CPA

Commonwealth Property Office Fund
Half-year investor review
31 December 2013

Colonial First State
Global Asset Management

Distributions lifted

Commonwealth Property Office Fund (CPA or the 'Fund') has delivered another solid result, lifting distributions to 3.50 cents per unit for the six months ended 31 December 2013. The distribution will be paid on 28 February 2014.

Notwithstanding broader demand challenges in Australia's office markets, the CPA team negotiated new and renewed lease agreements covering more than 59,000 sqm of space, locking in long-term future income streams and maintaining the portfolio's long weighted average lease expiry at 5.0 years, albeit with occupancy decreasing to 94.4% including terms agreed.

> "Our team has worked hard to once again deliver a strong result, executing strategic leasing deals to forward solve expiry risks, lock in revenues and improve portfolio metrics."

Charles Moore
CPA Fund Manager

Key highlights

Distribution 3.5cpu	↑	9.4%[1]
Net profit $152.1m	↑	175%[1]
Net property income on a like-for-like[2] basis	↑	3.7%[1]
Total assets $3.9b	↑	2.7%[3]
Average rental uplift	↑	3.8%
Portfolio occupancy[4]		94.4%

1 Compared to the prior corresponding period.
2 Net Property Income (NPI) and like-for-like NPI are unaudited, non-IFRS financial information and are not profit measures of the Fund. They are used by management to monitor the performance of the property portfolio. Please refer to Appendix 3 of CPA's December 2013 Interim Results announcement on 18 February 2014, for the calculation of NPI and like-for-like NPI.
3 Compared to 30 June 2013.
4 By income and including terms agreed. Excluding 5 Martin Place, Sydney (withdrawn for development). Excluding terms agreed it was 92.3%.

Outlook

Mr Charles Moore, CPA Fund Manager, said: "CPA has delivered consistent quality results since inception in April 1999. The portfolio is well positioned, with high occupancy and a long weighted average lease term, supported by a quality tenant base and leading sustainability metrics.

"CPA remains one of Australia's most desirable portfolios, evidenced in particular by recent strong corporate interest, and is positioned to perform well in what is expected to be improving market conditions.

"Setting aside corporate activity surrounding the Fund, we continue to target a distribution for the 2014 financial year of 6.75 cents[5] per unit, which excluding performance fees, is at the mid-point of 70% to 80% of FFO[6]."

60 Castlereagh Street, Sydney

5 Assuming the Fund's taxable income is no more than 6.75 cents per unit and there is no unforeseen material deterioration in existing economic conditions. Guidance is based upon the current external management model.
6 From 1 July 2012, Funds From Operations (FFO) replaced Distributable Income. FFO is a key non-IFRS earnings measure used by management to assess the operating performance of the Fund. FFO equals net profit excluding: fair value adjustments from investment properties, equity accounted investments, derivatives; straight-lining revenue; the movement in the fair value of unrealised performance fees; non-cash convertible notes interest expense; the amortisation of fit-out incentives, cash incentives and leasing commissions and adjustments for other items. Please refer to CPA's December 2013 Interim Results announcement on 18 February 2014, for a reconciliation of net profit to FFO.

Responsible Entity: Commonwealth Managed Investments Limited
ABN 33 084 098 180 AFSL 235384

Manager: Colonial First State Property Limited
ABN 20 085 313 926

Not guaranteed by Commonwealth Bank of Australia

Performance overview

Financial result

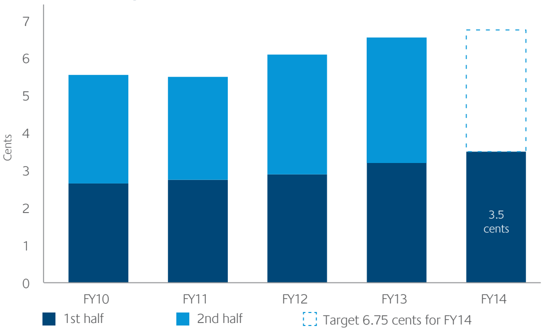
CPA's net profit for the six months to 31 December 2013 was $152.1 million, compared to $55.3 million for the prior corresponding period.

The net profit included a net gain from property valuations of $74.0 million (compared to a $33.1 million net loss for the prior corresponding period) and a net loss on derivatives valuations of $9.2 million (compared to a $3.9 million net loss for the prior corresponding period). Despite $5.7 million in performance fees being payable, FFO increased 0.5% to $103.8 million (compared to $103.3 million for the prior corresponding period) or 6.0% excluding the impact of performance fees.

On a like-for-like basis, net property income was up 3.7%, due to positive rent reviews, while total net property income increased by 8.0% to $134.6 million, reflecting an increase in rental income and one-off favourable outcomes.

CPA has delivered stable growth

Distribution per unit



10 Eagle Street, Brisbane

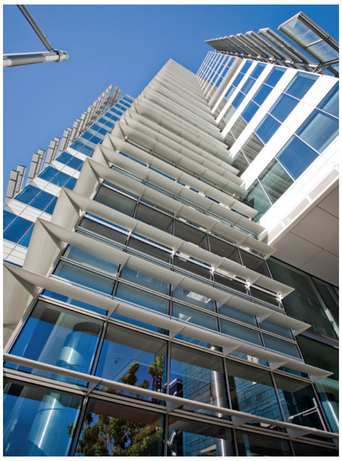
CPA snapshot

24.9% GEARING

5.6% WEIGHTED AVERAGE COST OF DEBT

94.4% PORTFOLIO OCCUPANCY[9]

75.7% TENANT RETENTION RATE



10 Shelley Street, Sydney

Investment performance

CPA delivered a strong total return[7] of 16.4% for the six-month period compared to the Fund's benchmark S&P ASX 200 Property Accumulation Index (the Index) total return of -1.5%. CPA has outperformed the Index over the one, three and 10-year periods.

The performance fee is determined based on CPA's relative performance since the last period in which a performance fee was accrued, being the period ended 31 December 2010. Cumulative performance to 31 December 2013 is 3.75 percentage points above the performance fee benchmark[8]. Accordingly, the Responsible Entity was entitled to a full performance fee for the six-month period to 31 December 2013.

7 Total return comprises unit price performance and distribution income yield.

8 The performance fee benchmark (benchmark) for the period was the S&P ASX 200 Property Accumulation Index customised to remove the effect of CPA on the Index. A 20-day weighted average price (VWAP) is applied to both the index and the benchmark. Prior to 1 July 2012, the benchmark was the S&P ASX 200 Commercial Accumulation Index.

9 By income and including terms agreed.

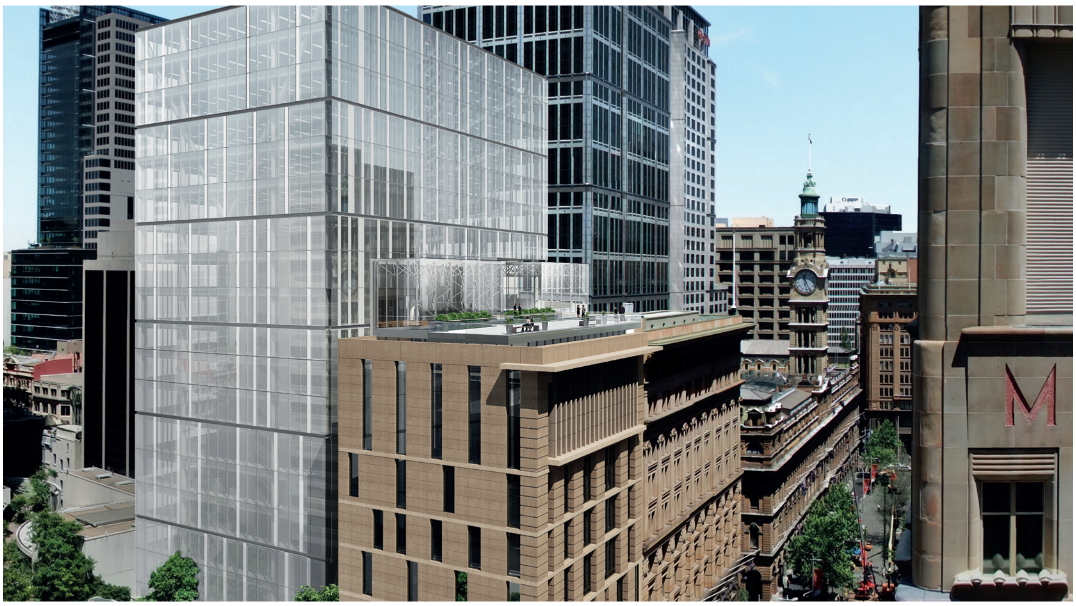
Developments

CPA continues to improve its portfolio through a $310 million[10] development and refurbishment program. Projects include the flagship 5 Martin Place, Sydney development with completion expected early 2015 at a total cost of $215 million[11] (50% ownership).

Refurbishments include: 385 Bourke Street, Melbourne at a cost of $57 million including office, foyer and retail works; 180 Lonsdale Street, Melbourne at a cost of $16 million (50% ownership) including office and foyer works; and 108 North Terrace, Adelaide at a cost of $22 million including office and foyer works.

10 Includes incentives.

11 Includes land value.



Artist's impression: 5 Martin Place, Sydney

Portfolio update

Leasing

During the period, 59,831 sqm in new and renewed leases were successfully negotiated, maintaining a solid occupancy level of 94.4%[10] across the portfolio. Leasing and renewal activity has contributed to the portfolio's long weighted average lease expiry profile, or WALE[11], improving to 5.0 years.

Mr Moore said: "Our team was particularly successful in mitigating large expiry risks in our Melbourne portfolio, executing and agreeing terms for 71 new lease deals, or 143,618 sqm of space, at an average lease term of 5.8 years."

10 By income and including terms agreed. Excluding terms agreed it was 92.3%.

11 By income including terms agreed but excluding 5 Martin Place, Sydney (withdrawn for development). Excluding terms agreed it was 4.3 years.

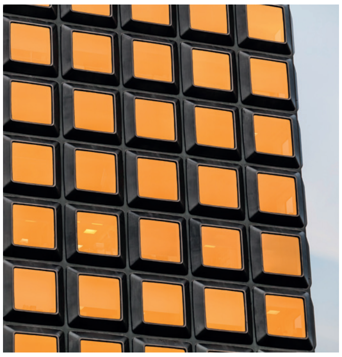
180 Lonsdale Street, Melbourne

Australian office markets

Australia's economic growth remains positive but sub trend as the mining boom fades and the broader economy is yet to take up the slack. CBD office markets in the December 2013 quarter experienced another tough period, with rising vacancy and incentives in most markets.

Conditions in the short term should remain challenging but an improving global economy, rising business and consumer sentiment along with interest rate cuts should boost the housing and service sectors and should be positive for markets over the medium to long term.

The office sector recorded another quarter of negative net absorption, driven by a further deterioration in the resource-based markets of Perth and Brisbane. Despite limited supply, the national vacancy rate rose to 11.8% from 11.3%. The higher vacancy has led to further increases in tenant incentives, with prime incentives in all CBD markets except Adelaide now higher than in the previous quarter. Despite the weak market conditions, yields were mostly flat with some compression in premium Perth CBD stock.



201 Miller Street, North Sydney

Rent reviews

Rent reviews over 385,547 sqm of tenanted space were undertaken during the period, achieving an average rental uplift of 3.8%. Of the space reviewed, 96.4% was subject to fixed rental increases at an average rate of 3.9% and the remaining market reviews achieved 0.1% growth on previous rents.

In the six months to 30 June 2014, 214,534 sqm is subject to review, with 85.5% of the area subject to fixed reviews at an average increase of 4.0% and the remainder to be reviewed to market.

58 Mounts Bay Road, Perth

Asset valuations

As a result of the corporate activity surrounding CPA during the period, and the improving pricing trends from comparable transactions, the Fund's entire portfolio was independently valued during the period. This resulted in a $74.0 million net gain on investment properties and equity accounted investments valuations.

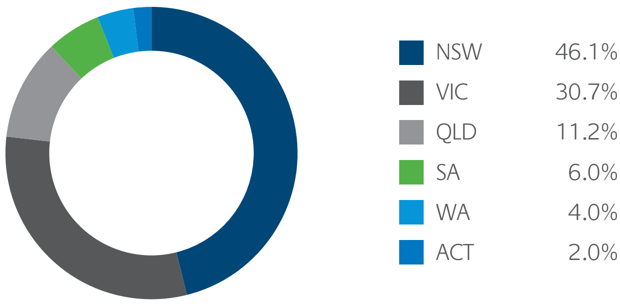
Major movements in valuations included:

- 750 Collins Street, Melbourne, up 5.4% on the back of improved market fundamentals and strong transactional evidence
- 2 Southbank Boulevard, Melbourne, up 6.4% following the renewal of Microsoft for 3,185 sqm (terms agreed), combined with a 37 bps tightening in its capitalisation rate, and
- 145 Ann Street, Brisbane, up 3.6% as strong transactional evidence translated into the capitalisation rate reducing by 48 bps.

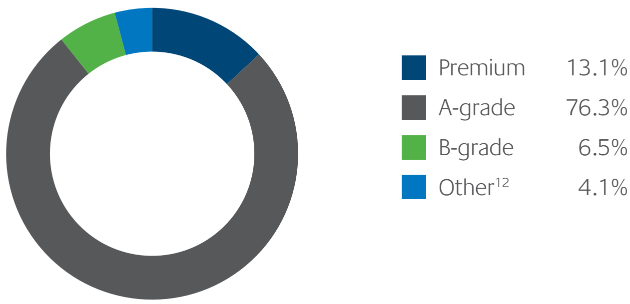
The weighted average capitalisation rate of the portfolio tightened from 7.6% at 30 June 2013 to 7.3% at 31 December 2013, while the Fund's net tangible asset backing per unit rose from $1.15 to $1.17 over this period.

CPA is well diversified by geography and asset grade

Portfolio by state



Portfolio by asset grade



12 Other comprises QV retail and car park at 180-222 Lonsdale Street, Melbourne.

Latest news

Update on takeover offer

In July 2013, Commonwealth Bank of Australia presented the Board of Commonwealth Managed Investments Limited (CMIL), the Responsible Entity of CPA, with a proposal to internalise its management.

Since then, CPA has been the subject of separate takeover offers from two parties, being GPT Group (GPT Offer), and DEXUS and CPPIB (DEXUS Offer).

There have been some important developments which have occurred in relation to these offers and, as previously advised, the Board did not progress the Bank's internalisation proposal.

On 24 January 2014, the GPT Offer closed and lapsed. The GPT Offer is no longer capable of acceptance and the contracts resulting from any acceptance of the GPT Offer will no longer have effect. CPA unitholders who had previously accepted the GPT Offer can now accept the DEXUS Offer in respect of their CPA units should they elect to do so.

On 29 January 2014, DEXUS and CPPIB announced that the DEXUS Offer has been declared free of all remaining conditions and is now unconditional. The DEXUS Offer was extended on 14 February 2014 to close at 7.00pm (Sydney time) on 28 February 2014.

The Independent Directors of CMIL continue to unanimously recommend that CPA unitholders ACCEPT the DEXUS Offer in the absence of a superior proposal.

If you have any questions in relation to the DEXUS Offer, please contact the CPA unitholder information line on 1800 500 710 (callers in Australia) or +61 1800 500 710 (callers outside Australia). Further information relating to the DEXUS Offer can be obtained from CPA's website at cfsgam.com.au/cpa

Vertical communities

The management team continues to focus on further improving tenant engagement via a new generation of online tenant portals.

In less than five months from launch, more than 1,000 office workers in CPA's property at 385 Bourke Street, Melbourne, signed up to the building's new online tenant portal: @385 Bourke.

The simple portal interface makes meaningful connections between tenants and gives the occupant-community access to relevant products and services, such as: door-to-desk dry cleaning; an online store supported by desk delivery service for coffee and lunches; community pages which enable the formation of groups over shared interests; and, up-to-the-minute local and precinct news and events.

Now, office and retail tenants at each CPA asset have the entire local precinct at their fingertips.

By providing convenience and connectivity in line with our best in class approach to sustainability, the portals create a central platform across the portfolio for marketing, communication and data collection whilst engaging and informing an entire building community of tenants, retailers and building management.

Mr Jon Lesquereux, Head of Office Asset Management, said: "There is an industry shift towards leveraging technology to deliver better service levels to tenants. We can now connect directly with all of our building occupants and this allows us to tailor our offering, better service their needs and direct our resources accordingly.

"Our portals are a great source of information and are yet another example of how we make doing business in our buildings easier for our tenants. By making things easy for our tenants we believe that we are more likely to retain them on the expiry of their lease," said Mr Lesquereux.

Global recognition in sustainability

As a responsible property investor, we consider environmental social and governance factors in everything we do.

During the period, CPA received the following recognition:

- ✓ **GRESB – 2013 survey**
  CPA was ranked first out of listed property funds globally in sustainability by GRESB, which is an industry-led organisation committed to rigorous and independent evaluation of the sustainability performance of real estate portfolios.
- ✓ **CDP - 2013 survey**
  In the 2013 Carbon Disclosure Project, CPA was ranked highest in both the Climate Disclosure Leadership Index and Climate Performance Leadership Index, having achieved inclusion in both of the Leader's indices for the fourth consecutive year.

Comprehensive detail in relation to the Fund's approach to responsible property investment can be found on CPA's website cfsgam.com.au/cpa.

Key dates

28 FEBRUARY 2014
Half-year distribution payment

19 AUGUST 2014
Annual result announcement

29 AUGUST 2014
Final distribution payment

CPA

For further results information for the half-year ended 31 December 2013 please visit the website

cfsgam.com.au/cpa

For enquiries regarding your unitholding, please contact the Unit Registry.
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