell recognises its direct right to the assets, liabilities, revenues and expenses of and its share of any jointly held or incurred assets, liabilities, revenues and expenses, and these are incorporated in the financial statements under the appropriate headings.

### (A) DETAILS OF JOINT VENTURES

#### CPA

Cromwell and the Trust hold a 50% interest in the units of CPA which owns the \$280 million Northpoint Building in the North Sydney CBD. The remaining 50% of the units in CPA are held by a single investor. A unit holder agreement between Cromwell and the other investor limits the power of the trustee to management of ongoing operations of CPA. All decisions about relevant activities of CPA require unanimous consent of the two unitholders. The entity is therefore classified as a joint venture.

#### Oyster

Oyster is a New Zealand based retail property fund syndicator that provides fund and property management services throughout New Zealand. Oyster is jointly owned by Cromwell and six original Oyster shareholders. Oyster is classified as a joint venture as the board of Oyster comprises three representatives appointed by the six investors and three representatives from Cromwell with no deciding or "chairman's" vote. A shareholder agreement between Cromwell and the six investors outlines how Oyster will be managed.

#### Portgate

During the year Cromwell acquired 14,284,000 units in the Portgate Estate Unit Trust representing 28% of the issued units by Portgate for a consideration of \$13,620,000, including acquisition costs. \$9 million of acquisition consideration is yet to be paid and will be paid as required by Portgate. Portgate was established for the ownership of land, comprising an existing site and a development site at the Port of Brisbane. The existing site contains tenanted warehouses. Cromwell's investment funds will be used to develop further industrial buildings at the development site. All the relevant activities of Portgate are managed and approved by a management committee requiring unanimous consent on all decisions. Cromwell and the trustee each provide two representatives to the management committee. The entity is therefore classified as a joint venture.

**(B) SUMMARISED FINANCIAL INFORMATION FOR JOINT VENTURES**

	2016 in \$M				2015 in \$M		
	CPA	Oyster	Portgate	Others	CPA	Oyster	Others
<i>Summarised Balance Sheets:</i>							
Cash and cash equivalents	13.3	2.2	4.7	1.7	9.7	1.4	1.5
Other current assets	1.7	3.7	10.4	0.8	0.8	0.8	0.6
<b>Total current assets</b>	<b>15.0</b>	<b>5.9</b>	<b>15.1</b>	<b>2.5</b>	<b>10.5</b>	<b>2.2</b>	<b>2.1</b>
Investment properties	280.0	–	70.0	–	280.0	–	–
Other non-current assets	–	6.0	–	1.0	–	2.0	0.3
<b>Total non-current assets</b>	<b>280.0</b>	<b>6.0</b>	<b>70.0</b>	<b>1.0</b>	<b>280.0</b>	<b>2.0</b>	<b>0.3</b>
<b>Total assets</b>	<b>295.0</b>	<b>11.9</b>	<b>85.1</b>	<b>3.5</b>	<b>290.5</b>	<b>4.2</b>	<b>2.4</b>
Financial liabilities	145.5	6.5	1.7	0.7	8.0	0.8	0.6
Other current liabilities	0.5	–	–	–	0.5	0.1	0.1
<b>Total current liabilities</b>	<b>146.0</b>	<b>6.5</b>	<b>1.7</b>	<b>0.7</b>	<b>8.5</b>	<b>0.9</b>	<b>0.7</b>
Financial liabilities	–	0.9	39.8	–	138.9	1.1	–
Other non-current liabilities	–	–	–	–	–	–	–
<b>Total non-current liabilities</b>	<b>–</b>	<b>0.9</b>	<b>39.8</b>	<b>–</b>	<b>138.9</b>	<b>1.1</b>	<b>0.7</b>
<b>Total liabilities</b>	<b>146.0</b>	<b>7.4</b>	<b>41.5</b>	<b>0.7</b>	<b>147.4</b>	<b>2.0</b>	<b>0.7</b>
<b>Net assets</b>	<b>149.0</b>	<b>4.5</b>	<b>43.6</b>	<b>2.8</b>	<b>143.1</b>	<b>2.2</b>	<b>1.7</b>
<i>Carrying amount of investment:</i>							
Cromwell's share of equity (%)	50	50	28		50	50	
Cromwell's share of net assets	74.5	2.3	12.3	1.4	71.5	1.1	0.8
Unpaid investment consideration	–	–	(9.0)	–	–	–	–
Goodwill	–	5.2	–	–	–	3.8	–
<b>Carrying amount</b>	<b>74.5</b>	<b>7.5</b>	<b>3.3</b>	<b>1.4</b>	<b>71.5</b>	<b>4.9</b>	<b>0.8</b>
<i>Movement in carrying amounts:</i>							
Opening balance at 1 July	71.5	4.9	–	0.8	72.5	4.6	0.4
Investment	12.8	1.4	4.8	–	–	(0.4)	–
Share of profit/(loss)	(3.1)	1.1	(0.8)	0.7	6.7	0.7	0.4
Less: dividends/distributions received	(6.7)	–	(0.3)	(0.1)	(7.7)	–	–
Decrease to recoverable amount	–	–	(0.4)	–	–	–	–
Foreign exchange difference	–	0.1	–	–	–	–	–
<b>Carrying amount at 30 June</b>	<b>74.5</b>	<b>7.5</b>	<b>3.3</b>	<b>1.4</b>	<b>71.5</b>	<b>4.9</b>	<b>0.8</b>
<i>Summarised Statements of Comprehensive Income:</i>							
Revenue	22.2	9.3	3.7	4.1	26.2	6.1	2.4
Expenses	(28.3)	(7.1)	(6.5)	(2.3)	(12.7)	(4.6)	(1.4)
<b>Total comprehensive income</b>	<b>(6.1)</b>	<b>2.2</b>	<b>(2.8)</b>	<b>1.8</b>	<b>13.5</b>	<b>1.5</b>	<b>1.0</b>
Cromwell's share in %	50	50	28		50	50	
<b>Share of profit/(loss)</b>	<b>(3.1)</b>	<b>1.1</b>	<b>(0.8)</b>	<b>0.7</b>	<b>6.7</b>	<b>0.7</b>	<b>0.4</b>

## 7 Investments at Fair Value Through Profit or Loss

### OVERVIEW

This note provides information about Cromwell's and the Trust's investments in listed and unlisted property related entities whereby Cromwell and the Trust hold less than 20% of the issued capital in the investee. Such investments are classified as investments at fair value through profit or loss which are carried at fair value in the balance sheet with adjustments to the fair value recorded in profit or loss. Such investments include investments in Cromwell managed unlisted funds, co-investments in European wholesale funds managed by Cromwell and investments in listed securities.

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Investment in listed securities	258.4	–	258.4	–
Investment in Cromwell unlisted funds	1.3	2.0	1.3	2.0
Investment in wholesale funds	36.5	35.6	–	–
	296.2	37.6	259.7	2.0

### ACCOUNTING POLICY

Investments at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Financial assets at fair value through profit or loss also include financial assets which upon initial recognition are designated as such. These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded equity instruments and unlisted trusts.

At initial recognition, Cromwell measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

For methods used to measure the fair value measurement of Cromwell's and the Trust's investments at fair value through profit or loss refer to note 12.

## Finance and Capital Structure

This section of the annual financial report provides further information on Cromwell's debt finance and associated costs, and Cromwell's capital.

Capital is defined as the combination of securityholders' equity, reserves and net debt (borrowings less cash). The Board of Directors is responsible for Cromwell's capital management strategy. Capital management is an integral part of Cromwell's risk management framework and seeks to safeguard Cromwell's ability to continue as a going concern while maximising securityholder value through optimising the level and use of capital resources and the mix of debt and equity funding. Cromwell's preferred portfolio gearing range is 35% - 55%.

Consistent with this strategy Cromwell announced during the year that Moody's has assigned a senior secured rating of Baa2 to Cromwell's secured bank facilities and a senior unsecured Baa3 rating for Cromwell's convertible bonds. Cromwell as a senior unsecured issuer received a rating of Baa3. The ratings are important as they reflect the investment grade credit rating of Cromwell which allows Cromwell access to global capital markets.

## 8 Borrowings

### OVERVIEW

Cromwell and the Trust borrow funds from financial institutions and investors in the form of convertible bonds to partly fund the acquisition of income producing assets, such as investment properties, securities or the acquisition of businesses. Cromwell's and the Trust's borrowings are generally fixed either directly or through the use of interest rate swaps and have a fixed term. This note provides information about Cromwell's debt facilities, including maturity dates, security provided and facility limits.

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Current</b>				
<i>Secured</i>				
Loans – financial institutions	129.8	40.5	129.8	40.5
<i>Unsecured</i>				
Loan notes	–	23.8	–	–
	129.8	64.3	129.8	40.5
<b>Non-current</b>				
<i>Secured</i>				
Loans – financial institutions	920.4	902.5	920.4	902.5
<i>Unsecured</i>				
Convertible bond	210.7	202.0	223.9	218.4
Unamortised transaction costs	(12.9)	(11.0)	(10.2)	(7.7)
	1,118.2	1,093.5	1,134.1	1,113.2
<b>Total</b>				
Secured loans – financial institutions	1,050.2	943.0	1,050.2	943.0
Loan notes	–	23.8	–	–
Unsecured convertible bond	210.7	202.0	223.9	218.5
Unamortised transaction costs	(12.9)	(11.0)	(10.2)	(7.8)
<b>Total borrowings</b>	<b>1,248.0</b>	<b>1,157.8</b>	<b>1,263.9</b>	<b>1,153.7</b>

## ACCOUNTING POLICY

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Under this method fees, costs, discounts and premiums directly related to the financial liability are spread over its expected life.

The fair value of the borrowing portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a borrowing liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the derivative conversion feature. This is recognised as a financial liability if the convertible bond does not meet the "fixed-for-fixed" rule contained in AASB 132 *Financial Instruments: Presentation*, otherwise it is included in shareholders' equity.

Borrowing costs incurred on funds borrowed for the construction of a property are capitalised, forming part of the construction cost of the asset. Capitalisation ceases upon practical completion of the property. Other borrowing costs are expensed.

## (A) BORROWING DETAILS

	Note	Secured	Maturity date	2016		2015	
				Facility \$M	Utilised \$M	Facility \$M	Utilised \$M
Syndicated facility – Tranche 1	(i)	Yes	Jan–20	270.5	270.5	325.5	325.5
Syndicated facility – Tranche 2	(i)	Yes	Jan–21	590.6	590.6	577.0	577.0
Tuggeranong – Tranche A	(ii)	Yes	May–18	36.1	36.1	40.5	40.5
Tuggeranong – Tranche B	(ii)	Yes	May–18	159.5	29.9	–	–
Margin loan facility	(iii)	Yes	Apr–17	125.0	123.2	–	–
Convertible bond	(iv)	No	Feb–20	223.9	223.9	218.5	218.5
Loan notes	(v)	No	Sep–15	–	–	23.8	23.8
<b>Total borrowing facilities</b>				<b>1,405.6</b>	<b>1,274.2</b>	<b>1,185.3</b>	<b>1,185.3</b>

### (i) Syndicated facility – tranche 1 and 2

In March 2016 Cromwell renegotiated the terms of its syndicated finance facility extending the term of the facility by 1.7 years. The facility is secured by first registered mortgages over a pool of the investment properties held by the Trust and is split into two tranches, one of \$270.5 million, which expires in January 2020 and one of \$590.6 million which expires in January 2021. Interest is payable monthly in arrears at variable rates based on the 30 day BBSY rate which was 1.90% (30 June 2015: 2.09%) at balance date plus a loan margin. The facility was fully drawn at balance date.

### (ii) Tuggeranong facility – tranche A and B

During the year Cromwell and the Trust refinanced the short-term extension of the Tuggeranong debt facility which expired in October 2015. The new facility, which expires in May 2018, is split into two tranches. Tranche A, which is fully drawn, refinanced the existing \$40.5 million debt facility and requires monthly repayments of \$0.6 million for 18 months. Tranche B with a total facility limit of \$159.5 million is used as project funding for the construction of a modern 30,700 square metre building on surplus land of the existing Tuggeranong Office Park property. At year-end \$29.9 million of the facility was drawn down. Interest is payable monthly in arrears at variable rates based on the 30 day BBSY rate which was 1.90% (30 June 2015: 2.09%) at balance date plus a loan margin.

### (iii) Margin loan facility

During the year Cromwell and the Trust entered into a \$125 million short-term margin loan facility. The facility is secured over Cromwell's and the Trust's listed investments at fair value through profit or loss and expires in April 2017. Interest is payable monthly in arrears at variable rates based on the 30 day BBSW rate plus a loan margin. The facility requires Cromwell to hold cash of at least \$54 million at all times. This cash amount has been classified as restricted cash as it is effectively not available for use by Cromwell. Refer to note 15(b).

### (iv) Convertible bond

At period end 1,500 (30 June 2015: 1,500) convertible bonds with a face value of €100,000 each were on issue with a gross face value of €150 million or \$223.9 million (30 June 2015: \$218.5 million). The bonds bear an interest rate of 2%. There have been no changes to the terms and conditions of the convertible bond since the last annual financial report for the year ended 30 June 2015.



The convertible bonds are presented in the balance sheets as follows:

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Face value of bonds issued – February 2015	220.1	220.1	220.1	220.1
Derivative financial instruments – conversion feature	(17.9)	(17.9)	–	–
<b>Convertible bond carrying amount at inception</b>	<b>202.2</b>	<b>202.2</b>	<b>220.1</b>	<b>220.1</b>
Movements in exchange rate and amortisation of conversion feature – previous periods	(0.2)	–	(1.6)	–
<b>Carrying amount at 1 July/inception</b>	<b>202.0</b>	<b>202.2</b>	<b>218.5</b>	<b>220.1</b>
Amortisation of conversion feature to account for effective interest rate – current period	3.3	1.4	–	–
Movements in exchange rate – current period	5.4	(1.6)	5.4	(1.6)
<b>Carrying amount at period end</b>	<b>210.7</b>	<b>202.0</b>	<b>223.9</b>	<b>218.5</b>

The conversion feature of the convertible bond represents an embedded derivative financial instrument in the host debt contract. The embedded derivative is measured at fair value and deducted from the carrying amount of the convertible bond (which is carried at amortised cost) and separately disclosed as a derivative financial liability on the face of the balance sheet. The conversion feature represents the parent entity's obligation under the convertible bond terms and conditions to issue Cromwell stapled securities should bond holders exercise their conversion option. The Trust's borrowing obligation in respect of the convertible bond is considered to be the gross amount payable of the convertible bond.

#### (v) Loan notes

Pursuant to the Share Purchase Agreement to acquire Valad Europe the portion of the cash consideration paid to acquire the interests of two executives of Valad Europe, being €16.3 million was lent back on a short-term basis to Cromwell via loan notes. These notes were repaid in full during the year.

#### (B) FINANCE COSTS

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Total Interest	54.6	59.5	54.6	59.5
Amortisation of loan transaction costs	5.8	4.4	1.3	2.2
Net exchange (gains)/losses on foreign currency borrowings	5.5	(1.6)	0.6	–
<b>Total finance costs</b>	<b>65.9</b>	<b>62.3</b>	<b>56.5</b>	<b>61.7</b>

Information about Cromwell's exposure to interest rate changes is provided in note 12.

## 9 Derivative Financial Instruments

### OVERVIEW

Cromwell's and the Trust's derivative financial instruments consist of interest rate swap contracts and the conversion options on the convertible bonds issued by Cromwell. Interest rate swap contracts are used to fix interest on floating rate borrowings. The conversion option amount represents the additional value provided to convertible bond holders compared to the same corporate bond that would have no feature to convert the bonds into Cromwell stapled security at the end or during the term of the bond. For accounting purposes such a conversion feature is accounted for separately from the bond liability and is carried at fair value.

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Non-current assets</b>				
Interest rate swap contract	0.5	6.1	0.5	6.1
<b>Current liabilities</b>				
Interest rate swap contracts	11.0	14.3	11.0	14.3
Conversion feature – convertible bond	9.3	14.2	–	–
	<b>20.3</b>	<b>28.5</b>	<b>11.0</b>	<b>14.3</b>
<b>Non-current liabilities</b>				
Interest rate swap contracts	3.0	10.7	3.0	10.7

### ACCOUNTING POLICY

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at balance date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Cromwell enters into interest rate swap agreements that are used to convert certain variable interest rate borrowings to fixed interest rates. The derivatives are entered into with the objective of hedging the risk of adverse interest rate fluctuations. While Cromwell has determined that these arrangements are economically effective, they have not satisfied the documentation, designation and effectiveness tests required by accounting standards. As a result, they do not qualify for hedge accounting and gains or losses arising from changes in fair value are recognised immediately in profit or loss.

### Interest rate derivative contracts

The fixed or limited interest rates range between 3.39% and 5.95% (2015: 2.98% and 5.95%) and the variable rates are generally based on the 30 day bank bill swap bid rate, which at balance date was 1.90% (2015: 2.09%). At balance date, the notional principal amounts and period of expiry of Cromwell's and the Trust's interest rate swap contracts is as follows:

	Cromwell and Trust	
	2016 \$M	2015 \$M
Less than 1 year	270.0	31.7
1 – 2 years	286.5	270.0
2 – 3 years	443.6	286.5
3 – 4 years	–	278.8
	<b>1,000.1</b>	<b>867.0</b>

In order to manage future interest rate risk when existing interest rate swap contracts expire Cromwell and the Trust have entered into an interest rate cap contract that will cap Cromwell's and the Trust's interest rate at a maximum of 3.39% on the notional amount of the cap contract. The notional amount will increase as Cromwell's and the Trust's existing interest rate contracts expire as follows:

Date of reset of cap notional amount	Notional amount \$M
At 30 June 2016	443.6
July 2016	543.6
August 2016	623.6
June 2017	713.6
September 2017	800.0
November 2017	900.0
December 2017	1,000.0

### Conversion feature – convertible bond

The movement of the conversion feature since recognition upon issue of the convertible bond is as follows:

	Cromwell and Trust	
	2016 \$M	2015 \$M
Derivative financial liability at 1 July (2015: inception)	14.2	17.9
Fair value (gain)/loss	(5.2)	(3.7)
Foreign exchange difference	0.3	–
<b>Balance at 30 June</b>	<b>9.3</b>	<b>14.2</b>

For details about the fair value measurement of Cromwell's and the Trust's financial instruments refer to note 12.

## 10 Contributed Equity

### OVERVIEW

The shares of Cromwell Corporation Limited (the "Company") and the units of Cromwell Diversified Property Trust (the "CDPT") are combined and issued as stapled securities. The shares of the Company and units of the CDPT cannot be traded separately and can only be traded as stapled securities.

Below is a summary of contributed equity of the Company and the CDPT separately and for Cromwell's combined stapled securities. The basis of allocation of the issue price of stapled securities to Company shares and CDPT units post stapling is determined by agreement between the Company and the CDPT as set out in the Stapling Deed.

	Cromwell stapled securities		Company shares		CDPT units	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Contributed equity	1,394.0	1,382.8	106.5	105.4	1,287.5	1,277.4

## (A) MOVEMENTS IN CONTRIBUTED EQUITY

The following reconciliation summarises the movements in contributed equity. Issues of a similar nature have been grouped and the issue price shown is the weighted average. Detailed information on each issue of stapled securities is publicly available via the ASX.

	Number of securities	Cromwell stapled securities		Company shares		CDPT units	
		Issue price	\$M	Issue price	\$M	Issue price	\$M
Opening balance 1 July 2014	1,727,280,850	–	1,372.1	–	104.4	–	1,267.7
Exercise of performance rights	3,066,340	34.3¢	1.0	3.3¢	0.1	31.0¢	0.9
Distribution reinvestment plan	9,412,108	103.0¢	9.7	9.8¢	0.9	93.2¢	8.8
Balance at 30 June 2015	1,739,759,298	–	1,382.8	–	105.4	–	1,277.4
Exercise of performance rights	2,522,034	20.0¢	1.0	1.9¢	0.1	18.1¢	0.9
Distribution reinvestment plan	10,049,876	101.6¢	10.2	9.8¢	1.0	91.8¢	9.2
<b>Balance at 30 June 2016</b>	<b>1,752,331,208</b>		<b>1,394.0</b>		<b>106.5</b>		<b>1,287.5</b>

The Company and CDPT have established a distribution reinvestment plan under which holders of stapled securities may elect to have all of their distribution entitlements satisfied by the issue of new stapled ordinary securities rather than being paid in cash. Stapled securities are issued under the plan at a discount to the market price as determined by the Directors before each distribution.

## ACCOUNTING POLICY

The ordinary shares of the Company are stapled with the units of the Trust and are together referred to as stapled securities. Stapled securities are classified as equity. Incremental costs directly attributable to the issue of new shares, units or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases Cromwell's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the securityholders as treasury shares until the securities are cancelled or reissued. Where such ordinary securities are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to securityholders.

## (B) STAPLED SECURITIES

Stapled securities entitle the holder to participate in dividends and distributions as declared from time to time and the proceeds on winding up. On a show of hands every holder of stapled securities present at a meeting in person, or by proxy, is entitled to one vote, and upon a poll each stapled security is entitled to one vote.

## 11 Reserves

### OVERVIEW

Reserves are balances that form part of equity that record other comprehensive income amounts that are retained in the business and not distributed until such time the underlying balance sheet item is realised. This note provides information about movements in the other reserves line item of the balance sheet and a description of the nature and purpose of each reserve.

	Security-based payments reserve		Available for sale reserve		Foreign currency translation reserve		Total other reserves	
	Cromwell \$M	Trust \$M	Cromwell \$M	Trust \$M	Cromwell \$M	Trust \$M	Cromwell \$M	Trust \$M
Balance at 1 July 2014	3.6	-	2.3	-	-	-	5.9	-
Security based payments	1.0	-	-	-	-	-	1.0	-
Foreign exchange differences recognised in other comprehensive income	-	-	-	-	6.2	0.6	6.2	0.6
Attributable to non-controlling interests	-	-	-	-	(1.7)	-	(1.7)	-
<b>Balance at 30 June 2015</b>	<b>4.6</b>	<b>-</b>	<b>2.3</b>	<b>-</b>	<b>4.5</b>	<b>0.6</b>	<b>11.4</b>	<b>0.6</b>
Security based payments	0.9	-	-	-	-	-	0.9	-
Foreign exchange differences recognised in other comprehensive income	-	-	-	-	7.7	1.1	7.7	1.1
Attributable to non-controlling interests	-	-	-	-	(2.1)	-	(2.1)	-
<b>Balance at 30 June 2016</b>	<b>5.5</b>	<b>-</b>	<b>2.3</b>	<b>-</b>	<b>10.1</b>	<b>1.7</b>	<b>17.9</b>	<b>1.7</b>

### Security-based payments reserve

The share based payments reserve is used to recognise the fair value of equity settled security based payments for employee services. Refer to note 18 for details of Cromwell's security based payments.

### Available for sale reserve

Changes in the fair value of investments classified as available-for-sale are taken to the available-for-sale financial assets revaluation reserve. Amounts are recognised in profit or loss when the associated assets are disposed/sold or impaired.

For Cromwell the balance at year end comprises a reserve of a subsidiary attributable to its pre-stapling interest in a trust which continues to be held. For Cromwell there was no movement in the available-for-sale financial assets revaluation reserve over the last two financial years.

### Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in foreign currency translation reserve. Any foreign currency differences arising from inter-group loans are transferred to the foreign currency translation reserve upon consolidation as such loans form part of the net investment in the respective controlled entity. The cumulative amount recognised in the foreign currency translation reserve is reclassified to profit or loss when the net investment is disposed of.



## 12 Financial Risk Management

### OVERVIEW

Cromwell's activities expose it to a variety of financial risks which include credit risk, liquidity risk and market risk. This note provides information about Cromwell's risk management strategy in relation to each of the above financial risks to which Cromwell is exposed to.

Cromwell's overall risk management program focuses on managing these risks and seeks to minimise potential adverse effects on the financial performance of Cromwell. Cromwell uses derivative financial instruments such as interest rate derivatives to hedge certain risk exposures. Cromwell seeks to deal only with creditworthy counterparties. Liquidity risk is monitored through the use of future rolling cash flow forecasts.

Cromwell's management of treasury activities is centralised and governed by policies approved by the Directors who monitor the operating compliance and performance as required. Cromwell has policies for overall risk management as well as policies covering specific areas such as identifying risk exposure, analysing and deciding upon strategies, performance measurement, the segregation of duties and other controls around the treasury and cash management functions.

Cromwell and the Trust hold the following financial instruments:

	Type of financial instrument	Cromwell		Trust	
		2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Financial assets</b>					
Cash and cash equivalents	(1)	41.6	109.0	39.2	48.6
Receivables	(1)	33.9	19.1	179.0	221.9
Other current financial assets	(1)	54.0	23.8	–	–
Investments at fair value through profit or loss	(2)	296.2	37.6	259.7	2.0
Derivative financial instruments	(3)	0.5	6.1	0.5	6.1
<b>Total financial assets</b>		<b>426.2</b>	<b>195.6</b>	<b>478.4</b>	<b>278.6</b>
<b>Financial liabilities</b>					
Trade and other payables	(4)	52.1	46.3	31.5	32.0
Dividends/distributions payable	(4)	36.9	34.7	37.4	34.9
Borrowings	(4)	1,248.0	1,157.8	1,263.9	1,153.7
Derivative financial instruments	(3)	23.3	39.2	14.0	25.0
<b>Total financial liabilities</b>		<b>1,360.3</b>	<b>1,278.0</b>	<b>1,346.8</b>	<b>1,245.6</b>

Type of financial instrument as per AASB 139 Financial Instruments: Recognition and Measurement:

- (1) Loans and receivables;
- (2) At fair value through profit or loss – designated;
- (3) At fair value through profit or loss – held for trading;
- (4) At amortised cost.

### (A) CREDIT RISK

Credit risk is the risk that a counterparty will default on its contractual obligations under a financial instrument and result in a financial loss to Cromwell. Cromwell has exposure to credit risk on all financial assets included in the balance sheet except investments at fair value through profit or loss.

Cromwell manages this risk by:

- establishing credit limits for customers and managing exposure to individual entities;
- monitoring the credit quality of all financial assets in order to identify any potential adverse changes in credit quality;
- derivative counterparties and cash transactions, when utilised, are transacted with high credit quality financial institutions;
- providing loans to associates where Cromwell is comfortable with the underlying exposure;
- regularly monitoring loans and receivables on an ongoing basis; and
- regularly monitoring the performance of associates on an ongoing basis.

The maximum exposure to credit risk at balance date is the carrying amount of financial assets recognised in the balance sheet of Cromwell. Cromwell holds no significant collateral as security.

Cash is held with Australian, New Zealand, United Kingdom and European financial institutions. Interest rate derivative counterparties are all Australian financial institutions.

## (B) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash reserves and finance facilities to meet the ongoing operational requirements of the business. It is Cromwell's policy to maintain sufficient funds in cash and cash equivalents to meet expected near term operational requirements. Cromwell prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow. Cromwell monitors the maturity profile of borrowings and puts in place strategies designed to ensure that all maturing borrowings are refinanced in the required timeframes.

The contractual maturity of Cromwell's and the Trust's financial liabilities at balance date are shown in the table below. It shows undiscounted contractual cash flows required to discharge Cromwell's financial liabilities, including interest at current market rates.

	1 year or less \$M	Cromwell Over 1 year to 5 years \$M	Total \$M	1 year or less \$M	Trust Over 1 year to 5 years \$M	Total \$M
<b>2016</b>						
Trade and other payables	52.1	–	52.1	31.5	–	31.5
Dividends/distribution payable	36.9	–	36.9	37.4	–	37.4
Borrowings	161.3	1,253.7	1,415.0	161.3	1,253.7	1,415.0
Derivative financial instruments	11.0	4.2	15.5	11.0	4.2	15.5
<b>Total financial liabilities</b>	<b>261.3</b>	<b>1,257.9</b>	<b>1,519.5</b>	<b>241.2</b>	<b>1,257.9</b>	<b>1,499.4</b>
<b>2015</b>						
Trade and other payables	46.3	–	46.3	32.0	–	32.0
Dividends/distribution payable	34.7	–	34.7	34.9	–	34.9
Borrowings	99.8	1,212.6	1,312.4	76.0	1,212.6	1,288.6
Derivative financial instruments	14.4	5.1	19.5	14.4	5.1	19.5
<b>Total financial liabilities</b>	<b>195.2</b>	<b>1,217.7</b>	<b>1,412.9</b>	<b>157.3</b>	<b>1,217.7</b>	<b>1,375.0</b>

## (C) MARKET RISK

Market risk is the risk that the fair value or future cash flows of Cromwell's financial instruments fluctuate due to market price changes. Cromwell is exposed to the following market risks:

- Price risk – equity securities;
- Interest rate risk; and
- Foreign exchange risk.

### Price risk – Listed and unlisted equity securities

Cromwell and the Trust are exposed to price risk in relation to its listed and unlisted equity securities (refer note 7). Cromwell and the Trust use the ASX closing price to determine the fair value of their listed securities. For unlisted securities Cromwell and the Trust use the fair value of the net assets of the unlisted entity to determine the fair value of their investments. The fair value of the net assets of unlisted entities is predominantly dependent on the market value of the investment properties they hold. Any movement in the market value of the investment properties will impact on the fair value of Cromwell and the Trust's investment.

### Sensitivity analysis – equity securities price risk

The table below details Cromwell's and the Trust's sensitivity to movements in the fair value of Cromwell's financial assets at fair value through profit or loss:

	Carrying amount \$M	Profit \$M	+10% Equity \$M	Profit \$M	-10% Equity \$M
<b>2016</b>					
<b>Cromwell</b>					
Investments at fair value through profit or loss	296.2	29.6	29.6	(29.6)	(29.6)
<b>Trust</b>					
Investments at fair value through profit or loss	259.7	26.0	26.0	(26.0)	(26.0)
<b>2015</b>					
<b>Cromwell</b>					
Investments at fair value through profit or loss	37.6	3.8	3.8	(3.8)	(3.8)
<b>Trust</b>					
Investments at fair value through profit or loss	2.0	0.2	0.2	(0.2)	(0.2)

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### Interest rate risk

Cromwell's interest rate risk primarily arises from borrowings. Borrowings issued at variable rates expose Cromwell to cash flow interest rate risk. Borrowings issued at fixed rates expose Cromwell to fair value interest rate risk. Cromwell's policy is to effectively maintain hedging arrangements on not less than 50% of its borrowings. At balance date 96% (2015: 92%) of Cromwell's variable rate secured bank loan borrowings of \$1,050 million (2015: \$943 million) were effectively hedged through interest rate swap contracts. The convertible bond and the loan note both carry fixed interest rates.

Therefore, interest on a total of 97% (2015: 94%) of Cromwell's total borrowings is effectively fixed at balance date. For details about notional amounts and expiries of Cromwell's and the Trust's interest rate swap contracts refer to note 9.

### Sensitivity analysis – interest rate risk

The table below details Cromwell's sensitivity to movements in the year end interest rates, based on the borrowings and interest rate derivatives held at balance date with all other variables held constant and assuming all Cromwell's borrowings and interest rate derivatives moved in correlation with the movement in year end interest rates.

Interest rate increase/decrease of:	Profit \$M	+1% Equity \$M	Profit \$M	-1% Equity \$M
<b>2016</b>				
Cromwell	2.6	2.6	(2.6)	(2.6)
Trust	2.0	2.0	(2.0)	(2.0)
<b>2015</b>				
Cromwell	12.6	12.6	(12.6)	(12.6)
Trust	12.0	12.0	(12.0)	(12.0)

## Foreign exchange risk

Cromwell's foreign exchange risk primarily arises from its investments in foreign subsidiaries. The functional currency of these subsidiaries is Euro. The acquisition of the foreign subsidiaries was financed through a convertible bond also denominated in Euro effectively providing a natural hedge against foreign exchange movements between the Australian Dollar and the Euro. No hedge accounting was applied in relation to the net investment in the foreign subsidiaries.

Cromwell's and the Trust's exposure to Euro foreign currency risk at the end of the year, expressed in Australian dollars, was as follows:

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Cash and cash equivalents	0.1	0.8	0.1	0.8
Receivables – interest receivable – related parties	–	–	2.0	1.3
Receivables – Trust loans – related parties	–	–	165.1	217.6
Payables – interest payable convertible bond	(1.8)	(1.7)	(1.8)	(1.7)
Borrowings – convertible bond	(210.7)	(202.0)	(223.9)	(218.5)
Borrowings – loan notes	–	(23.8)	–	–
Derivative financial instruments – conversion feature	(9.3)	(14.2)	–	–
<b>Net exposure</b>	<b>(221.7)</b>	<b>(240.9)</b>	<b>(58.5)</b>	<b>(0.5)</b>

## Amounts recognised in profit or loss and other comprehensive income

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<i>Amounts recognised in profit or loss</i>				
Net foreign exchange gain/(loss)	(2.2)	(7.9)	–	(0.7)
Exchange gains/(losses) on foreign currency borrowings included in finance costs	(5.5)	1.6	(0.6)	–
<b>Total income/(expense) recognised in profit or loss</b>	<b>(7.7)</b>	<b>(6.3)</b>	<b>(0.6)</b>	<b>(0.7)</b>
<i>Amounts recognised in other comprehensive income</i>				
Translation of foreign operations	5.6	4.5	–	–
Translation differences on inter-group loans that form part of the net investment in the foreign operation	2.1	1.7	1.1	0.6
	7.7	6.2	1.1	0.6

## Sensitivity analysis – foreign exchange risk

	2016		2015	
	Profit \$M	Equity \$M	Profit \$M	Equity \$M
Euro – Australian Dollar gains 1 cent in exchange	(4.4)	(1.8)	3.2	0.1
Euro – Australian Dollar loses 1 cent in exchange	4.4	1.8	(3.2)	(0.1)

## (D) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Cromwell uses a number of methods to determine the fair value of its financial instruments as described in AASB 13 *Fair Value Measurement*. The methods comprise the following:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below presents Cromwell's and the Trust's financial assets and liabilities measured and carried at fair value at 30 June 2016 and 30 June 2015:

	Notes	2016			2015				
		Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
<b>Cromwell</b>									
<b>Financial assets at fair value</b>									
Investments at fair value through profit or loss									
Listed equity securities	7	258.4	-	-	258.4	-	-	-	-
Unlisted equity securities	7	-	1.3	36.5	37.8	-	2.0	35.6	37.6
Derivative financial instruments									
Interest rate swaps	9	-	0.5	-	0.5	-	6.1	-	6.1
<b>Total financial assets at fair value</b>		<b>258.4</b>	<b>1.8</b>	<b>36.5</b>	<b>296.7</b>	<b>-</b>	<b>8.1</b>	<b>35.6</b>	<b>43.7</b>
<b>Financial liabilities at fair value</b>									
Derivative financial instruments									
Interest rate swaps	9	-	14.0	-	14.0	-	24.8	-	24.8
Conversion feature	9	-	9.3	-	9.3	-	14.2	-	14.2
<b>Total financial liabilities at fair value</b>		<b>-</b>	<b>23.3</b>	<b>-</b>	<b>23.3</b>	<b>-</b>	<b>39.0</b>	<b>-</b>	<b>39.0</b>
<b>Trust</b>									
<b>Financial assets at fair value</b>									
Investments at fair value through profit or loss									
Listed equity securities	7	258.4	-	-	258.4	-	-	-	-
Unlisted equity securities	7	-	1.3	-	1.3	-	2.0	-	2.0
Derivative financial instruments									
Interest rate swaps	9	-	0.5	-	0.5	-	6.1	-	6.1
<b>Total financial assets at fair value</b>		<b>258.4</b>	<b>1.8</b>	<b>-</b>	<b>260.2</b>	<b>-</b>	<b>8.1</b>	<b>-</b>	<b>8.1</b>
<b>Financial liabilities at fair value</b>									
Derivative financial instruments									
Interest rate swaps	9	-	14.0	-	14.0	-	24.8	-	24.8
<b>Total financial liabilities at fair value</b>		<b>-</b>	<b>14.0</b>	<b>-</b>	<b>14.0</b>	<b>-</b>	<b>24.8</b>	<b>-</b>	<b>24.8</b>

There were no transfers between the levels of the fair value hierarchy during the financial year.

### Disclosed fair values

The fair values of investments at fair value through profit or loss (Levels 2 and 3) and derivative financial instruments (Level 2) are disclosed in the balance sheet.

The carrying amounts of receivables, other current assets and payables are assumed to approximate their fair values due to their short-term nature. The fair value of non-current borrowings (other than the convertible bond) is estimated by discounting the future contractual cash flows at the current market interest rates that are available to Cromwell for similar financial instruments. The fair value of these borrowings is not materially different from the carrying value due to their relatively short-term nature.

The convertible bond is traded on the Singapore Exchange (SGX). At balance date the fair value of issued convertible bonds was €147.0 million (\$219.4 million) [2015: €144.4 million (\$210.4 million)] compared to a carrying amount of €150 million (\$223.9 million).

### (i) Valuation techniques used to derive Level 1 fair values

Level 1 assets held by Cromwell include listed equity securities. The fair value of financial assets traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Cromwell values its investments in accordance with the accounting policies set out in note 7 to the financial statements.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### (ii) Valuation techniques used to derive Level 2 fair values

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

#### *Fair value of investments at fair value through profit or loss*

Level 2 assets held by Cromwell include unlisted equity securities in Cromwell managed investment schemes. The fair value of these financial instruments is based upon the net tangible assets as publicly reported by the underlying unlisted entity, adjusted for inherent risk where appropriate.

#### *Fair value of interest rate swaps*

Level 2 financial assets and financial liabilities held by Cromwell include "Vanilla" fixed to floating interest rate swap derivatives (over-the-counter derivatives). The fair value of interest rate derivatives has been determined using a pricing model based on discounted cash flow analysis which incorporates assumptions supported by observable market data at balance date including market expectations of future interest rates and discount rates adjusted for any specific features of the derivatives and counterparty or own credit risk. All counterparties to interest rate derivatives are Australian financial institutions.

#### *Fair value of conversion feature – convertible bond*

The fair value of the convertible bond conversion feature has been determined by comparing the market value of the convertible bond to the value of a bond with the same terms and conditions but without an equity conversion feature (bond floor). The difference between the two types of bonds is considered to represent the fair value of the conversion feature of the convertible bond.

### (iii) Valuation techniques used to derive Level 3 fair values

If the fair value of financial instruments is determined using valuation techniques and if one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

#### *Fair value of investments at fair value through profit or loss*

Level 3 assets held by Cromwell include co-investments in Cromwell Europe managed wholesale property funds. The fair value of the investment is determined based on the value of the underlying assets held by the fund. The assets of the fund are subject to regular external valuations which are based on discounted net cash inflows from expected future income and/or comparable sales of similar assets. Appropriate discount rates determined by the independent valuer are used to determine the present value of the net cash inflows based on a market interest rate adjusted for the risk premium specific to each asset. The fair value is determined using valuation techniques that are not supported by prices from an observable market. The fair value of these investments recognised in the statement of financial position could change significantly if the underlying assumptions made in estimating the fair values were significantly changed.

#### Reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

	Cromwell	
	2016 \$M	2015 \$M
Opening balance as at 1 July	35.6	-
Additions	5.5	35.2
Disposals	(6.3)	0.8
Fair value (gain)/loss	2.8	(1.9)
Foreign exchange difference	(1.1)	1.5
<b>Balance at 30 June</b>	<b>36.5</b>	<b>35.6</b>



## Group Structure

This section will provide information about the Cromwell Property Group structure including parent entity information, information about controlled entities (subsidiaries) and business combination information relating to the acquisition of controlled entities.

## 13 Parent Entity Disclosures

### OVERVIEW

The financial information below on Cromwell's parent entity Cromwell Corporation Limited (the "Company") and the Trust's parent entity Cromwell Diversified Property Trust (the "CDPT") as stand-alone entities has been provided in accordance with the requirements of the *Corporations Act 2001*.

### (A) SUMMARISED FINANCIAL INFORMATION

	Company		CDPT	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Results</b>				
Profit/(loss) for the year	(34.6)	1.2	237.8	124.3
Total comprehensive income for the year	(34.6)	1.2	237.8	124.3
<b>Financial position</b>				
Current assets	20.7	31.4	62.9	55.8
Total assets	183.1	210.7	2,021.9	1,896.7
Current liabilities	20.5	14.7	178.1	98.8
Total liabilities	159.7	154.4	914.3	871.7
<b>Net assets</b>	<b>23.4</b>	<b>56.4</b>	<b>1,107.6</b>	<b>1,025.0</b>
<b>Equity</b>				
Contributed equity	106.5	105.4	1,287.5	1,277.4
Share based payments reserve	5.5	4.6	-	-
Available for sale reserve	(0.9)	(0.5)	-	-
Retained earnings/(accumulated losses)	(87.7)	(53.1)	(179.9)	(252.4)
<b>Total equity</b>	<b>23.4</b>	<b>56.4</b>	<b>1,107.6</b>	<b>1,025.0</b>

### ACCOUNTING POLICY

The financial information of the parent entities of Cromwell and the Trust have been prepared on the same basis as the consolidated financial statements except for investments in subsidiaries and equity accounted investments.

Investments in subsidiaries and equity accounted investments are accounted for at cost less accumulated impairment charges in the financial report of the parent entity. Distributions and dividends received from subsidiaries and equity accounted investments are not eliminated and recognised in profit or loss.

### (B) COMMITMENTS

At balance date the Company and CDPT had no commitments (2015: none) in relation to capital expenditure contracted for but not recognised as liabilities.

### (C) GUARANTEES PROVIDED

The Company and CDPT both have provided guarantees in relation to the convertible bond. Both entities unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the convertible bond. These guarantees were provided in the prior year.

## (D) CONTINGENT LIABILITIES

At balance date the Company and CDPT had no contingent liabilities (2015: none).

## 14 Controlled Entities

### (A) COMPANY AND ITS CONTROLLED ENTITIES

Name	Country of registration	Equity holding		Name	Country of registration	Equity holding	
		2016 %	2015 %			2016 %	2015 %
Cromwell Property Securities Limited	Australia	100	100	Valad Finland O/Y	Finland	100	100
Cromwell Property Services Pty Ltd	Australia	100	100	Valad France SAS	France	100	100
Marcoola Developments Pty Ltd	Australia	100	100	Valad Luxembourg SA	Luxembourg	100	100
Votrait No. 662 Pty Ltd	Australia	100	100	Valad Netherlands BV	Netherlands	100	100
Cromwell Capital Limited	Australia	100	100	EHI Fund GP (Netherlands) BV	Netherlands	100	100
Cromwell Finance Limited	Australia	100	100	Valad Norway A/S	Norway	100	100
Cromwell Operations Pty Ltd	Australia	100	100	Valad Sweden A/B	Sweden	100	100
Cromwell Funds Management Limited	Australia	100	100	The IO Group Limited	United Kingdom	100	100
Cromwell Seven Hills Pty Ltd	Australia	100	100	EHI Carried Interest Partner Limited	United Kingdom	100	100
Cromwell Holding Trust No 1 Pty Ltd	Australia	100	100	EHIF Limited	United Kingdom	100	100
Cromwell Holding Trust No 2 Pty Ltd	Australia	100	100	Industrial Investment Partnership	United Kingdom	80	80
Cromwell Altona Trust	Australia	100	100	(General Partner) Limited			
Cromwell Real Estate Partners Pty Ltd	Australia	100	100	Valad Germany Gmbh	Germany	100	100
Cromwell Project & Technical Solutions Pty Ltd	Australia	100	100	B8F No.1 Limited	United Kingdom	100	100
CDPT Finance Pty Ltd	Australia	100	100	B8F No.2 Limited	United Kingdom	100	100
Cromwell BT Pty Ltd	Australia	100	100	SFW (Reading) LLP	United Kingdom	100	100
Cromwell European Holdings Limited	United Kingdom	100	100	Valad CEE Coinvest LP	United Kingdom	100	100
Valad (Europe) Limited	United Kingdom	100	100	Valad CEE Promote LP	United Kingdom	60	60
Valad Capital Ventures (UK) Limited	United Kingdom	100	100	Valad Coinvest ECV LP	United Kingdom	100	100
Valad Investment Services Limited	United Kingdom	100	100	Valad Coinvest CEIF LP	United Kingdom	90	-
Valad (Holdings) UK Limited	United Kingdom	100	100	Valad Development Management (UK) Limited	United Kingdom	100	100
Gateshead Investment Limited	Cyprus	100	100	Valad GP	United Kingdom	100	100
Industrial Investment Partnership (LP No. 1) Limited	United Kingdom	80	80	Valad Investment Management Services Limited	United Kingdom	100	100
IO Management Services Limited	United Kingdom	100	100	Valad Promote ECV LP	United Kingdom	55	55
German Activ General Partner Limited	United Kingdom	80	100	Valad Coinvest VEDF LP	United Kingdom	90	90
PFM Coinvestment Partner Limited	United Kingdom	100	80	Valad Secretarial Services Limited	United Kingdom	100	100
Upperastoria Trading & Investments Limited	Cyprus	100	100	Nordic Aktiv General Partner Limited	United Kingdom	100	100
Natchez Sp Zoo	Poland	-	100	Nordic Aktiv General Partner 2 Limited	United Kingdom	100	100
Parc D'Activities 1 GP Limited	Hungary	100	100	Valad YCM Coinvest LP	United Kingdom	100	100
Valad Central Europe BV	Netherlands	100	100	Valad YCM Promote LP	United Kingdom	100	100
Valad Czech Republic SRO	Czech Republic	100	100	Valad Hungary Limited	Hungary	100	100
Valad Real Estate SLR	Romania	100	100	Valad Italy SRO	Italy	100	-
Valad Denmark A/S	Denmark	100	100	Valad Valsec Newco (No. 2) Limited	United Kingdom	100	100
Valad Fund Management Holdings (UK) Limited	United Kingdom	100	100	Valad Poland Retail LLP	United Kingdom	100	100
EHI CV1 UK Limited	United Kingdom	80		Valad Poland Retail (UK) Limited	United Kingdom	100	100
EHI CV3 UK Limited	United Kingdom	100	80	Valad Next Sp Zoo	Poland	100	100
Valad Asset Management (UK) Limited	United Kingdom	100	100	Valad Polish Retail Fund Poland Sp	Poland	-	100
Equity Partnerships Fund Management (Guernsey) Limited	United Kingdom	100	100	Zoo			
Equity Partnerships (Osprey) Limited	United Kingdom	100	100	Valad REIM Luxembourg Sàrl	Luxembourg	100	100
Valad HIG LP	United Kingdom	100	-	Valad VPR Promote Sàrl	Luxembourg	100	100
Valad Promote VEDF LP	United Kingdom	60	60	Valad Poland Sp Zoo	Poland	100	100
				Valad Promote CEIF LP	United Kingdom	50	-
				Valad WP Poland LP	United Kingdom	100	-
				Valad Promote VPRF LP	United Kingdom	100	-

**(B) TRUST AND ITS CONTROLLED ENTITIES**

Name	Country of registration	Equity holding		Name	Country of registration	Equity holding	
		2016 %	2015 %			2016 %	2015 %
Cromwell CMBS Pty Ltd	Australia	-	100	Cromwell HQ North Head Trust	Australia	100	100
Cromwell Loan Note Pty Ltd	Australia	-	100	Cromwell Health and Forestry House Trust	Australia	100	100
Cromwell Holding Trust No 1	Australia	100	100	Cromwell HQ North Trust	Australia	100	100
Cromwell Holding Trust No 2	Australia	100	100	Cromwell Bundall Corporate Centre Head Trust	Australia	100	100
Cromwell Holding Trust No 4	Australia	100	100	Cromwell Bundall Corporate Centre Trust	Australia	100	100
Cromwell Diversified Property Trust No 2	Australia	100	100	Cromwell Property Fund	Australia	100	100
Cromwell Diversified Property Trust No 3	Australia	100	100	Cromwell Property Fund Trust No 2	Australia	100	100
Cromwell Mary Street Property Trust	Australia	100	100	Cromwell Property Fund Trust No 3	Australia	100	100
Cromwell Mary Street Planned Investment	Australia	92	92	CPF Loan Note Issuer Pty Ltd	Australia	-	100
Cromwell Northbourne Planned Investment	Australia	100	100	Cromwell Accumulation Fund	Australia	100	100
Tuggeranong Head Trust	Australia	100	100	Cromwell CPF No. 1 Fund	Australia	100	100
Tuggeranong Trust	Australia	100	100	Cromwell NSW Portfolio Trust	Australia	100	100
CDPT Finance Pty Ltd	Australia	100	100	Cromwell Bligh House Trust	Australia	100	100
CDPT Finance 2 Pty Ltd	Australia	100	100	Cromwell Newcastle Trust	Australia	100	100
EXM Head Trust	Australia	100	100	Cromwell Queanbeyan Trust	Australia	100	100
EXM Trust	Australia	100	100	Cromwell Symantec Trust	Australia	100	100
Mascot Head Trust	Australia	100	100	Cromwell Wollongong Trust	Australia	100	100
Mascot Trust	Australia	100	100	Cromwell McKell House Trust	Australia	100	100
Cromwell TGA Planned Investment	Australia	100	100	Cromwell Penrith Trust	Australia	100	100
Cromwell European Finance Limited	United Kingdom	100	100	Terrace Office Park Planned Investment	Australia	-	100
Cromwell SPV Finance Pty Ltd	Australia	100	100	Terrace Office Park Property Trust	Australia	-	100

All new entities have been incorporated during the year. There was no business combination during the year. Entities, which Cromwell or the Trust controlled in the prior year and there is no equity holding in the current year have all been deregistered in the current year.

## Other Items

This section of the annual financial report provides information about individually significant items to the balance sheet or the income statement and items that are required to be disclosed by Australian Accounting Standards, including unrecognised items and the basis of preparation of the annual financial report.

## 15 Other financial assets and liabilities

### OVERVIEW

This note provides further information about material financial assets and liabilities that are incidental to Cromwell's and the Trust's trading activities, being receivables and trade and other payables, as well as information about restricted cash.

### (A) RECEIVABLES

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<i>Current</i>				
Trade and other receivables	31.6	18.5	12.7	4.3
Loans – joint venture	1.2	–	1.2	–
<b>Receivables – current</b>	<b>32.8</b>	<b>18.5</b>	<b>13.9</b>	<b>4.3</b>
<i>Non-current</i>				
Loan – Director	1.1	0.6	–	–
Trust loans – related parties	–	–	165.1	217.6
<b>Receivables – non-current</b>	<b>1.1</b>	<b>0.6</b>	<b>165.1</b>	<b>217.6</b>

### ACCOUNTING POLICY

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Operating lease receivables of investment properties are due on the first day of each month, payable in advance.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of receivables is established when there is objective evidence that Cromwell may not be able to collect all amounts due according to the original terms of trade and other receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term trade and other receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in profit or loss.

### Loans – related parties

#### Loan – Director

Cromwell has provided loans to Mr P Weightman, a Director of the Company, for the exercise of his employee options under Cromwell's Performance Rights Plan. Each loan term is three years, limited recourse and interest free. At balance date \$1.1 million (2015: \$0.6 million) remained outstanding on the loans.

#### Loans – joint venture

The Trust provided a number of short-term loan facilities to Cromwell's joint venture Oyster Property Funds Limited ("Oyster") for the initial funding of Oyster property syndications. These loans are to be repaid by Oyster as soon as sufficient equity is raised in the syndication. At balance date a total of NZD 1.3 million (AUD 1.1 million) of loans were outstanding (2015: \$nil).

#### Trust loans – related parties

In the prior year a subsidiary of the Trust issued a €150 million convertible bond. Substantially all of the proceeds were on-lent to the ultimate parent entity of the Trust, the Company or its subsidiaries ("CCL"). The proceeds of the loans from the Trust (the "Trust loans") were used by the Company to acquire Valad Europe.

The Trust loans to CCL consist of three facilities as follows:

Unsecured loan:	In the prior year the Trust provided CCL a loan facility of €107.6 million (\$160.8 million). CCL repaid \$8.0 million of the loan during the year leaving a loan balance of \$152.8 million at balance date. The Euro denominated loan facility is unsecured and carries an interest rate of 2.5%. The loan expires in February 2020.
Redeemable preference shares:	In the prior year the Trust subscribed to redeemable preference shares ("RPS") issued by a subsidiary of the Company. The total subscription amount was €27.5 million (\$41.0 million). The RPS are redeemable at the election of the Trust on 31 December 2025 and cannot be converted into ordinary share capital of the issuing company. The RPS rank above ordinary share capital upon winding up of the issuing company up to the paid up sum.
Senior debt facility:	In the prior year a subsidiary of the Trust provided a loan facility of €14.4 million (\$21.5 million) to a subsidiary of CCL. €10.0 million were repaid during the year. The loan balance at balance date was \$6.5 million. The Euro denominated loan facility is unsecured and carries an interest rate of 2%. The loan expires in February 2020.

At balance date, Cromwell and the Trust had \$1.5 million receivables which were past due date but not impaired (2015: \$1.1 million). The Trust recognised a decrease in the recoverable amount of the redeemable preference share loan to a CCL subsidiary by \$35.3 million, following the decrease in the recoverable amount of goodwill recognised by the CCL subsidiary in relation to Cromwell's European business. For further details refer note 16. There were no other receivables impaired at balance date (2015: \$0.5 million).

## (B) OTHER FINANCIAL ASSETS

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Restricted cash	54.0	23.8	-	-

In the current year Cromwell and the Trust entered into a margin loan facility to partially fund the acquisition of listed securities (refer note 8.) Terms of the loan agreement require Cromwell and the Trust to hold no less than \$54 million in cash at any time making the amount unavailable for any other use during the term of the loan. Subsequent to balance date the terms of the facility were renegotiated reducing restricted cash to \$20 million.

Prior year's restricted cash related to effectively unpaid cash consideration payable on the Valad Europe acquisition. This amount was paid during the year.

## (C) TRADE AND OTHER PAYABLES

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Trade and other payables	40.1	32.2	19.5	17.9
Lease incentives payables	11.5	13.1	11.5	13.1
Tenant security deposits	0.5	1.0	0.5	1.0
<b>Trade and other payables</b>	<b>52.1</b>	<b>46.3</b>	<b>31.5</b>	<b>32.0</b>

## ACCOUNTING POLICY

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost. These amounts represent liabilities for goods and services provided to Cromwell prior to the end of the year and which are unpaid. The amounts are usually unsecured and paid within 30-60 days of recognition.

## 16 Intangible assets

### OVERVIEW

Cromwell's intangible assets consist of goodwill and management rights relating to Cromwell's European business acquired in the prior year and software assets. Goodwill represents the excess of consideration paid for the acquisition over identifiable net assets of the business acquired. Management rights relate to contractual rights to fund management fees in place at the date of acquisition. This note provides information about the movements in intangible assets, how intangible assets are accounted for by Cromwell and details about the impairment test undertaken by Cromwell on the recognised goodwill in relation to Cromwell's European business.

	Goodwill \$M	Management rights \$M	Software \$M	Total \$M
<b>2016</b>				
Cost	151.4	19.5	5.2	176.1
Accumulated amortisation	-	(9.7)	(3.6)	(13.3)
Decrease in recoverable amount	(84.5)	-	-	(84.5)
<b>Total intangible assets</b>	<b>66.9</b>	<b>9.8</b>	<b>1.6</b>	<b>78.3</b>
Balance at 1 July 2015	147.7	16.7	1.3	165.7
Additions	-	-	0.9	0.9
Amortisation	-	(7.6)	(0.6)	(8.2)
Decrease in recoverable amount	(86.2)	-	-	(86.2)
Foreign exchange differences	5.4	0.7	-	6.1
<b>Balance at 30 June 2016</b>	<b>66.9</b>	<b>9.8</b>	<b>1.6</b>	<b>78.3</b>

	Goodwill \$M	Management rights \$M	Software \$M	Total \$M
<b>2015</b>				
Cost	147.7	18.9	3.8	170.4
Accumulated amortisation	-	(2.2)	(2.5)	(4.7)
<b>Total intangible assets</b>	<b>147.7</b>	<b>16.7</b>	<b>1.3</b>	<b>165.7</b>
Balance at 1 July 2014	-	-	1.1	1.1
Acquisition of business	143.4	18.4	-	161.8
Additions	-	-	0.7	0.7
Amortisation	-	(2.2)	(0.5)	(2.7)
Foreign exchange differences	4.3	0.5	-	4.8
<b>Balance at 30 June 2015</b>	<b>147.7</b>	<b>16.7</b>	<b>1.3</b>	<b>165.7</b>

### ACCOUNTING POLICY

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.



Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Cromwell carries the goodwill, management rights and software as intangible assets. Goodwill has an indefinite useful life and is therefore not amortised. Instead, goodwill is tested annually for impairment. Funds management rights are amortised over the length of the contractual rights to which they relate in accordance with forecast cash flows from these rights in the respective period. At balance date the terms of the contracts ranged between six months and 8.5 years. Software is amortised on a straight-line basis over three years.

#### **(A) IMPAIRMENT TESTS FOR GOODWILL**

Goodwill has an indefinite useful life and is not subject to amortisation. Goodwill is tested for impairment annually or more frequently if events or changes in the circumstances indicate that it may be impaired. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount, being the higher of fair value less costs to sell and value in use. Goodwill is assessed for impairment on the lowest level at which it is monitored by management and allocated to cash-generating units ("CGU"s). The allocation is made to those CGUs that are expected to benefit from the business combination.

##### **Significant estimate – decrease in recoverable amount of goodwill**

For the purpose of the impairment test goodwill was fully allocated to Cromwell's European wholesale funds management business CGU which forms part of the Funds Management – Wholesale operating segment. The recoverable amount has been determined using a value in use calculation based on cash flow projections over the next 5 years. Below are the key assumptions for the value in use calculation:

Long-term growth rate:	0.0%
Pre-tax discount rate:	19.8%

At balance date the recoverable amount of the entire CGU was \$80.2 million. The carrying amount of the CGU has been reduced to its recoverable amount by recognising a decrease in recoverable amount in profit or loss of \$86.2 million against the goodwill balance of the CGU. The decrease in the recoverable amount was the result of both delayed timing and more conservative assumptions on the future timing of the deployment of investment capacity as a result of financial uncertainty in the financial markets in Europe.

##### **Sensitivity to changes in assumptions**

A significant decline in property values in the markets in which Cromwell's European wholesale funds management business operates may reduce forecast cash inflows from managed mandates and also result in a higher discount rate applied to the discounted cash flow forecast. The recoverable amount of the CGU would decrease by \$3.5 million if the pre-tax discount rate increased by 1%. The recoverable amount of the CGU would increase by \$2.1 million if the long-term growth rate increased by 1%.

## 17 Cash flow information

### OVERVIEW

This note provides further information on the consolidated cash flow statements of Cromwell and the Trust. It reconciles profit for the year to cash flows from operating activities and information about non-cash transactions.

### (A) RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Net profit</b>	<b>329.6</b>	148.8	<b>371.4</b>	156.7
Amortisation and depreciation	9.2	3.3	–	–
Amortisation of lease costs and incentives	15.2	13.0	15.2	13.0
Straight-line rentals	(2.3)	(5.5)	(2.3)	(5.5)
Security-based payments	0.9	1.0	–	–
Share of (profits)/losses – equity accounted investments (net of distributions)	9.2	(0.1)	9.7	1.0
Net foreign exchange (gain)/loss	2.2	7.9	–	0.7
Net foreign exchange (gain)/loss on foreign currency borrowings	5.5	(1.6)	0.6	–
Amortisation of loan transaction costs	5.8	3.9	1.3	2.2
Finance costs expensed relating to the convertible bond conversion feature	–	0.4	–	–
(Gain)/loss on sale of other assets	0.3	(0.3)	0.1	(0.2)
(Gain)/loss on sale of investment properties	(19.4)	(1.0)	(19.4)	(1.0)
Decrease in recoverable amounts	86.6	–	35.3	–
Fair value net (gain)/loss from:				
Investment properties	(263.2)	(32.4)	(263.2)	(32.4)
Derivative financial instruments	(10.6)	1.8	(5.4)	5.5
Investments at fair value through profit or loss	(6.0)	1.2	(2.5)	(0.2)
Business combination transaction costs	–	2.4	–	–
Other transaction costs	1.8	–	–	–
Changes in operating assets and liabilities				
(Increase)/decrease in:				
Receivables	(12.9)	1.0	(8.4)	(2.3)
Tax assets	–	(2.0)	–	–
Other current assets	0.2	0.1	0.6	–
Increase/(decrease) in:				
Trade and other payables	7.1	3.4	1.0	2.4
Provisions	0.2	–	–	–
Unearned revenue	(0.3)	(1.1)	(1.3)	(1.1)
<b>Net cash provided by operating activities</b>	<b>159.1</b>	144.2	<b>132.7</b>	138.8

### ACCOUNTING POLICY

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (B) NON CASH TRANSACTIONS

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Stapled securities/units issued on reinvestment of distributions	10.2	9.7	9.2	8.8

## 18 Security based payments

### OVERVIEW

Cromwell operates two security based compensation schemes, the Performance Rights Plan (PRP) and the Tax Exempt Plan (TEP). Under the PRP, eligible employees, including executive directors, have the right to acquire Cromwell securities at a consideration of between \$0.00 and \$0.50 subject to certain vesting conditions. Eligibility is by invitation of the Board of Directors and participation in the PRP by executive Directors is subject to security holder approval. The PRP is designed to provide long-term incentives for employees to continue employment and deliver long-term securityholder returns. The TEP allows eligible employees to acquire up to \$1,000 of stapled securities on-market in a tax effective manner.

This note provides information below on the security based compensation schemes Cromwell currently operates.

### (A) PRP

Cromwell established a Performance Rights Plan in September 2007. All full-time and part-time employees who meet minimum service, remuneration and performance requirements, including executive Directors, are eligible to participate in the PRP at the discretion of the Board. Under the PRP, eligible employees are allocated performance rights. Each performance right enables the participant to acquire a stapled security in Cromwell, at a future date and exercise price, subject to conditions. The number of performance rights allocated to each participant is set by the Board or the Nomination & Remuneration Committee and based on individual circumstances and performance.

The amount of performance rights that will vest under the PRP depends on a combination of factors which may include Cromwell's total securityholder returns (including price growth, dividends and capital returns), internal performance measures and the participant's continued employment. Performance rights allocated under the PRP generally vest in 3 years. Until performance rights have vested, the participant cannot sell or otherwise deal with the performance rights except in certain limited circumstances. It is a condition of the PRP that a participant must remain employed by Cromwell in order for performance rights to vest. Any performance rights which have not yet vested on a participant leaving employment must be forfeited.

Under AASB 2 *Share-based Payment*, the performance rights are treated as options for accounting purposes. Set out below is a summary of movements in the number of performance rights outstanding at the end of the financial year:

	2016		2015	
	Average exercise price	Number of performance rights	Average exercise price	Number of performance rights
<b>As at 1 July</b>	<b>\$0.40</b>	<b>9,769,961</b>	\$0.38	9,410,308
Granted during the year	\$0.36	2,375,686	\$0.42	4,463,229
Exercised during the year	\$0.41	(2,522,034)	\$0.34	(3,066,340)
Forfeited during the year	\$0.34	(1,029,662)	\$0.50	(1,037,236)
<b>As at 30 June</b>	<b>\$0.39</b>	<b>8,593,951</b>	\$0.40	9,769,961
<b>Vested and exercisable</b>	-	-	-	-

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2016 was \$1.09 (2015: \$0.98). No options expired during the years covered in the table above.

The weighted average remaining contractual life of the 8,593,951 performance rights outstanding at the end of the financial year (2015: 9,769,961) was 1.3 years (2015: 1.4 years).

### Fair value of performance rights granted

The fair value of performance rights granted during the year was between \$0.32 per option for PRP with an exercise price of \$0.50 and \$0.78 per option for PRP with an exercise price of \$nil (2015: fair value between \$0.29 and \$0.50).

Performance rights do not have any market-based vesting conditions. The fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the security price at grant date and expected price volatility of the underlying security, the expected dividend/distribution yield and the risk-free interest rate for the term of the option. The model inputs for performance rights granted during the year included:

Exercise price:	\$0.00 to \$0.50 (2015: \$0.00 to \$0.50)
Grant date:	02-Nov-15 and 11-Dec-15 (2015: 16-Oct-14)
Share price at grant date:	\$1.00 and \$1.03 (2015: \$0.945)
Expected price volatility:	19% (2015: 16%)
Expected dividend yield:	7.97% and 7.74% (2015: 8.32%)
Risk free interest rate:	1.84% and 2.06% (2015: 2.80%)
Expiry date:	02-Dec-18 and 10-Oct-18 (2015: 01-Oct-17)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### (B) TEP

The Tax Exempt Plan enables eligible employees to acquire up to \$1,000 of stapled securities on-market in a tax effective manner within a 12 month period. Eligibility for the Tax Exempt Plan is approved by the Board having regard to individual circumstances and performance. No Directors or employees participated in the Tax Exempt Plan during the current or prior year.

### (C) EXPENSE ARISING FROM SECURITY BASED PAYMENTS

Expenses arising from share based payments recognised during the year as part of employee benefits expense were as follows:

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Performance rights issued under the PRP	0.9	1.0	-	-

## 19 Related parties

### OVERVIEW

Related parties are persons or entities that are related to Cromwell as defined by AASB 124 *Related Party Disclosures*. These include directors and other key management personnel and their close family members and any entities they control as well as subsidiaries, associates and joint ventures of Cromwell. They also include entities which are considered to have significant influence over Cromwell, that is securityholders that hold more than 20% of Cromwell's issued securities.

This note provides information about transactions with related parties during the year. All of Cromwell's transactions with related parties are on normal commercial terms and conditions and at market rates.

### (A) KEY MANAGEMENT PERSONNEL DISCLOSURES

#### Key management personnel compensation

	Cromwell	
	2016 \$M	2015 \$M
Short-term employee benefits	4,284,232	3,386,708
Post-employment benefits	119,010	114,364
Other long-term benefits	216,055	61,596
Security-based payments	495,548	367,716
<b>Total key management personnel compensation</b>	<b>5,114,845</b>	<b>3,930,384</b>

### Loans to key management personnel

Cromwell has provided loans to Mr P Weightman, a Director of the Company, for the exercise of his employee options under Cromwell's Performance Rights Plan. Each loan term is three years, limited recourse and interest free. The outstanding balance at balance date was \$1,066,067 (2015: \$588,433).

### Other transactions with key management personnel

Cromwell rents an apartment, located at 185 Macquarie Street, Sydney, which is owned by Mr P Weightman, a Director of Cromwell. Total rent paid during year was \$98,982 (2015: \$93,600). The payment of rent is on normal commercial terms and conditions and at market rates.

## (B) OTHER RELATED PARTY TRANSACTIONS

### (i) Parent entity and subsidiaries

Cromwell Corporation Limited is the ultimate parent entity in Cromwell. Cromwell Diversified Property Trust is the ultimate parent entity in the Trust. Details of subsidiaries for both parent entities are set out in note 14.

### (ii) Transactions with joint ventures

#### Cromwell Partners Trust

Cromwell and the Trust hold a 50% interest in the Cromwell Partners Trust joint venture ("CPA") which holds the Northpoint property in North Sydney (refer to note 6 for further details). Cromwell received \$6.7 million in distributions from CPA during the year (2015: \$6.2 million).

Cromwell Real Estate Partners Pty Ltd ("CRE"), a wholly owned subsidiary of Cromwell, acts as trustee for CPA. Cromwell Property Services Pty Ltd and Cromwell Project and Technical Solutions Pty Ltd, wholly owned subsidiaries of Cromwell provide property related services to CPA at normal commercial terms. The following income was earned by Cromwell from CPA:

	Cromwell	
	2016 \$M	2015 \$M
Fund management fees	0.7	0.7
Property management fees	0.8	0.8
Leasing fees	0.2	0.1
Project management fees	0.2	0.1
<i>Balances outstanding with CPA at year end:</i>		
Distribution receivable	1.9	1.6

#### Oyster Property Group Limited

Cromwell holds a 50% interest in the Oyster joint venture, a New Zealand based property syndicator and funds manager (refer to note 6 for further details).

The Trust provided a number of short-term loan facilities to Oyster for the initial funding of Oyster property syndications. These loans are repaid by Oyster as soon as sufficient equity is raised in the syndication. At balance date a total of NZD 1.3 million (AUD 1.2 million) of loans were outstanding (2015: \$nil).

### (iii) Transactions between the Trust and the Company and its subsidiaries (including the responsible entity of the Trust)

Cromwell Property Securities Limited ("CPS"), a wholly owned subsidiary of Cromwell Corporation Limited ("CCL") acts as responsible entity for the Trust. For accounting purposes the Trust is considered to be controlled by CCL. CCL and its subsidiaries provide a range of services to the Trust. A subsidiary of CCL rents commercial property space in a property owned by the Trust. All transactions are performed on normal commercial terms.

The Trust made the following payments to and received income from CCL and its subsidiaries:

	2016 \$M	Trust	2015 \$M
<i>Paid/payable by the Trust to the Company and its subsidiaries:</i>			
Fund management fees	10.2		10.7
Property management fees	6.6		6.4
Leasing fees	1.6		1.8
Project management fees	0.5		0.4
Accounting fees	0.5		0.5
Interest	-		20.7
<i>Received/receivable by the Trust from the Company and its subsidiaries:</i>			
Interest	2.0		1.1
Rent and recoverable outgoings	5.0		4.4
<i>Balances outstanding at year-end with the Company and its subsidiaries:</i>			
Aggregate amounts payable	2.2		1.6
Aggregate amounts receivable	167.7		219.0

The amount receivable from the Company and its subsidiaries includes loans of \$165.1 million (2015: \$217.6 million). For further details regarding these loans refer to note 15(a).

## 20 Employee benefits expense

### OVERVIEW

This note provides further details about Cromwell's employee benefits expenses and its components, leave balances outstanding at year end as well as employee benefits expense related accounting policies.

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Salaries and wages, including bonuses and on-costs	51.2	24.4	-	-
Directors fees	0.7	0.8	-	-
Contributions to defined contribution superannuation plans	2.4	1.5	-	-
Security-based payments	0.9	1.0	-	-
Other employee benefits expense	4.0	1.0	-	-
<b>Total employee benefits expense</b>	<b>59.2</b>	<b>28.7</b>	<b>-</b>	<b>-</b>

### ACCOUNTING POLICIES

#### Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All other short-term employee benefit obligations are presented as payables.

#### Superannuation

Contributions are made by Cromwell to defined contribution superannuation funds and expensed as they become payable.

#### Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using



relevant discount rates at the end of the reporting period that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

### **Security-based payments**

The fair value of options and performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or performance rights.

The fair value at grant date is determined using a pricing model that takes into account the exercise price, the term, the security price at grant date and expected price volatility of the underlying security, the expected distribution yield and the risk free interest rate for the term.

The fair value of the options or performance rights granted is adjusted to reflect the probability of market vesting conditions being met, but excludes the impact of any non market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options or performance rights that are expected to become exercisable. At each balance date, Cromwell revises its estimate of the number of options or performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

### **Bonus plans**

Cromwell recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

### **Leave balances outstanding at year-end**

Accrued annual leave at year-end of \$2.3 million (2015: \$2.1 million) is included in current provisions on the balance sheet. Based on experience, Cromwell expects substantially all employees to take the full amount of accrued annual leave within the next 12 months.

The portion of accrued long service leave included in current provisions on the balance sheet was \$1.0 million (2015: \$0.7 million). This is the amount expected to be settled within 12 months where the employee had reached the required service term to take the long service leave (generally 10 years). The non-current liability for long service leave included within non-current provisions on the balance sheet was \$0.4 million (2015: \$0.6 million).

## 21 Auditors' remuneration

### OVERVIEW

The independent auditors of Cromwell in Australia (Pitcher Partners) and component auditors of overseas subsidiaries and their affiliated firms have provided a number of audit and other assurance related services as well as other non-assurance related services to Cromwell and the Trust during the year.

Below is a summary of fees paid for various services to Pitcher Partners and component audit firms during the year:

	Cromwell		Trust	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Pitcher Partners Brisbane</b>				
<i>Audit and other assurance services</i>				
Auditing or reviewing of financial reports	312,000	302,000	205,000	200,000
Auditing of controlled entities' AFS licences	5,000	5,000	-	-
Auditing of the Trust's compliance plan	28,000	28,000	28,000	28,000
	<b>345,000</b>	<b>335,000</b>	<b>233,000</b>	<b>228,000</b>
<i>Other services</i>				
Due diligence services	23,000	400,000	-	20,000
<b>Total remuneration of Pitcher Partners Brisbane</b>	<b>368,000</b>	<b>735,000</b>	<b>233,000</b>	<b>248,000</b>
<b>Non Pitcher Partners audit firms</b>				
<i>Audit and other assurance services</i>				
Auditing of component financial reports	613,062	606,547	-	-
	<b>613,062</b>	<b>606,547</b>	<b>-</b>	<b>-</b>
<i>Other services</i>				
Tax compliance services	438,505	222,786	-	-
International tax advice on acquisitions	-	392,857	-	-
<b>Total remuneration of non Pitcher Partners audit firms</b>	<b>1,051,567</b>	<b>1,222,190</b>	<b>-</b>	<b>-</b>
<b>Total auditors' remuneration</b>	<b>1,419,567</b>	<b>1,957,190</b>	<b>233,000</b>	<b>248,000</b>

## 22 Unrecognised items

### OVERVIEW

Items that have not been recognised on Cromwell's and the Trust's balance sheet include contractual commitments for future expenditure and contingent liabilities which are not sufficiently certain to qualify for recognition as a liability on the balance sheet. This note provides details of any such items.

### (A) COMMITMENTS

#### Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases in existence at the reporting date but not recognised as liabilities are payable as follows:

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Within one year	2.5	3.0	-	-
Later than one year but not later than five years	2.6	3.7	-	-
<b>Total operating lease commitments</b>	<b>5.1</b>	<b>6.7</b>	<b>-</b>	<b>-</b>

Operating leases primarily comprise the lease of Cromwell's Sydney and European office premises. The Company has entered into a number of leases with the Trust and its subsidiaries and as such the commitment is not recognised on consolidation.

### Capital expenditure commitments

Commitments in relation to capital expenditure contracted for at reporting date but not recognised as a liability are as follows:

	Cromwell		Trust	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Investment property	112.3	158.3	112.3	158.3

### (B) CONTINGENT LIABILITIES

The Directors are not aware of any material contingent liabilities of Cromwell or the Trust (2015: nil).

## 23 Subsequent events

No matter or circumstance has arisen since 30 June 2016 that has significantly affected or may significantly affect:

- Cromwell's and the Trust's operations in future financial years; or
- the results of those operations in future financial years; or
- Cromwell's and the Trust's state of affairs in future financial years.

## 24 Accounting policies

### OVERVIEW

This note provides an overview over Cromwell's accounting policies that relate to the preparation of the financial report as a whole and do not relate to specific items. Accounting policies for specific items in the balance sheet or statement of comprehensive income have been included in the respective note.

### (A) BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Financial Reports of Cromwell and the Trust have been presented jointly in accordance with ASIC Corporations (Stapled Group Reports) Instrument 2015/838 relating to combining accounts under stapling and for the purpose of fulfilling the requirements of the Australian Securities Exchange. Cromwell and the Trust are for-profit entities for the purpose of preparing the financial statements.

### Compliance with IFRS

The financial report complies with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

### Historical cost convention

The financial report is prepared on the historical cost basis except for the following:

- investment properties are measured at fair value;
- derivative financial instruments are measured at fair value; and
- investments at fair value through profit or loss are measured at fair value.

### Rounding of amounts

Cromwell is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument amounts in the Directors' report and financial report have been rounded off to the nearest one hundred thousand dollars, or in certain cases to the nearest dollar.

### Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

## **(B) PRINCIPLES OF CONSOLIDATION**

### **Stapling**

The stapling of the Company and CDPT was approved at separate meetings of the respective shareholders and unitholders on 6 December 2006. Following approval of the stapling, shares in the Company and units in the Trust were stapled to one another and are quoted as a single security on the Australian Securities Exchange.

Australian Accounting Standards require an acquirer to be identified and an in-substance acquisition to be recognised. In relation to the stapling of the Company and CDPT, the Company is identified as having acquired control over the assets of CDPT. To recognise the in-substance acquisition, the following accounting principles have been applied:

- (1) no goodwill is recognised on acquisition of the Trust because no direct ownership interest was acquired by the Company in the Trust;
- (2) the equity issued by the Company to unitholders to give effect to the transaction is recognised at the dollar value of the consideration payable by the unitholders. This is because the issue of shares by the Company was administrative in nature rather than for the purposes of the Company acquiring an ownership interest in the Trust; and
- (3) the issued units of the Trust are not owned by the Company and are presented as non-controlling interests in Cromwell notwithstanding that the unitholders are also the shareholders by virtue of the stapling arrangement. Accordingly, the equity in the net assets of the Trust and the profit/(loss) arising from these net assets have been separately identified in the statement of comprehensive income and the balance sheet.

The Trust's contributed equity and retained earnings/accumulated losses are shown as a non-controlling interest in this Financial Report in accordance with AASB 3 Business Combinations. Even though the interests of the equity holders of the identified acquiree (the Trust) are treated as non-controlling interests the equity holders of the acquiree are also equity holders in the acquirer (the Company) by virtue of the stapling arrangement.

### **Subsidiaries**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries as at 30 June 2016 and the results of all subsidiaries for the year then ended. Subsidiaries are entities controlled by Cromwell. Control exists when Cromwell is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the business combinations by Cromwell (refer to note 24(c)). Inter-entity transactions, balances and unrealised gains on transactions between Cromwell entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Cromwell.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and the balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. A list of subsidiaries appears in note 14 to the consolidated financial statements.

## **(C) BUSINESS COMBINATIONS**

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by Cromwell. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Cromwell recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of Cromwell's share of the net identifiable assets acquired are recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

## (D) FOREIGN CURRENCY TRANSLATION

### Functional and presentation currency

Items included in the financial statements of each of Cromwell's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's and the Trust's functional and presentation currency.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when they are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

### Foreign operations

Subsidiaries, joint arrangements and associates that have functional currencies different from the presentation currency translate their income statement items using the average exchange rate for the year. Assets and liabilities are translated using exchange rates prevailing at balance date. Exchange variations resulting from the retranslation at closing rate of the net investment in foreign operations, together with their differences between their income statement items translated at average rates and closing rates, are recognised in the foreign currency translation reserve. For the purpose of foreign currency translation, the net investment in a foreign operation is determined inclusive of foreign currency intercompany balances. The balance of the foreign currency translation reserve relating to a foreign operation that is disposed of, or partially disposed of, is recognised in the statement of comprehensive income at the time of disposal.

The following spot and average rates were used:

	Spot rate		Average rate	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Euro	0.67	0.69	0.66	0.70
NZ Dollar	1.05	1.13	1.09	1.08

## (E) IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

At each reporting date, and whenever events or changes in circumstances occur, Cromwell assesses whether there is any indication that any other asset may be impaired. Where an indicator of impairment exists, Cromwell makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

## (F) CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical or professional experience and other factors such as expectations about future events. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas that involved a higher degree of judgement or complexity and may need material adjustment if estimates and assumptions made in preparation of these financial statements are incorrect are:

Area of estimation	Note
Fair value of investment property	5
Fair value of derivative financial instruments	12
Recoverable amount of goodwill	16

## (G) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

### (i) New and amended standards adopted

During the year no new accounting standards came into effect. Amendments to existing accounting standards that came into effect have not affected Cromwell's accounting policies or any of the disclosures.

### (ii) New standards and interpretations not yet adopted

Relevant accounting standards and interpretations that have been issued or amended but are not yet effective and have not been adopted for the year are as follows:

	Application date of Standard	Application date for Cromwell
AASB 9 Financial Instruments	1 Jan 2018	1 Jul 2018
AASB 15 Revenue from Contracts with Customers	1 Jan 2018	1 Jul 2018
AASB 16 Leases	1 Jan 2019	1 Jul 2019

### AASB 9 Financial Instruments

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

The new classification, measurement and derecognition rules of AASB 9 may only affect financial assets that are classified as available-for-sale or are designated at fair value through profit or loss and are held both for collecting contractual cash flows and sales integral to achieving the objective of the business model as well as financial liabilities designated at fair value through profit or loss. Cromwell does not carry such financial assets or financial liabilities and therefore the directors do not expect that the new Accounting Standard will have a material impact on Cromwell's accounting for financial assets or financial liabilities.

The new hedging rules align hedge accounting more closely with an entity's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. Cromwell currently does not apply hedge accounting. The Directors have not yet assessed whether Cromwell's hedging arrangements would be affected by the new rules. Cromwell intends to adopt the new standard from 1 July 2018.

### AASB 15 Revenue from Contracts with Customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.



The standard introduces a new five-step model to determine when to recognise revenue and at what amount. The area that may be affected by the new rules is funds management revenue, in particular the timing and amount of the recognition of performance fees. At this stage the Directors are not able to estimate the impact of the new rules on Cromwell's financial statements. The directors will make a more detailed assessment of the impact closer to mandatory adoption date. Cromwell intends to adopt the new standard from 1 July 2018.

#### **AASB 16 Leases**

The AASB has issued a new standard for leases. This will replace AASB 117 Leases. The accounting standard introduces a single accounting model for leases by lessees and effectively does away with the operating lease concept. It requires all operating leases, which are currently not recorded on the balance sheet, to be recognised on the balance sheet together with a right-of-use asset. Subsequently the lease liability is measured at amortised cost using the effective interest rate method. The right-to-use asset will be measured at cost less accumulated depreciation with depreciation charged on a straight-line basis over the lease term.

There will be no change to lease accounting for lessors, that is Cromwell will record investment properties and lease income as currently done.

The Directors have performed an initial assessment of the new requirements of AASB 16 and found that there will be no significant impact on Cromwell and its operating lease arrangements as lessor of investment properties, except for a change in the definition of a lease period, which will include renewal options if they are likely to be exercised, which may affect straight-line rent recognised for such leases.

However, Cromwell's tenants will be affected. All tenants will be required to account for their leases of premises on their balance sheets.

## Directors' Declaration

In the opinion of the Directors of Cromwell Corporation Limited and Cromwell Property Securities Limited as Responsible Entity for the Cromwell Diversified Property Trust (collectively referred to as "the Directors"):

- (a) the attached financial statements and notes are in accordance with the Corporations Act 2001, including:
  - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations 2001; and
  - (ii) giving a true and fair view of Cromwell's and the Trust's financial position as at 30 June 2016 and of their performance, for the financial year ended on that date; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 24(a); and
- (c) there are reasonable grounds to believe that Cromwell and the Trust will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2016 required by section 295A of the *Corporations Act 2001*.

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This declaration is made in accordance with a resolution of the Directors.



P.L. Weightman

**Director**

Dated this the 24<sup>th</sup> day of August 2016



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NORMAN THURECHT  
BRETT HEADRICK  
WARWICK FACE  
NIGEL BATTERS  
COLE WILKINSON  
SIMON CHUN

### Independent Auditor's Report

To the Security holders of Cromwell Property Group

To the Unit holders of Cromwell Diversified Property Trust

### Report on the Financial Report

Cromwell Property Group ("Cromwell") comprises Cromwell Corporation Limited and the entities it controlled at the end of the year or from time to time during the year and Cromwell Diversified Property Trust and the entities it controlled ("the Trust") at the end of the year or from time to time during the year.

We have audited the accompanying financial report of Cromwell and the Trust, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 24, the directors also state, in accordance with Accounting Standard AASB101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

#### Opinion

In our opinion:

- a) the financial report of Cromwell and the Trust are in accordance with the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 24.

#### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 22 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion the Remuneration Report of Cromwell Corporation Limited for the year ended 30 June 2016 complies with Section 300A of the *Corporations Act 2001*.

*Pitcher Partners*

PITCHER PARTNERS



NIGEL BATTERS  
Partner

Brisbane, Queensland  
24 August 2016

# CORPORATE GOVERNANCE STATEMENT

The Board is committed to Cromwell Property Group meeting securityholders' expectations of good corporate governance, while seeking to achieve superior financial performance over the medium and long term. The Board is proactive with respect to corporate governance and actively reviews developments to determine which corporate governance arrangements are appropriate for Cromwell Property Group and its securityholders.

This Corporate Governance Statement (Statement) reports on how Cromwell Property Group (or Cromwell or Group) complied with the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (the Recommendations) during the 2016 financial year.

This Statement is current as at 30 June 2016 and has been approved by the Board.

Cromwell Property Group comprises Cromwell Corporation Limited (or the Company) and the Cromwell Diversified Property Trust (the CDPT), the Responsible Entity of which is Cromwell Property Securities Limited (or CPS).

## Principle 1: Lay solid foundations for management and oversight

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### RECOMMENDATION 1.1

The Board of Directors of Cromwell Corporation Limited is identical to the Board of Directors of Cromwell Property Securities Limited (together, the Board; severally, the Directors). The Board's responsibilities include to provide leadership to Cromwell Property Group and to set its strategic objectives. The Board has adopted a formal, written Board Charter, which sets out the Board's role and responsibilities including to:

- oversee the process for ensuring timely and balanced disclosure of all 'price sensitive' information in accordance with the Corporations Act 2001 (Cth) and the ASX Listing Rules; and
- ensure an appropriate risk management framework is in place and set the risk appetite within which the Board expects management to operate.

The Board generally holds a scheduled meeting every second calendar month and additional meetings are convened as required. Management prepares Board papers so as to focus the Board's attention on key issues. Standing items include progress against strategic objectives, corporate governance (including compliance) and financial performance.

The Board has the following long established Board Committees to assist it in carrying out its responsibilities, to share detailed work and to consider certain issues and functions in detail:

- Audit & Risk Committee;
- Nomination & Remuneration Committee; and
- Investment Committee.

Details of the role, responsibilities and composition of the Board Committees are contained elsewhere in this Statement.

Day to day management of the Group's affairs and implementation of agreed strategic objectives are delegated by the Board to management under the direction of the Managing Director/Chief Executive Officer (CEO). This has been formalised in the Board Charter and a Board approved Delegation of Authority Policy. The Board reviews these documents at least annually to ensure their effectiveness and appropriateness (given the evolving needs of the Group).

#### What you can find on the Corporate Governance page on our website:

- Board Charter
- Audit & Risk Committee Charter
- Nomination & Remuneration Committee Charter
- Delegation of Authority Policy
- Constitution of the Cromwell Diversified Property Trust



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## RECOMMENDATION 1.2

Cromwell undertakes appropriate checks before appointing a person, or putting forward to securityholders a candidate for election or re-election, as a Director. The checks are into matters such as the person's character, experience, education, criminal record and bankruptcy history. The Board and Nomination & Remuneration Committee also consider whether or not the candidate has sufficient time available, given their other roles and activities, to meet expected time commitments to Cromwell.

When securityholders are asked at the Group's annual general meeting (AGM)<sup>1</sup> to elect, or re-elect, a Director to the Board, Cromwell will provide them with the following information to enable them to make an informed decision:

- biographical information, including relevant qualifications, experience and the skills they bring to the Board;
- details of any other current material directorships;
- a statement as to whether the Board supports the candidate's election or re-election; and
- (for a candidate standing for election as a Director for the first time) any material adverse information revealed by background checks; details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect the candidate's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Group and its securityholders generally; and a statement from the Board as to the candidate's independence; or
- (for a candidate standing for re-election) the term of office currently served and a statement from the Board as to the candidate's independence.

The information will be provided in the relevant notice of meeting. Securityholders also have the opportunity to ask questions of candidates at the AGM.

## RECOMMENDATION 1.3

Cromwell has provided each Non-executive Director with a written letter of appointment which details the terms of their appointment, including remuneration, interest disclosures, expected time commitments and the requirement to comply with applicable corporate policies.

The CEO (an Executive Director) has a written formal job description, an employment contract (outlining the terms of appointment as a senior executive) and a letter of appointment for the role as Executive Director.

Other senior executives have written employment contracts that outline the terms of their appointment.

## RECOMMENDATION 1.4

The Company Secretary is accountable to the Board (through the Chairman) on all matters to do with the proper functioning of the Board.

The Company Secretary's responsibilities include:

- advising the Board and Board Committees on governance matters;
- monitoring that Board and Board Committee policies and procedures are followed;
- coordinating the timely completion and despatch of the Board and Board Committee papers;
- ensuring that the business at the Board and Board Committee meetings is accurately captured in minutes; and
- helping to organise and facilitate the induction and professional development of Directors.

Directors can, and do, communicate directly with the Company Secretary on Board matters. Similarly, the Company Secretary communicates directly with the Directors on such matters.

The Board Charter states that the Board is responsible for appointing and removing the Company Secretary.

### What you can find on the Corporate Governance page on our website:

- Board Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

(1) In this Statement, AGM means (together) the Annual General Meeting of the Company and the General Meeting of the CDPT.



## RECOMMENDATION 1.5

Cromwell recognises the many benefits of diversity and strives, through its recruitment and selection practices, to ensure that a diverse range of candidates is considered and that conscious and unconscious biases that might discriminate against candidates are avoided.

Cromwell Property Group has a Board approved Diversity Policy which sets out the framework the Group has in place to achieve appropriate diversity in its Board, senior executive and broader workforce. Pursuant to the Diversity Policy, each financial year the Nomination & Remuneration Committee sets measurable objectives for achieving diversity. An annual assessment of progress against those objectives is also undertaken.

The table below shows the gender diversity objectives set for the 2016 financial year and the Group's performance against those objectives as at 30 June 2016.

<b>FY16 gender diversity objective</b>	<b>The Group's performance as at 30 June 2016</b>
1 The Group has at least two female Directors and at least two female senior executives/senior managers.	Achieved.
2 At least one female will be interviewed for all advertised management positions.	Achieved.
3 All employees (regardless of gender, age and race) are consulted annually via an engagement survey and are given the opportunity to provide feedback on issues and potential barriers to diversity.	Achieved.
4 Remuneration continues to be benchmarked against market data taking into consideration experience, qualification and performance and without regard to age, gender and race.	Achieved.
5 Succession plans and leadership programs are designed to assist in the development of a diverse pool of future senior executives and managers and are regularly reviewed.	Achieved.
6 At least one corporate event is held to which staff can bring partners and children.	Achieved.
7 Parents (or carers) are offered flexible work arrangements.	Achieved.
8 All staff undergo 'equal employment opportunity' training at least once a year.	Achieved.
9 At least 80% of females taking parental leave return to work.	Achieved.
10 Training hours undertaken by females are at least equivalent to those undertaken by male counterparts.	Achieved.

As at 30 June 2016, the respective proportions of males and females on the Board, in senior executive positions in Cromwell and across the Group were as follows:

<b>Body</b>	<b>Females</b>	<b>Males</b>	<b>Total</b>
Board	2	5	7
Senior executive <sup>2</sup>	1	3	4
Group <sup>3</sup>	48	67	115

(2) Recommendation 1.5(c)(1) requires the Group to define what it means by 'senior executive'. In this case, 'senior executive' means the Chief Executive Officer, the Chief Operations Officer, the Chief Financial Officer and Head of Property.

(3) Excludes European business, Phoenix Portfolios and Oyster Group.

Cromwell is a 'relevant employer' under the Workplace Gender Equality Act 2012 (WGEA). The Group's most recent 'Gender Equality Indicators', as defined in and published under the WGEA, are as follows:

#### Gender equality indicator

- 1 Gender composition of workforce
- 2 Gender composition of governing bodies
- 3 Equal remuneration between women and men
- 4 Flexible working and support for employees with family and caring responsibilities
- 5 Consultation with employees on issues concerning gender quality in the workplace
- 6 Sex-based harassment and discrimination

Cromwell's latest WGEA Report is available on the Corporate Governance page on the Group's website.

#### What you can find on the Corporate Governance page on our website:

- Diversity Policy
- Nomination & Remuneration Committee Charter
- FY2016 Gender Diversity Objectives
- FY2017 Gender Diversity Objectives
- WGEA Report



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

#### RECOMMENDATION 1.6

The Board undertakes an annual formal performance assessment, which includes an evaluation of the performance of the Board, Board Committees and individual Directors and also a self-evaluation. Under the annual formal performance assessment, Directors complete a questionnaire and are able to make comments or raise any issues they have in relation to the performance. The results were compiled by the Company Secretary and discussed at a subsequent Board meeting. For the 2016 financial year, the formal performance assessment was conducted and did not raise any governance issues that needed to be addressed.

#### What you can find on the Corporate Governance page on our website:

- Board Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

#### RECOMMENDATION 1.7

The Group has an established, rigorous process for the performance review of all staff, including senior executives. The performance of senior executives and whether they have met their individual key performance indicators is formally evaluated annually by the CEO, with regular feedback being provided during the performance period. At the time of the reviews, the professional development of the senior executive is also discussed, along with any training which could enhance their performance. Both qualitative and quantitative measures are used in the evaluation. A performance evaluation for each senior executive was completed during the reporting period.

Under its Charter, the Nomination & Remuneration Committee is responsible for facilitating an annual review of the performance of the CEO (an Executive Director). This annual review was completed during the 2016 financial year.

#### What you can find on the Corporate Governance page on our website:

- Nomination & Remuneration Committee Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## Principle 2: Structure the board to add value

### RECOMMENDATION 2.1

#### Nomination & Remuneration Committee

The Board has a long established Nomination & Remuneration Committee, which operates under a Board approved written Charter. The Charter sets out the Nomination & Remuneration Committee's various responsibilities, including reviewing and making recommendations to the Board in relation to:

- Board succession planning generally;
- the appointment, or reappointment, of Directors to the Board. The Charter details the procedure for appointing new Directors;
- the performance and education of Directors;
- reviewing and recommending remuneration arrangements for the Directors, the CEO and senior executives;
- induction and continuing professional development programs for Directors; and
- the development and implementation of a process for evaluating the performance of the Board, Board Committees and Directors.

The Nomination & Remuneration Committee:

- may seek any information it considers necessary to fulfil its responsibilities;
- has access to management to seek explanations and information;
- may seek professional advice from employees of the Group and from appropriate external advisers (at the Group's cost); and
- may meet with external advisers without management being present.

The minutes of each Nomination & Remuneration Committee meeting are included in the papers for the next Board meeting after each meeting of the Committee. The Chairman of the Nomination & Remuneration Committee reports the Committee's findings to the Board after each Committee meeting. The Nomination & Remuneration Committee has four members, all of whom are independent Directors<sup>4</sup>.

The Directors' Report discloses the members of the Nomination & Remuneration Committee, the number of times that the Committee met during the 2016 financial year and the individual attendances of the members at those meetings.

#### What you can find on the Corporate Governance page on our website:

- Nomination & Remuneration Committee Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

### RECOMMENDATION 2.2

#### Board Skills Matrix

The Board has adopted a Board Skills Matrix, which sets out the collective skills and attributes of the Board. In summary, the Board Skills Matrix includes (but is not limited to) such key skills and experience as strategy, property, investment/funds management, financial performance, risk oversight, economics and executive management, as well as other characteristics and attributes.

The Board considers that its current members have an appropriate mix of skills, personal attributes and experience that allows the Directors individually, and the Board collectively, to discharge their duties effectively and efficiently. The Board comprises individuals who understand the business of the Group and the environment in which it operates and who can effectively assess management's performance in meeting agreed objectives and goals.

The Directors' Report provides the following information about each Director:

- profile, including qualifications and experience; and
- special responsibilities and attendances at Board and Board Committee meetings.

[4] Mr Robert Pullar (independent Non-executive Director) was Chairman of the Nomination & Remuneration Committee until his resignation as at 25 November 2015.

The Nomination & Remuneration Committee refers to the Matrix when considering Board succession planning and professional development initiatives for the Directors.

**What you can find on the Corporate Governance page on our website:**

- Nomination & Remuneration Committee Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## RECOMMENDATION 2.3

### The Board

The Group recognises that independent Directors are important in reassuring securityholders that the Board properly fulfils its role. The Board comprises seven Directors, with an independent Chairman and a majority of independent Non-executive Directors:

Director	Status
Geoffrey H Levy, AO (Chairman)	Independent Non-executive Director
Michelle McKellar	Independent Non-executive Director
Richard Foster	Independent Non-executive Director
Jane Tongs	Independent Non-executive Director
Robert Pullar (resigned 25 November 2015)	Independent Non-executive Director
Marc Wainer	Non-executive Director
Andrew Konig	Non-executive Director
Paul Weightman	Executive Director, Managing Director/CEO

Each year, independence status is assessed using the guidelines and factors set out in the Recommendations and the independent Non-executive Directors also confirm to the Board, in writing, their continuing status as an independent Director.

In assessing a Director's independence status, the Board has adopted a materiality threshold of 5% of the Group's net operating income or 5% of the Group's net tangible assets (as appropriate) as disclosed in its last audited financial accounts.

The length of time that each independent Director has served on the Board is set out below:

Independent Director	First appointed
Geoffrey H Levy, AO (Chairman)	2008
Michelle McKellar	2007
Richard Foster	2005
Jane Tongs	2014

Mr Richard Foster joined the Company as its independent Chairman in 2005 and has been serving on the Board since that time. The Board is satisfied that the length of Mr Foster's service as a Director will not interfere, or will not reasonably be seen to interfere, with his capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of Cromwell and its securityholders generally.

The Board is comfortable that no Director has served for a period such that their independence may have been compromised. The Board also recognises that the interests of Cromwell and its securityholders are well served by having a mix of Directors, some with a longer tenure with a deep understanding of Cromwell and its business and some with a shorter tenure with fresh ideas and perspective.

The Group's independent Non-executive Directors (including the Chairman) are considered by the Board to meet the test of independence under the Recommendations.

Each independent Non-executive Director has undertaken to inform the Board as soon as practical if they think their status as an independent Director has or may have changed.

**What you can find on the Corporate Governance page on our website:**

- Board Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

#### **RECOMMENDATION 2.4**

The Board comprises seven Directors, with an independent Chairman and a majority of independent Non-executive Directors.

**What you can find on the Corporate Governance page on our website:**

- Board Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

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#### **RECOMMENDATION 2.5**

The Chairman of the Board – Mr Geoffrey H Levy, AO – is an independent Non-executive Director. Mr Paul Weightman is an Executive Director and the CEO of Cromwell Property Group. This is consistent with the Board Charter, which stipulates that the Chairman of the Board will not be the same person as the CEO and ideally will be an independent Non-executive Director.

The Board Charter sets out the responsibilities of the Chairman, including:

- leading the Board;
- facilitating the effective contribution and ongoing development of all Directors;
- promoting constructive and respectful relations between Board members and between the Board and management; and
- facilitating Board discussions to ensure that core issues facing the Group are addressed.

**What you can find on the Corporate Governance page on our website:**

- Board Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

#### **RECOMMENDATION 2.6**

A formal induction program ensures that new independent Directors can participate fully and actively in decision making upon their appointment. The Chairman of the Board, with the assistance of the Company Secretary, has developed the induction program. The program includes meeting with fellow Directors (including the CEO) and the senior executive team, receiving briefings on the Group's strategy and reviewing corporate governance materials and policies.

Each year, the Nomination & Remuneration Committee also considers and recommends to the Board a professional development program for Directors. This includes training on key issues relevant to the Group's operations, financial affairs and governance. The professional development program is compiled in light of recent or potential developments as well as any skills or knowledge gaps identified by the Nomination & Remuneration Committee. Directors also have access to the internal training sessions provided by the Group's Legal & Compliance team. On an ongoing basis, Directors are provided with briefings on changes to accounting standards as well as updates on legal and corporate developments relevant to the Group. During the 2016 financial year, Directors undertook site visits at a number of Group property assets.

**What you can find on the Corporate Governance page on our website:**

- Nomination & Remuneration Committee Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## Principle 3: Act ethically and responsibly

### RECOMMENDATION 3.1

The Group's Directors, senior executives and staff are required to maintain high standards of ethical conduct. This is reinforced by the various practices and policies of the Group. All Directors, senior executives and staff are expected to act with integrity and strive at all times to enhance the reputation and performance of the Group.

To reinforce this culture, the Group has established a Code of Conduct to provide guidance about the attitudes and behaviour necessary to maintain stakeholder confidence in the integrity of the Group and comply with the Group's legal obligations.

The Code of Conduct is made available to all Directors, senior executives and staff and they are reminded of the importance of the Code of Conduct on a regular basis. Appropriate standards are also communicated and reinforced to all staff at induction sessions and staff meetings.

The Board has approved a Breach Reporting Policy and a Whistleblower Policy. These policies actively encourage and support reporting to appropriate management of any actual or potential breaches of the Group's legal obligations and/or of the Code of Conduct.

The Board has also approved a Securities Trading Policy under which Directors, senior executives and staff are restricted in their ability to deal in the Group's securities. Appropriate closed periods are in place during which Directors, senior executives and staff are not permitted to trade. Directors, senior executives and staff are made aware of the policy and receive training annually. The policy is reviewed at least annually.

Compliance with Board approved policies is monitored via monthly checklists completed by key management and by investigation following any report of a breach. Compliance monitoring is undertaken by the Legal & Compliance team under the direction of the Company Secretary who reports directly to the Board.

#### What you can find on the Corporate Governance page on our website:

- Code of Conduct
- Breach Reporting Policy
- Whistleblower Policy
- Securities Trading Policy



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## Principle 4: Safeguard integrity in corporate reporting

### RECOMMENDATION 4.1

#### Audit & Risk Committee

The Board is responsible for the integrity of the Group's corporate reporting. To assist in discharging this function, the Board has a long established Audit & Risk Committee. The Audit & Risk Committee operates under a Board approved written Charter, which sets out the Audit & Risk Committee's:

- objectives, including to maintain and improve the quality, credibility and objectivity of the financial accountability process (including financial reporting on a consolidated basis); and
- responsibilities, including reviewing and making recommendations to the Board in relation to:
  - whether the Group's financial statements reflect the understanding of the Audit & Risk Committee members of, and otherwise provide a true and fair view of, the financial position and performance of the Group;
  - the appropriateness of any significant estimates or judgements in the financial reports (including those in any consolidated financial statements); and
  - the appointment or removal, and review of effectiveness and independence, of the external auditor.

The minutes of each Audit & Risk Committee meeting are included in the papers for the next Board meeting after each meeting of the Committee. The Chairman of the Audit & Risk Committee reports the Committee's findings to the Board after each Committee meeting. The Audit & Risk Committee has three members, all of whom are independent Directors. The Audit & Risk Committee is chaired by an independent Director who is not the Chairman of the Board.



The Directors' Report discloses:

- the relevant qualifications and experience of the members of the Audit & Risk Committee; and
- the number of times that the Audit & Risk Committee met during the 2016 financial year and the individual attendances of the members at those meetings.

The Audit & Risk Committee:

- may seek any information it considers necessary to fulfil its responsibilities;
- has access to management to seek explanations and information;
- has access to internal and external auditors to seek explanations and information from them (without management being present);
- may seek professional advice from employees of the Group and from appropriate external advisers (at the Group's cost); and
- may meet with external advisers without management being present.

The external auditor has declared its independence to the Board and the Audit & Risk Committee. The Board is satisfied the standards for auditor independence and associated issues have been met.

**What you can find on the Corporate Governance page on our website:**

- Audit & Risk Committee Charter
- External Auditor – Selection, Appointment and Rotation



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

#### **RECOMMENDATION 4.2**

Before it approves the Group financial statements for a financial period, the Board receives from the CEO and CFO a written declaration that, in their opinion, the financial records of the entity have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

#### **RECOMMENDATION 4.3**

The external auditor attends the Group's AGM and is available to answer securityholders' questions relevant to the audit.

## Principle 5: Make timely and balanced disclosure

#### **RECOMMENDATION 5.1**

The Group believes that all stakeholders should be informed in a timely and widely available manner of all the major business events and risks that influence the Group. In particular, the Group strives to ensure that any price sensitive material for public announcement is lodged with the ASX before external disclosure elsewhere and posted on the Group's website as soon as practical after lodgement with the ASX.

The Group has a Market Disclosure Protocol which includes policies and procedures designed to ensure compliance with the continuous disclosure obligations under the ASX Listing Rules.

**What you can find on the Corporate Governance page on our website:**

- Market Disclosure Protocol



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## Principle 6: Respect the rights of securityholders

### RECOMMENDATION 6.1

Cromwell Property Group aims to keep securityholders informed on an ongoing basis of the Group's performance and all major developments. Securityholders receive regular reports and the Group uses its website as its primary means of providing information to securityholders and the broader investment community about the Group's business, history, corporate structure, corporate governance and financial performance.

The Corporate Governance page on the Group's website provides:

- a link to information about the Board of Directors and senior executives;
- key corporate governance documents, including constitutions, charters and policies;
- a Key Events Calendar;
- a link to a description of the Group's stapled security dividends/distributions policy and information about the Group's dividend/distribution history;
- links to download relevant forms; and
- materials referred to in this Statement.

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The Group's website also provides:

- overview of the Group's current business;
- description of how the Group is structured;
- summary of the Group's history;
- documents that the Group releases publicly (such as annual reports, ASX announcements, notices of meeting and company news items);
- historical information about the market prices of the Group's securities;
- ahead of the AGM (or any extraordinary general meeting), information including time and venue;
- contact details for enquiries from securityholders, analysts or the media; and
- contact details for its securities registry.



Our website address:  
[www.cromwell.com.au](http://www.cromwell.com.au)

The Corporate Governance page on our website:  
[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

### RECOMMENDATION 6.2

The Group has implemented a Board approved Investor Relations Policy, which has been designed to facilitate effective two way communication with securityholders.

The Policy also sets out the policies and processes that the Group has in place to encourage participation in the AGM. This is important to the Group because it assists with ensuring a high level of accountability and identification with the Group's strategies and goals.

#### What you can find on the Corporate Governance page on our website:

- Investor Relations Policy



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

### RECOMMENDATION 6.3

Cromwell Property Group facilitates and encourages participation at meetings of securityholders.

The Chairman and the CEO each address the meeting of securityholders and provide securityholders with an update on the Group's business, governance and financial performance and any areas of concern or interest to the Board and management. The Chairman and CEO take any comments and questions received from securityholders during or after their address.

The current audit partner attends the AGM and is available to answer securityholders' questions about the audit. The notice of meeting for the AGM advises that securityholders entitled to cast their vote at the AGM may submit written questions to the auditor relevant to the content of the auditor's report or the conduct of the audit of the annual financial report being considered at the AGM. A securityholder wishing to submit a question to the auditor is asked to submit the question in writing to the Company Secretary up to a week before the AGM. A list of the questions submitted to the auditor is made available to securityholders attending the AGM at or before the start of the AGM. At the AGM, the Chairman reminds securityholders of the opportunity to ask questions about the audit.

The Chairman provides securityholders with an opportunity to ask questions about and discuss the specific resolutions put to the meeting. Securityholders have the opportunity to ask questions about or comment on the management of the Group.

Securityholder meetings are held during business hours at the Group's registered office in Brisbane, which is accessible by public transport. The notice of meeting invites securityholders to join the Directors for morning tea or afternoon tea (as applicable) after the meeting.

The Group provides live webcasting of its AGM so that securityholders can hear proceedings online.

#### **RECOMMENDATION 6.4**

Cromwell Property Group gives its securityholders the option to receive communications from the Group and from its securities registry electronically. Many securityholders have elected to receive all communications electronically, while other securityholders have elected to receive all communications electronically with payment statements received by post.

Electronic communications sent by the Group and by the securities registry are formatted in a reader friendly and printer friendly format.

Securityholders can send communications to the Group and to the securities registry electronically. The Contact Us page on the Group's website provides the email address for contacting the Group and a link to create an email to the securities registry.

## Principle 7: Recognise and manage risk

#### **RECOMMENDATION 7.1**

##### **Audit & Risk Committee**

The Group is exposed to various risks across its business operations and recognises the importance of effectively identifying and managing those risks so that informed decisions on risk issues can be made. The Board has a long established Audit & Risk Committee, which operates under a Board approved written Charter. The Charter sets out the Committee's various responsibilities, including:

- assessing the adequacy of the internal risk control system;
- receiving reports from management of any actual or suspected fraud, theft or other breach of internal controls; and
- assessing and recommending to the Board for adoption the scope, cover and cost of professional insurance.

The Audit & Risk Committee:

- may seek any information it considers necessary to fulfil its responsibilities;
- has access to management to seek explanations and information;
- has access to internal and external auditors to seek explanations and information from them (without management being present);
- may seek professional advice from employees of the Group and from appropriate external advisers (at the Group's cost); and
- may meet with external advisers without management being present.

The minutes of each Audit & Risk Committee meeting are included in the papers for the next Board meeting after each meeting of the Committee. The Chairman of the Audit & Risk Committee reports the Committee's findings to the Board after each Committee meeting. The Audit & Risk Committee has three members, all of whom are independent Directors. The Audit & Risk Committee is chaired by an independent Director who is not the Chairman of the Board.

The Directors' Report discloses:

- the relevant qualifications and experience of the members of the Audit & Risk Committee; and
- the number of times that the Audit & Risk Committee met during the 2016 financial year and the individual attendances of the members at those meetings.

**What you can find on the Corporate Governance page on our website:**

- Audit & Risk Committee Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## RECOMMENDATION 7.2

The Board is responsible for:

- ensuring an appropriate risk management framework is in place;
- setting the risk appetite within which the Board expects management to operate; and
- reviewing and ratifying systems of internal compliance and control and legal compliance to ensure appropriate compliance frameworks and controls are in place.

As outlined in its Board approved Charter, the Audit & Risk Committee's responsibilities include:

- overseeing the establishment and implementation of risk management and internal compliance and control systems and ensuring there is a mechanism for assessing/reviewing the efficiency and effectiveness of those systems at least annually to satisfy itself that it continues to be sound;
- approving and recommending to the Board for adoption policies and procedures on risk oversight and management to establish an effective and efficient system for:
  - identifying, assessing, monitoring and managing risk; and
  - disclosing any material change to the risk profile; and
- regularly reviewing and updating the risk profile.

Under the direction of the CEO, management is responsible for ensuring that the Group operates within the risk appetite set by the Board. It does so by identifying relevant business risks, designing controls to manage those risks and ensuring those controls are appropriately implemented. The Group has adopted an Enterprise Risk Management Policy, which is a general statement of the Group's philosophy with respect to risk management practices. There is also a wide range of underlying internal policies and procedures, which are designed to mitigate the Group's material business risks. The risk management system operates in accordance with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004 Risk Management).

A comprehensive review of the enterprise risk management framework was completed in the 2016 financial year. The Audit & Risk Committee and the Board were satisfied the framework continues to be sound and that Cromwell operates within the risk appetite set by the Board.

A Compliance Committee – comprised of a majority of external, independent members – monitors the extent to which Cromwell Property Securities Limited (as Responsible Entity for the CDPT) complies with the CDPT's compliance plan and the underlying compliance framework. The Board of Cromwell Property Securities Limited receives regular reports from the Compliance Committee. The roles and responsibilities of the Compliance Committee are outlined in a Charter, which is reviewed annually by the Compliance Committee and the Board of the Responsible Entity.

**What you can find on the Corporate Governance page on our website:**

- Board Charter
- Audit & Risk Committee Charter
- Enterprise Risk Management Policy
- Compliance Committee Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

### RECOMMENDATION 7.3

Although the Group does not have a designated internal audit function, throughout the year the Legal & Compliance team conducts internal audit tests of the adequacy of controls for those risks which are inherently extreme or high. Relevant management confirm (monthly, quarterly or annually as appropriate) that the controls remain appropriate and identify any new risks and any new controls that should be put in place. The Company Secretary reports findings to the Audit & Risk Committee.

### RECOMMENDATION 7.4

The Group's Sustainability Report discloses the extent to which the Group has material exposure to economic, environmental and social sustainability risks and explains how such risks are and will be managed.

**What you can find on the Corporate Governance page on our website:**

- Sustainability Report



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## Principle 8: Remunerate fairly and responsibly

### RECOMMENDATION 8.1

#### Nomination & Remuneration Committee

The Board has a long established Nomination & Remuneration Committee, which operates under a Board approved written Charter. The Charter sets out the Nomination & Remuneration Committee's various responsibilities, including reviewing and making recommendations to the Board in relation to:

- the remuneration framework for Non-executive Directors, including the allocation of the pool of Directors' fees;
- Executive Director and senior executive total remuneration;
- the design of any equity based incentive plan; and
- any gender or other inappropriate bias in remuneration policies and practices.

The Nomination & Remuneration Committee:

- may seek any information it considers necessary to fulfil its responsibilities;
- has access to management to seek explanations and information;
- may seek professional advice from employees of the Group and from appropriate external advisers (at the Group's cost); and
- may meet with external advisers without management being present.

The minutes of each Nomination & Remuneration Committee meeting are included in the papers for the next Board meeting after each meeting of the Committee. The Chairman of the Nomination & Remuneration Committee reports the Committee's findings to the Board after each Committee meeting. The Nomination & Remuneration Committee has four members, all of whom are independent Directors<sup>5</sup>.

The Directors' Report discloses the members of the Nomination & Remuneration Committee, the number of times that the Committee met during the 2016 financial year and the individual attendances of the members at those meetings.

**What you can find on the Corporate Governance page on our website:**

- Nomination & Remuneration Committee Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

(5) Mr Robert Pullar (independent Non-executive Director) was Chairman of the Nomination & Remuneration Committee until his resignation as at 25 November 2015.

## RECOMMENDATION 8.2

The Directors' Report (the section titled Remuneration Report) discloses information, including the policies and practices regarding the remuneration of:

- Non-executive Directors;
- the Executive Director and other senior executives.

The respective policies and practices reflect the different roles and responsibilities of Non-executive Directors and the Executive Director and other senior executives.

As disclosed in the Remuneration Report, the Group's Non-executive Directors are paid a fixed remuneration, comprising base fees or salary and superannuation (if applicable). Non-executive Directors do not receive bonus payments or participate in security-based compensation plans, and are not provided with retirement benefits other than statutory superannuation.

The Remuneration Report details the nature and amount of remuneration of the Chief Executive Officer (Executive Director) and other senior executives (Key Management Personnel or KMP). Remuneration packages are designed to align the KMP's interests with those of securityholders by specifically designing their performance indicators to their particular role and responsibilities. This is achieved by providing remuneration packages which consist of the following three elements (or a combination thereof) where appropriate:

1. Fixed component in the form of a cash salary;
2. An at-risk cash bonus that is linked solely to performance of a tailored set of objectives, where appropriate; and
3. At-risk longer term equity payment. This third element is equity based remuneration aimed at alignment and retention.

The Group does not have a policy regarding the deferral of performance based remuneration and the reduction, cancellation or clawback of performance based remuneration in the event of a material misstatement in the Group's financial statements. However, performance rights under Cromwell Property Group's Performance Rights Plan lapse under certain circumstances including a determination by the Plan Committee that the performance right should lapse because the participant, in the Plan Committee's opinion, has committed any act of fraud, defalcation or gross misconduct in relation to the affairs of a body corporate in the Group. Securities acquired under the Cromwell Security Loan Plan and therefore pursuant to a loan with the Group are forfeited where the employee ceases employment with the Group prior to the end of the loan period.

Other than the CEO, no KMP was awarded a short term incentive (an at-risk cash bonus) in the 2016 financial year. The nature of the performance based remuneration is an 'at risk' payment rather than a 'bonus' payment.

For all KMP except the CEO and Non-executive Directors, the CEO is responsible for setting key performance indicator (KPI) targets and assessing annually whether those targets have been met. The KPI targets for the CEO are set, revised and reviewed annually by the Nomination & Remuneration Committee and the Board.

### What you can find on the Corporate Governance page on our website:

- Nomination & Remuneration Committee Charter



[www.cromwell.com.au/investors/securityholders/corporate-governance](http://www.cromwell.com.au/investors/securityholders/corporate-governance)

## RECOMMENDATION 8.3

In accordance with the remuneration policy, the Group operates a Performance Rights Plan and a Security Loan Plan and has issued performance rights (or options over Group securities) to a number of senior executives, including the CEO (an Executive Director). The Group does not currently pay any other form of security based remuneration.

The terms of the Group's Performance Rights Plan do not allow participants, whether Executive Directors or other employees, to hedge or otherwise limit the economic risk of their participation in the Plan.

Previous participation in the Performance Rights Plan by the CEO (an Executive Director) was approved by securityholders at an AGM. Pursuant to the ASX Listing Rules, any further participation would also need to be approved by securityholders.



# SECURITYHOLDER INFORMATION

The securityholder information set out below was applicable as at 31 August 2016, unless stated otherwise.

## Spread of Stapled Securityholders

Category of Holding	Number of Securities	Number of Holders
100,001 and Over	1,457,171,413	1,056
10,001 to 100,000	275,980,971	8,269
5,001 to 10,000	14,419,149	1,821
1,001 to 5,000	6,309,277	2,008
1 to 1,000	278,739	918
<b>Total</b>	<b>1,754,159,549</b>	<b>14,072</b>

## Unmarketable Parcels

The number of stapled securityholdings held in a less than marketable parcel was 632.

## Substantial Securityholders

Holder	Stapled Securities	Date of Notice
The Vanguard Group, Inc	106,680,474	02/06/2016
Redefine Properties Limited	446,538,850	03/09/2015

## Voting Rights

On a show of hands every securityholder present at a meeting in person or by proxy shall have one vote and, upon a poll, every securityholder shall have effectively one vote for every security held.

## 20 Largest Securityholders

Rank	Investor	Number of Stapled Securities Held	% Held of Issued Stapled Securities
1	HSBC Custody Nominees (Australia) Limited	225,848,920	12.88%
2	J P Morgan Nominees Australia Limited	203,852,671	11.62%
3	Redefine Global (Pty) Ltd	184,967,829	10.54%
4	Buttonwood Nominees Pty Ltd	155,804,945	8.88%
5	Buttonwood Nominees Pty Ltd	106,000,000	6.04%
6	Citicorp Nominees Pty Limited	98,913,713	5.64%
7	National Nominees Limited	91,111,298	5.19%
8	BNP Paribas Noms Pty Ltd <DRP>	30,710,079	1.75%
9	Stara Investments Pty Ltd	19,588,167	1.12%
10	BNP Paribas Nominees Pty Ltd < Agency Lending DRP A/C >	12,618,421	0.72%
11	Citicorp Nominees Pty Limited < Colonial First State INV A/C >	11,152,630	0.64%
12	Brispot Nominees Pty Ltd < House Head Nominee No 1 A/C >	7,523,024	0.43%
13	Humgoda Investments Pty Ltd	7,282,126	0.42%
14	Panmax Pty Ltd < Panmax Pty Ltd S/Fund A/C >	5,718,993	0.33%
15	HSBC Custody Nominees (Australia) Limited-Gsco Eca	5,122,862	0.29%
16	Wallace SMSF Pty Ltd < PJ & BM Wallace PS/F A/C >	4,898,736	0.28%
17	Mr Neal John Ambrose & Mrs Anne Christine Ambrose < NJ & AC Ambrose S/F A/C >	4,196,565	0.24%
18	Mr Humphrey Firkins & Mr Jamie Dorrington < G Firkins Educational A/C >	3,377,000	0.19%
19	Bond Street Custodians Limited < ENH Property Securities A/C >	3,189,162	0.18%
20	Cabet Pty Ltd	3,000,000	0.17%
<b>Total</b>		<b>1,184,877,141</b>	<b>67.55%</b>

## Provision of Information for Securityholders

Cromwell is committed to ensuring its securityholders are fully informed on the financial and operational status of the Group as well as its future prospects, in accordance with the rules and guidelines of the Australian Securities Exchange (ASX) and other regulatory bodies. The following information can also be found on the Cromwell website at [www.cromwell.com.au](http://www.cromwell.com.au).

### ASX LISTING

Cromwell Property Group is listed on the Australian Securities Exchange (ASX code: CMW).

### SECURITYHOLDING DETAILS

Securityholders can access information on their holdings and update their details through Cromwell's securities registry provider:

#### Link Market Services Limited

Level 15, 324 Queen Street

Brisbane Qld 4000

Telephone: 1300 550 841

Outside Australia: +61 2 8280 7124

Fax: +61 2 8280 0303

Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Email: [info@linkmarketservices.com.au](mailto:info@linkmarketservices.com.au)

Securityholders can change or update details relating to their address, bank account and Tax File Number (TFN), Australian Business Number (ABN) or exemption in a number of ways:

- Send written authorisation to the registry quoting your SRN / HIN and signing the request;
- Log on to [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au); or
- Call the registry.

You will have to verify your identity by providing your personal details. Bank detail changes must be requested in writing or electronically and cannot be made over the phone.

Securityholders are not obliged to quote their TFN, ABN or exemption. However, if these details are not lodged with the registry, Cromwell is obliged to deduct tax from unfranked portions of dividend payments and distribution payments and up to the highest marginal tax rate, depending on residency.

## **DISTRIBUTIONS/DIVIDENDS**

### **Cromwell Property Group Dividends/Distributions**

During the year the following distributions/dividends have been paid:

<b>Quarter Ending</b>	<b>Amount per Security</b>	<b>Ex Date</b>	<b>Record Date</b>	<b>Payment Date</b>
30 June 2016	2.1075 cents	29 June 2016	30 June 2016	18 August 2016
31 March 2016	2.1075 cents	30 March 2016	31 March 2016	11 May 2016
31 December 2015	1.9925 cents	29 December 2015	31 December 2015	10 February 2016
30 September 2015	1.9925 cents	28 September 2015	30 September 2015	11 November 2015

## **Further Information**

The Cromwell website provides a comprehensive range of information on the Group, past performance and products.

The website address is [www.cromwell.com.au](http://www.cromwell.com.au). Requests for further information about the Group, its dealings and key securityholder communications should be directed to:

### **Investor Relations Manager**

#### **Cromwell Property Group**

GPO Box 1093

Brisbane QLD 4001 Australia

TEL: +61 7 3225 7777

FAX: +61 7 3225 7788

EMAIL: [invest@cromwell.com.au](mailto:invest@cromwell.com.au)

### **LISTING:**

Cromwell Property Group is listed on the Australian Securities Exchange (ASX code: CMW).

### **SECURITIES REGISTRY:**

Link Market Services Limited

Level 15, 324 Queen Street

Brisbane QLD 4000

TEL: 1300 550 841 (+61 2 8280 7124)

FAX: +61 2 8280 0303

WEB: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### **AUDITOR:**

Pitcher Partners

Level 30, Central Plaza One

345 Queen Street

Brisbane QLD 4000

TEL: +61 7 3222 8444

FAX: +61 7 3221 7779

WEB: [www.pitcher.com.au](http://www.pitcher.com.au)



PROPERTY GROUP

