

Commonwealth Property Office Fund
ARSN 086 029 736

Appendix 4D

Interim results
for the half-year ended 31 December 2013

Contents

- Results for announcement to the market
- ASX announcement
- Additional information
- Interim Report

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EAGLEST

	6 months to		Variance	
	31-Dec-13	31-Dec-12	\$m	%
2.1				
Revenue from ordinary activities (excluding investment property and equity accounted investment revaluations)	182.2	172.2	10.0	
Investment property revaluations	71.6	0.0	71.6	
Share of equity accounted investment revaluations	2.4	(2.0)	4.4	
Total revenue from ordinary activities	256.2	170.2	86.0	50.5
Expenses from ordinary activities (excluding investment property and derivatives revaluations)	94.9	79.9	15.0	
Investment property revaluations	0.0	31.1	(31.1)	
Financial derivatives revaluations	9.2	3.9	5.3	
Total expenses from ordinary activities	104.1	114.9	(10.8)	(9.4)
2.2				
Profit from ordinary activities after tax	152.1	55.3	96.8	175.0
2.3				
Net profit	152.1	55.3	96.8	175.0

	Distribution per unit	Cents ¹	Record date	Payment
				date
2.4/2.5	Interim	3.50	31-Dec-13	28-Feb-14


2.6 For explanation of figures in 2.1 to 2.4 refer to the attached documents: ASX announcement, Additional information and Interim Report.

	Ownership Interest		Share of net profits ²	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
	%	%	\$m	\$m
7				
Details of equity accounted investments				
Equity accounted investments				
Kent Street Trust ³	-	50.0	-	1.7
Grosvenor Place Holdings Trust	50.0	50.0	10.3	5.9
Site 6 Homebush Bay Trust	50.0	50.0	1.8	1.9
Site 7 Homebush Bay Trust	50.0	50.0	2.2	2.1
PIF Managed Property Pty Limited	50.0	50.0	-	-
Grosvenor Place Pty Limited	25.0	25.0	-	-

Other information required under ASX Listing Rule 4.2A.3

	Page
Net tangible assets per unit (Rule 4.2A.3 Item No. 3)	2
Details of entities over which control has been gained or lost during the period (Rule 4.2A.3 Item No. 4)	N/A
Distributions (Rule 4.2A.3 Item No. 5)	Above, 17
Distribution Reinvestment Plans (Rule 4.2A.3 Item No. 6)	N/A
Foreign entities (Rule 4.2A.3 Item No. 8)	N/A

The information presented above is based upon the reviewed Interim Report for 31 December 2013. Refer to page 29 - Independent auditor's review report.



Michelle Brady
Company Secretary

Date: 18 February 2014

- Notes
- 1 Details of the full-year tax components of distributions will be provided in the Annual Tax Statements which will be sent to unitholders in August 2014.
 - 2 Includes investment property valuation gains/(losses).
 - 3 On 10 April 2013, the Fund purchased the remaining 50% of the units in the Kent Street Trust. The Fund's 100% interest in the Kent Street Trust represents control. As such, the Fund gained control over the Kent Street Trust from 10 April 2013. The Kent Street Trust is consolidated from this date.



Global Asset Management

Colonial First State Property Limited
ABN 20 085 313 926

Manager of Commonwealth Property Office Fund

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

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18 February 2014

COMMONWEALTH PROPERTY OFFICE FUND (CPA)

Interim results for the six months ended 31 December 2013

Commonwealth Property Office Fund (CPA or the 'Fund') continues to provide solid returns in a subdued office market environment to deliver investors a distribution of 3.5 cents per unit for the six months ended 31 December 2013, a 9.4% increase on the prior corresponding period.

Mr Charles Moore, CPA Fund Manager, said: "Our team has once again delivered a strong result, executing 59,831 sqm of leasing deals to forward solve lease expiry risks, lock in revenues and improve portfolio metrics."

Key operating highlights for the period included:

- net profit of \$152.1 million, up from \$55.3 million in the prior corresponding period, with the increase primarily due to improving property valuations
- Funds From Operations (FFO)¹ increasing 0.5% to \$103.8 million, up from \$103.3 million in the prior corresponding period, or 6.0% excluding the impact of performance fees
- distribution of 3.5 cents per unit for the period, which was up 9.4% on the prior corresponding period and reflected a 79.1% payout ratio of FFO, or 75.0% excluding performance fees
- net property income growth² of 8.0% and like-for-like² net property income growth of 3.7%
- net tangible asset backing (NTA) per unit rising to \$1.17, up from \$1.15 at 30 June 2013
- total assets of \$3.9 billion increasing marginally from \$3.8 billion at 30 June 2013
- maintaining a conservative gearing position of 24.9%³, down from 25.2% at 30 June 2013
- preserving a low weighted average cost of debt of 5.6%
- successfully leasing or renewing 59,831 sqm of space, and agreeing terms on a further 83,787 sqm to maintain solid occupancy at 94.4%⁴ and driving a weighted average lease expiry (WALE) of 5.0 years⁵
- achieving an average 3.8% increase in rents following the completion of rent reviews over 385,547 sqm of space (48.9% of the portfolio), and
- being ranked number one listed entity globally in the 2013 Global Real Estate Sustainability Benchmark Survey, and named joint leader for disclosure and a climate performance leader following its 2013 CDP submission.

The Fund will pay a distribution of \$82.1 million for the six-month period compared to \$75.1 million for the prior corresponding period. The distribution, which equates to 3.50 cents per unit and a payout ratio of 79.1% of FFO, or 75.0% excluding performance fees, is in line with the Fund's policy of distributing 70% to 80% of FFO, or the Fund's taxable income, whichever is greater for any financial period. The distribution will be paid on or around 28 February 2014.

¹ From 1 July 2012, FFO replaced Distributable Income. FFO is a key non-IFRS earnings measure used by management to assess the operating performance of the Fund. Refer to the table on page 2 for the reconciliation of net profit to FFO.

² Net property income and like-for-like net property income 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 for the calculation of net property income and like-for-like net property income.

³ Gearing equals borrowings as a proportion of total assets. For this calculation, total assets exclude the fair value of derivatives and borrowings is the amount drawn down as per Note 6 of the Interim Report, adjusted for the fair value of cross currency swaps.

⁴ By income including terms agreed. Excluding terms agreed occupancy was 92.3%.

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

For more information on CPA's performance during the period, refer to the Appendix 4D which was released today and can be found on CPA's website, cfsgam.com.au/cpa

Corporate activity

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

Since then, the Fund 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 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 the DEXUS Offer can be obtained from CPA's website at cfsgam.com.au/cpa

Financial results

CPA's net profit for the six months ended 31 December 2013 was \$152.1 million, compared to \$55.3 million for the prior corresponding period. The profit included a net gain on investment properties and equity accounted investments valuations of \$74.0 million (compared to a \$33.1 million net loss for the prior corresponding period), and a net loss on the fair value of derivatives of \$9.2 million (compared to a net loss of \$3.9 million for the prior corresponding period).

FFO increased 0.5% to \$103.8 million, up from \$103.3 million in the prior corresponding period, or 6.0% excluding the impact of performance fees.

Total net property income was up 8.0% to \$134.6 million due to the completion of 145 Ann Street, Brisbane, in November 2012, the acquisition of an additional 25% of 201 Kent Street, Sydney in April 2013 and a number of one off items which was partially offset by the sale of 45 Pirie Street, Adelaide in June 2013. On a like-for-like basis, net property income was up 3.7%.

Reconciliation of net profit to distribution		
\$m, for the six months ended	31-Dec-13	31-Dec-12
Net profit	152.1	55.3
Adjustments:		
Net loss/(gain) from properties and equity accounted investments valuations	(74.0)	33.1
Net loss from derivatives valuations	9.2	3.9
Straight-lining rental revenue	(1.6)	(2.9)
Non-cash convertible notes interest expense	3.1	2.8
Amortisation of fit-out incentives, cash incentives and leasing commissions	8.2	9.5
Transaction costs	2.8	-
Movements in fair value of performance fee	2.8	-
Other items ^a	1.2	1.6
FFO	103.8	103.3
Performance fee	5.7	-
Amount withheld in accordance with distribution policy	(27.4)	(28.2)
Distribution	82.1	75.1

a. Refer to Note 2 of the Interim Report.

Capital management

At 31 December 2013, CPA had gearing of 24.9%, down from 25.2% at 30 June 2013, with borrowings of \$965.4 million⁶ and undrawn debt facilities of \$578.5 million⁷. The Fund's debt was 94.3% hedged.

The change in other key debt metrics is detailed below:

	As at 31-Dec-13	As at 30-Jun-13
Weighted average interest rate ^a (%)	5.6	5.6
Weighted average debt duration ^b (years)	3.2	3.9
Weighted average interest rate on hedged debt ^c (%)	5.1	5.1
Weighted average hedged debt duration ^c (years)	3.5	4.0
Undrawn debt facilities ^b (\$m)	579	345

a. Including margins and line fees

b. Including \$250 million cash advance facility executed post 31 December 2013.

c. Including all fixed-rate debt and excluding margins and fees.

Investment performance

The Fund delivered a strong total return⁸ of 16.4% for the six months to 31 December 2013, above the S&P/ASX 200 Property Accumulation Index (the 'Index') total return of -1.5%.

Over one, three and 10-year periods, the Fund outperformed the Index by 22.5, 9.6 and 5.5 percentage points per annum respectively, and underperformed by 0.8 percentage points over the five-year period.

A full performance fee of \$5.7 million for the six months ended 31 December 2013 is payable to the Responsible Entity. The performance fee, calculated every six months, is capped at 0.15% of the Fund's average gross asset value for each six-month period, with any over/underperformance carried forward.

As at 30 June 2013, CPA had carried over underperformance of 22.6%. Based on the Performance Fee formula, CPA outperformed the customised property accumulation index⁹ (the performance fee benchmark) resulting in the Responsible Entity being entitled to a full performance fee and cumulative outperformance of 2.1% being carried over as at 31 December 2013.

Due to corporate activity, the Responsible Entity will be paid the performance fee in the form of cash sometime prior to 28 February 2014.

Further details of the performance fee are detailed in Note 8 of the Interim Report.

Portfolio update

Total property assets at 31 December 2013 were \$3.8 billion, increasing marginally from \$3.7 billion at 30 June 2013. The Fund's portfolio consisted of 25 properties, located in major office markets across Australia, with 46.1% of the portfolio (by value) in New South Wales and 30.7% in Victoria. The majority of assets are occupied by blue chip tenants with low risk profiles. The top 15 tenants contribute 51.9% of the Fund's income.

Leasing

During the period, 59,831 sqm in new and renewed leases were successfully executed. The occupancy level of 92.3% (by income) across the portfolio was negatively impacted by major expiries in 385 Bourke Street and 180 Lonsdale Street. However, after allowing for mitigation of these expiries in the form of terms agreed, the occupancy rate is 94.4% (by income). Leasing and renewal activity has contributed to the portfolio's long weighted average lease expiry profile, or WALE (by income), of 4.3 years at 31 December 2013 (4.3 years at 30 June 2013, or 5.0 years including terms agreed). See **Appendix 1** for further details.

⁶ Borrowings is the amount of debt drawn as per Note 6 of the Interim Report, equal to \$951.9 million, adjusted for the \$13.5 million liability value of cross currency swaps.

⁷ Including \$250 million cash advance facility executed post 31 December 2013.

⁸ Total return comprises unit price performance and distribution income yield.

⁹ For the purposes of calculating the performance fee, the benchmark is the S&P ASX 200 Property Accumulation Index, is customised to remove the effect of CPA on the Index. A 20-day volume weighted average price (VWAP) is applied to both the CPA accumulation index and the customised index.

Major lease deals for the period included:

- Telstra renewing its lease for five years at 222 Lonsdale Street, Melbourne for 21,730 sqm of space
- GHD renewing its lease for 5,670 sqm at 180 Lonsdale Street, Melbourne for five years
- Transport NSW agreeing to a new lease over 3,085 sqm at 36 George Street, Burwood, for four years and 11 months
- Austrade renewing its lease over 2,650 sqm at 201 Kent Street, Sydney for seven years, and
- QBE agreeing to a new lease over 2,212 sqm at 145 Ann Street, Brisbane for 10 years.

In addition, we have agreed terms over an additional 83,787 sqm of space, including:

- an undisclosed tenant for 17,625 sqm at 101 George Street, Parramatta over two leases of four and eight years
- an undisclosed tenant for 4,173 sqm at 201 Kent Street, Sydney for seven years, and
- an undisclosed tenant for 6,072 sqm at 108 North Terrace, Adelaide for five years.

Rental reviews

Rental reviews over 385,547 sqm of tenanted space (48.9% of the portfolio) were undertaken during the year (see **Appendix 2** for further details), achieving an average rental increase of 3.8%. Of the space reviewed, 96.4% was subject to fixed rental increases with the remainder reviewed to market.

Over the remainder of the 2014 financial year, 214,534 sqm (27.2% of the portfolio) 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.

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 resulting 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, 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 NTA rose from \$1.15 to \$1.17 over this period.

Development underway **5 Martin Place, Sydney**

Construction of the jointly-owned 5 Martin Place development is well underway with completion expected in early 2015. The existing historic building will be transformed and integrated into a new structure to form a 31,280 sqm office building with floor plates ranging from 1,100 sqm to 2,400 sqm.

The historic banking chamber will also be transformed into 2,580 sqm of retail space fronting Pitt Street. The project will target a 5-star Green Star rating, a 5-star NABERS Energy rating and a 5-star NABERS Water rating.

Estimated cost (CPA share)^	\$215 million
CPA cost to complete	\$136 million
Target year-one yield	~7%*
Target internal rate of return	>10%
Office NLA on completion	31,280 sqm
Retail GLA on completion	2,580 sqm

^This represents CPA's 50% interest including land, construction costs, incentives, leasing fees and an allowance for finance costs.

* On a fully-leased basis on completion.

Major refurbishment projects underway

385 Bourke Street, Melbourne

The centrally located Melbourne CBD property at 385 Bourke Street is undergoing a major refurbishment. The \$57 million project¹⁰ involves the complete refurbishment of 15 levels or 18,000 sqm of office space into modern A-grade office accommodation, the extension and refurbishment of the ground floor office foyer as well as the reconfiguration and refurbishment of the Galleria retail space. Upon completion, this asset will provide quality office space in the heart of Melbourne's CBD at rentals comparable to Docklands.

Works commenced in September 2013, with completion expected in August 2014.

180 Lonsdale Street, Melbourne

This asset is being extensively refurbished. Works commenced in August 2013 and completion is targeted for April 2014. The estimated cost of works is \$16 million¹⁰ (representing CPA's 50% interest) and will involve the refurbishment of 10 office levels over 18,000 sqm and will incorporate a foyer upgrade.

108 North Terrace, Adelaide

In conjunction with the successful leasing up of 14,400 sqm of office space (including terms agreed) in this A-grade building, at least five floors of this building will be extensively refurbished. The \$22 million program¹⁰ commenced in December 2013 and is expected to be completed in June 2015.

Responsible property investment

During the period, CPA received the following recognition:

Global Real Estate Sustainability Benchmark (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. This is the third consecutive year the Fund has been ranked the leader by GRESB (in 2011 and 2012, CPA was overall leader which included unlisted property funds).

Carbon Disclosure Project (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.

Dow Jones Sustainability Indices (DJSI) – 2012/2013

The Fund was again included in the DJSI World, DJSI Asia Pacific and the Australian SAM (Sustainable Asset Management) Sustainability Index (AuSSI) indices, and has been a member of DJSI since 2003.

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

¹⁰ Includes construction costs, incentives and leasing fees.

Outlook

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

"As evidenced by the recent strong corporate interest, CPA has created one of Australia's most desirable portfolios and is positioned to perform well in what is expected to be improved market conditions.

"Setting aside corporate activity surrounding the Fund, we continue to target a distribution for the 2014 financial year of 6.75 cents¹¹ per unit, which is at the mid-point of 70% to 80% of FFO¹²."

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For further information please contact:

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About Commonwealth Property Office Fund

CPA is an office sector-specific Australian Real Estate Investment Trust (A-REIT) which invests in prime quality office property located in central business districts and major suburban markets across Australia. At 31 December 2013, the Fund comprised 25 assets valued at \$3.8 billion.

About CFSGAM Property

CFSGAM Property is the specialist property division of Colonial First State Global Asset Management, and is one of the largest real estate fund managers in Australia with \$15 billion in funds under management. CFSGAM Property offers a fully integrated real estate investment platform including investment management, asset management, development management, origination and execution. CFSGAM Property manages a suite of wholesale investment products, as well as two listed real estate investment trusts in Australia.



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¹¹ 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.

¹² Excluding performance fees.

Commonwealth Property Office Fund
Appendix 1 - Major leasing activity (over 500 sqm)
For the period 1 July 2013- 31 December 2013

Property	Tenant	Level / suite	Area sqm	Lease commencement	Term years	New Rent rent type \$/sqm net/gross	Rent review structure
New South Wales							
225 George Street, Sydney	Michael Page	Part level 32	1,348	1-Jan-14	7.0	1,110 Gross	Annual 4% increases
225 George Street, Sydney	Sumitomo	Part level 33	850	22-Aug-13	7.0	1,200 Gross	Annual 3.75% increases
60 Castlereagh Street, Sydney	BNP Paribas	Part levels 2 & 8, 4-7	5,397	1-Jul-14	10.0	638 Net	Market review at year 2 and 4, annual 3.75% increases thereafter
60 Castlereagh Street, Sydney	Walker Wayland	Part level 11	800	1-Feb-14	10.0	805 Gross	Annual 3.75% increases year 1 & 2, market review year 3, annual 4% increases thereafter
36 George Street, Burwood	Transport for NSW	Level 4	3,085	1-Dec-13	4.9	340 Net	Annual 3.75% increases
201 Kent Street, Sydney	Austrade	Levels 22-23	2,650	1-May-13	7.0	630 Gross	Annual 3.75% increases
Victoria							
2 Southbank Boulevard, Melbourne	Vanguard Investments Australia	Part level 28	1,401	1-Jan-14	6.0	500 Net	3% increase year 1, annual 4% increases thereafter
2 Southbank Boulevard, Melbourne	WG Technologies	Part level 4	523	1-May-13	5.0	400 Net	Annual 4% increases
2 Southbank Boulevard, Melbourne	WG Technologies	Part level 4	523	1-Feb-14	4.0	400 Net	Annual 4% increases
180 Lonsdale Street, Melbourne	Linking Melbourne Authority	Part level 19, 20	2,569	15-Dec-13	7.0	420 Net	Annual 3.5% increases
180 Lonsdale Street, Melbourne	GHD	Levels 7-9	5,670	1-Jan-15	5.0	420 Net	Annual 3.5% increases
222 Lonsdale Street, Melbourne	Telstra	Levels 3 & 5-9	21,730	2-Jul-14	5.0	363 Net	Annual 3.5% increases
385 Bourke St, Melbourne	Commonwealth Bank of Australia	Part lower ground	1,809	1-Jan-14	10.0	180 Net	Annual 4% increases
Queensland							
145 Ann St, Brisbane	QBE	Levels 12-13	2,210	1-Mar-14	10.0	675 Gross	Annual 4% increases
145 Ann St, Brisbane	Federal Government	Level 11	1,106	1-Apr-14	8.0	665 Gross	Annual 3.75% increases
South Australia							
11 Waymouth St, Adelaide	Rex Minerals	Part level 19	709	1-Feb-14	10.0	528 Gross	Annual 3.5% increases, market review year in 6

Property	Tenant	Level / suite	Area sqm	Review date	Review type	Passing rent \$/sqm	New rent \$/sqm	Rent type net/gross	Variance %
Australian Capital Territory									
Finlay Crisp Centre - Nara House, Canberra	ACT Government	Whole building	7,506	1-Jul-13	Fixed	400	416	Gross	4.0
New South Wales									
101 George Street, Parramatta	Commonwealth Bank of Australia	3-11	17,625	9-Nov-13	Fixed	468	486	Gross	4.0
14 Lee Street, Sydney	Government Property NSW	Part ground, 1-6	13,500	6-Jul-13	Fixed	351	360	Net	2.5
150 George Street, Parramatta	Commonwealth Bank of Australia	Whole building	21,964	23-Nov-13	Fixed	352	366	Net	4.0
175 Pitt Street, Sydney	Federal Government	2-5	4,142	1-Jul-13	Fixed	541	562	Net	4.0
175 Pitt Street, Sydney	Kemp Strang	Part level 17, 14-16	3,854	1-Jul-13	Fixed	587	610	Net	4.0
175 Pitt Street, Sydney	VMWare	7-8	2,078	1-Oct-13	Fixed	540	562	Net	4.0
175 Pitt Street, Sydney	State Super	9	946	1-Sep-13	Fixed	562	584	Net	4.0
175 Pitt Street, Sydney	Cushman & Wakefield	Part level 18	689	1-Dec-13	Fixed	645	671	Net	4.0
175 Pitt Street, Sydney (retail)	Fitness First	Basement	1,410	3-Sep-13	Fixed	659	685	Gross	4.0
2 Dawn Fraser Ave, Homebush	Commonwealth Bank of Australia	Whole building	18,803	23-Dec-13	Fixed	332	343	Net	3.3
201 Kent Street, Sydney	Aon Corporation	Part levels 5 & 26, 27-34	10,964	3-Jul-13	Fixed	620	645	Net	4.0
201 Kent Street, Sydney	Arup	9-10	3,482	1-Oct-13	Fixed	566	590	Net	4.3
201 Kent Street, Sydney	Lend Lease Management Service	15	1,698	1-Nov-13	Fixed	631	661	Net	4.8
201 Kent Street, Sydney	Bupa Care Services	19	1,325	1-Jul-13	Fixed	607	632	Net	4.0
201 Kent Street, Sydney	Government Property NSW	25	1,325	1-Dec-13	Fixed	450	467	Net	3.8
201 Kent Street, Sydney	White Energy Company	Part level 20	830	1-Oct-13	Fixed	630	655	Net	4.0
201 Kent Street, Sydney	Plus Fitness	Part level 2	588	1-Dec-13	Fixed	164	173	Gross	5.0
201 Kent Street, Sydney	Government Property NSW	Part level 21	507	1-Dec-13	Fixed	440	457	Net	3.7
201 Miller Street, North Sydney	Nestle	21-22	1,100	1-Nov-13	Fixed	530	551	Net	4.0
201 Miller Street, North Sydney	Nestle	4	669	1-Nov-13	Fixed	440	458	Net	4.0
201 Miller Street, North Sydney	Nestle	9	668	1-Nov-13	Fixed	471	489	Net	4.0
201 Miller Street, North Sydney	Jobpac	11	659	1-Aug-13	Fixed	437	454	Net	4.0
225 George Street, Sydney	Ahurst	35-41	13,793	1-Jul-13	Fixed	1,032	1,076	Gross	4.2
225 George Street, Sydney	Blackrock	43-44	3,992	1-Aug-13	Fixed	1,162	1,208	Gross	4.0
225 George Street, Sydney	Ethereal	13	1,916	1-Jul-13	Fixed	921	958	Gross	4.0
225 George Street, Sydney	RGA	23	1,878	1-Jul-13	Fixed	780	816	Gross	4.6
225 George Street, Sydney	Barclays Bank	Part level 42	1,672	1-Aug-13	Fixed	1,149	1,225	Gross	6.6
225 George Street, Sydney	Credit Agricole	Part level 22	892	1-Aug-13	Fixed	850	884	Gross	4.0
225 George Street, Sydney	233 George Street	Retail	627	1-Aug-13	Fixed	1,035	1,073	Gross	3.6
36 George Street, Burwood	Government Property NSW	Part ground, 1	3,846	1-Nov-13	Fixed	328	341	Net	4.0
4 Dawn Fraser Ave, Homebush	Commonwealth Bank of Australia	1-7	13,255	22-Aug-13	Market (with ratchet)	332	332	Net	0.0
56 Pitt Street, Sydney	Federal Government	25	824	1-Sep-13	Fixed	855	891	Gross	4.3
56 Pitt Street, Sydney	The Donnington Group	15	824	1-Jul-12	Fixed	810	842	Gross	4.0
56 Pitt Street, Sydney	Invesco Asset Management Australia	17	824	1-Aug-13	Fixed	790	822	Gross	4.0
56 Pitt Street, Sydney	Transocean	5	741	1-Sep-13	Fixed	686	714	Gross	4.0
60 Castlereagh Street, Sydney	Shaw Stockbroking	Part level 15, 16	1,880	1-Nov-13	Fixed	875	910	Gross	4.0
60 Castlereagh Street, Sydney	Goodman	18	1,189	1-Dec-13	Fixed	882	915	Gross	3.8
60 Castlereagh Street, Sydney	Jones Lang LaSalle	Part level 1	581	31-Oct-13	Fixed	749	779	Gross	4.0

Commonwealth Property Office Fund
Appendix 2 - Major rent reviews (over 500 sqm)
For the period 1 July 2013 - 31 December 2013



Property	Tenant	Level / suite	Area sqm	Review date	Review type	Passing rent \$/sqm	New rent \$/sqm	Rent type net/gross	Variance %
Victoria									
180 Lonsdale Street, Melbourne	Telstra	10-16	13,040	15-Jul-13	Fixed	403	418	Net	3.8
180 Lonsdale Street, Melbourne	Accenture	17-18	3,597	1-Nov-13	Fixed	417	435	Net	4.5
2 Southbank Boulevard, Melbourne	SPI Powernet	30-32	5,800	1-Sep-13	Fixed	452	467	Net	3.5
2 Southbank Boulevard, Melbourne	PMP	Part level 10,11,12	3,881	4-Jul-13	Fixed	422	436	Net	3.3
2 Southbank Boulevard, Melbourne	HJ Heinz	8,9, part level 10	3,509	1-Sep-13	Fixed	425	439	Net	3.5
2 Southbank Boulevard, Melbourne	Microsoft	5-7	3,185	1-Nov-13	Fixed	338	350	Net	3.5
2 Southbank Boulevard, Melbourne	SPI Powernet	Part level 28, 29	2,309	1-Oct-13	Fixed	456	473	Net	3.7
2 Southbank Boulevard, Melbourne	Acciona Energy Oceania	12	1,805	1-Sep-13	Fixed	430	447	Net	4.0
2 Southbank Boulevard, Melbourne	HJ Heinz	Part level 10	639	1-Sep-13	Fixed	438	454	Net	3.5
222 Lonsdale Street, Melbourne	Telstra	5-9	18,429	2-Jul-13	Fixed	369	382	Net	3.5
385 Bourke Street, Melbourne	Energy Australia	28-34	9,303	1-Dec-13	Fixed	411	427	Net	4.0
385 Bourke Street, Melbourne	Herbert Geer	Part level 23, 19-21	4,065	1-Oct-13	Fixed	400	416	Net	4.0
385 Bourke Street, Melbourne	IRESS	17-18	2,448	1-Jul-13	Fixed	404	418	Net	3.5
385 Bourke Street, Melbourne	Robert Walters	41	1,389	1-Dec-13	Fixed	477	495	Net	3.8
385 Bourke Street, Melbourne	FIS Australasia	27	1,287	1-Oct-13	Fixed	425	442	Net	4.0
385 Bourke Street, Melbourne	Herbert Geer	22	1,283	1-Oct-13	Fixed	429	446	Net	4.0
385 Bourke Street, Melbourne	Piper Alderman	24	1,227	1-Jul-13	Fixed	398	413	Net	3.8
385 Bourke Street, Melbourne	Regus	Part level 39	977	1-Dec-13	Fixed	484	503	Net	4.0
385 Bourke Street, Melbourne	IRESS	Part level 26	832	1-Sep-13	Fixed	413	431	Net	4.3
385 Bourke Street, Melbourne (Galleria)	Commonwealth Bank of Australia	Retail	1,121	8-Nov-13	Fixed	1,039	1,049	Gross	1.0
655 Collins Street, Melbourne	Fairfax Media	Whole building	16,620	9-Dec-13	Fixed	384	393	Net	2.4
750 Collins Street, Melbourne	AMP	Part level 2, 4-10	37,029	1-Dec-13	Fixed	416	430	Net	3.5
750 Collins Street, Melbourne	Penguin Child Care	Part level 1	1,031	1-Dec-13	Fixed	461	477	Net	3.5
Queensland									
10 Eagle Street, Brisbane	BDO Services	5-6	1,818	1-Oct-13	Fixed	738	768	Gross	4.0
10 Eagle Street, Brisbane	Tarong Energy Corporation	9,10	1,789	1-Jul-13	Fixed	480	499	Gross	4.0
10 Eagle Street, Brisbane	Bow Energy	26	954	29-Oct-13	Fixed	686	714	Gross	4.0
10 Eagle Street, Brisbane	Rider Levett Bucknall	13	911	1-Oct-13	Fixed	666	692	Gross	4.0
10 Eagle Street, Brisbane	Arrow Energy	3	909	1-Oct-13	Fixed	944	992	Gross	5.0
10 Eagle Street, Brisbane	BDO Services	4	909	1-Oct-13	Fixed	944	992	Gross	5.0
10 Eagle Street, Brisbane	QIC	2	909	1-Oct-13	Fixed	944	992	Gross	5.0
10 Eagle Street, Brisbane	Willis Australia	1	819	15-Dec-13	Fixed	627	652	Gross	4.0
10 Eagle Street, Brisbane	CPA Australia	Part level 29	795	1-Sep-13	Fixed	810	842	Gross	4.0
10 Eagle Street, Brisbane	CPA Australia	Part level 29	795	1-Sep-13	Fixed	810	842	Gross	4.0
10 Eagle Street, Brisbane	Adani Mining	Part level 19	515	1-Jul-13	Fixed	703	731	Gross	4.0
145 Ann Street, Brisbane	GHD	3-10	8,882	15-Sep-13	Fixed	625	648	Gross	3.8
145 Ann Street, Brisbane	Credit Union Australia Limited	21-24	5,734	3-Nov-13	Fixed	650	678	Gross	4.3
145 Ann Street, Brisbane	Grant Thornton	16-19	4,571	1-Nov-13	Fixed	650	678	Gross	4.3
145 Ann Street, Brisbane	Queensland Government	26-27	2,300	23-Nov-13	Fixed	725	756	Gross	4.3
145 Ann Street, Brisbane	Credit Union Australia Limited	25	1,148	3-Nov-13	Fixed	675	704	Gross	4.3
145 Ann Street, Brisbane	Mills Oakley	14	1,104	15-Sep-13	Fixed	675	700	Gross	3.8
145 Ann Street, Brisbane	GHD	2	1,005	15-Sep-13	Fixed	575	597	Gross	3.8
Western Australia									
46 Colin St, West Perth	IAG	Whole building	8,760	7-Oct-13	Fixed	580	609	Net	5.0
58 Mounts Bay Road, Perth	Euroz Securities	18	1,570	2-Jul-13	Fixed	573	599	Net	4.5
South Australia									
11 Waymouth Street, Adelaide	SA Government	12,15	3,192.0	1-Nov-13	Fixed	515	533	Gross	3.5

* 100% ownership basis

Commonwealth Property Office Fund

Appendix 3 - Calculation of net property income and like-for-like net property income



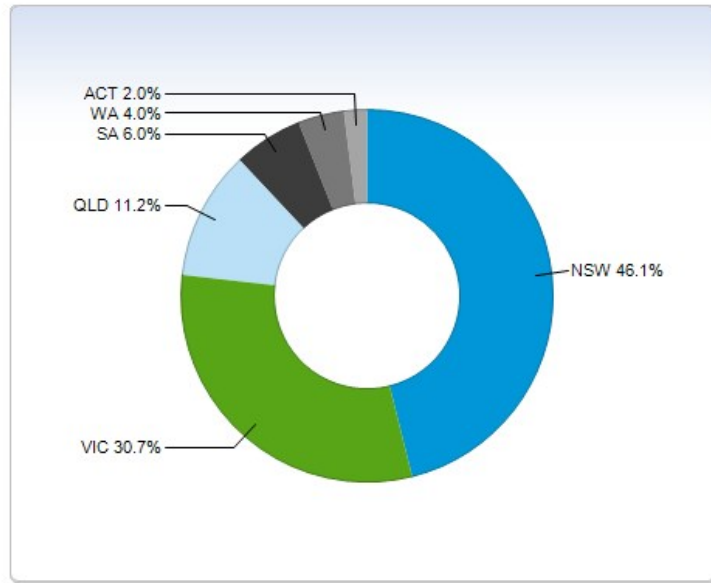
For the six months ended	31-Dec-13 \$m	31-Dec-12 \$m	Change %
Extracted from Statement of Comprehensive Income in the Interim Report			
Rental and other property income	169.3	158.0	7.2
Share of net profits from associates before fair value adjustments	11.9	13.6	(12.5)
Rates, taxes and other outgoings	(40.4)	(38.6)	2.3
Repairs and maintenance	(4.6)	(5.4)	
	136.2	127.6	
Adjustments:			
- straight-lining revenue ¹	(1.6)	(2.9)	
Net property income	134.6	124.7	8.0
Like-for-like adjustments:			
Net property income from development-affected properties ²	(24.7)	(18.6)	
Net property income adjustment for changes in ownership of properties ³	(5.0)	(5.0)	
Like-for-like net property income	104.9	101.1	3.7

1. Refer to Note 2 of the Interim Report for further detail.

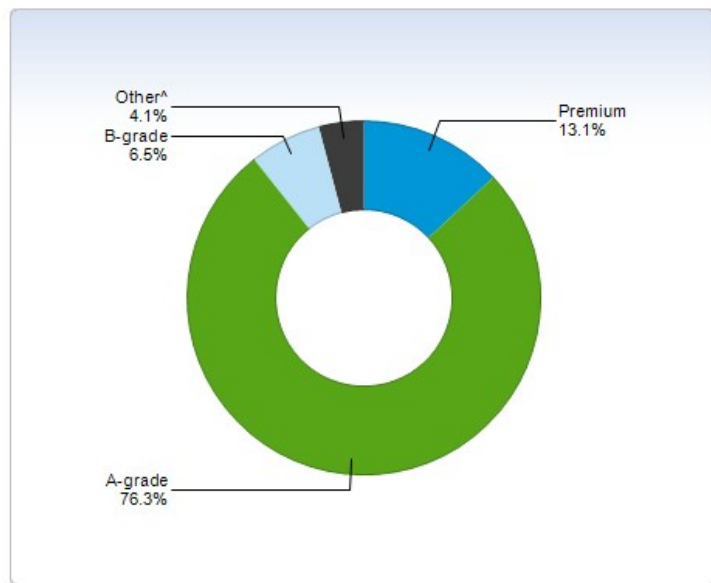
2. Properties have been excluded from the like-for-like calculation where income has been significantly affected by development in either year. Properties excluded are: 145 Ann Street, Brisbane; 5 Martin Place, Sydney; 385 Bourke Street, Melbourne and 180 Lonsdale Street, Melbourne.

3. Properties have been excluded from the like-for-like calculation where there was a change in ownership in either period. Properties excluded are: 201 Kent Street, Sydney and 45 Pirie Street, Adelaide.

CPA portfolio geographic diversification (by value)
as at 31 December 2013

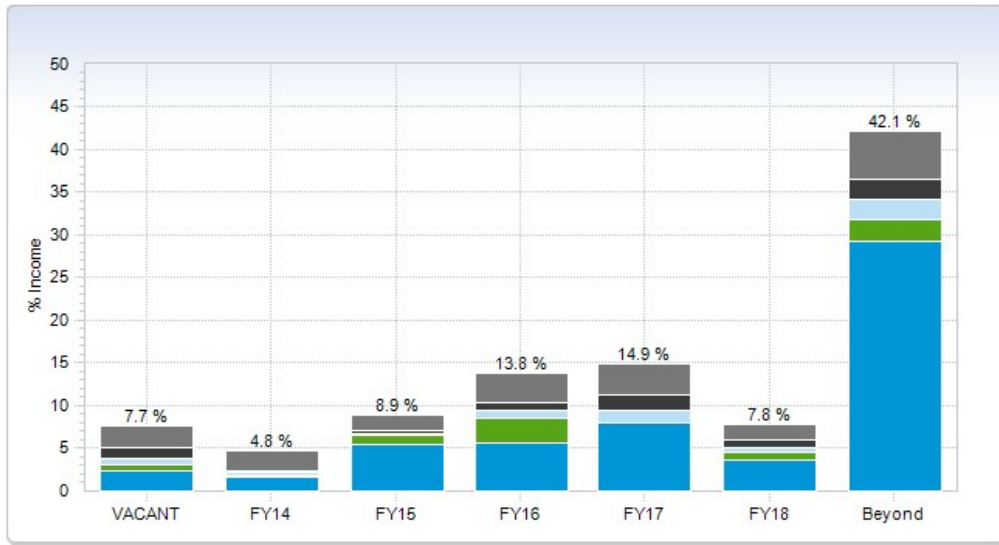


CPA portfolio grade diversification (by value)
as at 31 December 2013



^ QV retail, car park and creche.

Lease expiry profile (by income)
as at 31 December 2013



	VACANT	FY14	FY15	FY16	FY17	FY18	Beyond
■	385 Bourke 2.6%	SA Government 2.4% (108 North Terrace)	NSW Government 1.8% (14-18 Lee)	KPMG 3.4% (10 Shelley)	Federal Government 3.6% (Customs House, Allara House, 11 Waymouth)	IAG 1.8% (46 Colin)	AMP 5.5% (750 Collins)
■	180 Lonsdale 1.2%	Fitness First 0.3% (175 Pitt Retail)	KBR 0.3% (201 Kent)	Ashurst 1.0% (225 George)	PricewaterhouseCoopers 1.9% (2 Southbank)	Unisuper 1.0% (385 Bourke)	Telstra 2.4% (222 Lonsdale)
■	225 George 0.8%	The Donnington Group 0.2% (56 Pitt)	RMB 0.3% (60 Castlereagh)	Herbert Geer 0.8% (385 Bourke)	SA Government 1.4% (11 Waymouth)	Korn Ferry 0.4% (60 Castlereagh)	Fairfax Media 2.3% (655 Collins)
■	10 Eagle 0.8%	Commonwealth Bank 0.2% (385 Bourke)	Commonwealth Bank 1.1% (101 George)	Commonwealth Bank 2.9% (150 George)	Commonwealth Bank 0.0%	Commonwealth Bank 0.9% (2 Dawn Fraser)	Commonwealth Bank 2.6% (4 Dawn Fraser, 101 George)
■	Other 2.3%	Other 1.7%	Other 5.4%	Other 5.7%	Other 8.0%	Other 3.7%	Other 23.9%

Property	Occupancy by income %	Weighted average lease expiry by income years	Average passing rent (occupied office) ¹ \$/sqm	Over/ (Under) renting %	Leases expiring by 30-Jun-14 by income ² %
Australian Capital Territory					
Finlay Crisp Centre, Canberra	100.0	3.6	413	n.a	0.0
New South Wales					
60 Castlereagh Street, Sydney	94.5	5.7	842	2.8	5.5
2 and 4 Dawn Fraser Avenue, Sydney Olympic Park	100.0	4.4	339	(9.5)	5.4
36 George Street, Burwood	100.0	4.8	430	(3.2)	0.0
101 George Street, Parramatta	100.0	3.0	507	2.8	0.4
150 George Street, Parramatta	100.0	1.8	478	2.0	0.0
225 George Street, Sydney	86.4	5.1	1,075	2.8	13.1
201 Kent Street, Sydney	96.5	4.1	721	1.0	10.2
14 Lee Street, Sydney	100.0	1.7	497	(16.9)	0.0
5 Martin Place, Sydney		currently under development			
201 Miller Street, North Sydney	91.2	2.7	608	(1.1)	9.7
56 Pitt Street, Sydney	86.8	2.4	813	5.8	20.3
175 Pitt Street, Sydney (excl. retail)	100.0	5.4	751	3.8	0.0
10 Shelley Street, Sydney	100.0	2.0	878	14.8	0.5
Queensland					
145 Ann Street, Brisbane ³	100.0	8.5	680	0.4	0.0
10 Eagle Street, Brisbane	85.8	2.8	759	8.1	15.0
South Australia					
108 North Terrace, Adelaide	100.0	0.1	556	14.4	100.0
11 Waymouth Street, Adelaide	97.8	3.5	522	3.2	2.2
Victoria					
385 Bourke Street, Melbourne (excl. Galleria)	68.5	3.1	561	(2.7)	35.1
655 Collins Street, Melbourne	100.0	15.8	501	(4.6)	0.0
750 Collins Street, Melbourne	98.6	5.6	537	0.9	1.4
180-222 Lonsdale Street, Melbourne ⁴	72.4	4.4	520	(1.0)	27.8
2 Southbank Boulevard, Melbourne	100.0	3.1	585	(2.2)	0.0
Western Australia					
46 Colin Street, West Perth	100.0	3.7	757	9.8	0.0
58 Mounts Bay Road, Perth	100.0	7.7	861	(4.7)	0.0
Total portfolio average	92.3	4.3	614	1.4	12.5

Key

1. Represents base rent plus recoveries, including increases over base years.
2. Includes vacancies and holdovers and represents leases expiring in the six months to 30 June 2014.
3. The development of 145 Ann Street, Brisbane completed in November 2012.
4. Office component only.

Property	NPI components for six months to 31 December 2013 (\$m)						NPI components for six months to 31 December 2012 (\$m)						Total NPI variance	
	NPI (pre amortisation)	Rent free incentives amortisation	Fit-out amortisation	Cash incentives amortisation	Leasing commissions amortisation	Total NPI	NPI (pre amortisation)	Rent free incentives amortisation	Fit-out amortisation	Cash incentives amortisation	Leasing commissions amortisation	Total NPI	\$m	%
Australian Capital Territory														
Finlay Crisp Centre, Canberra [^]	4.5	0.4	(0.8)	-	0.1	4.8	4.9	0.4	0.1	-	0.1	4.3	0.5	10.8
New South Wales														
60 Castlereagh Street, Sydney [^]	7.6	0.4	0.6	-	0.1	6.5	6.9	0.2	0.6	-	0.1	6.1	0.4	6.6
36 George Street, Burwood [^]	2.6	0.3	0.1	-	0.1	2.1	2.4	0.3	0.2	-	0.1	1.8	0.3	17.0
101 George Street, Parramatta [^]	4.1	0.1	0.9	-	0.0	3.2	3.8	0.1	0.9	-	0.0	2.8	0.3	11.8
150 George Street, Parramatta [^]	3.9	0.0	0.6	-	0.0	3.3	4.4	-	0.7	-	0.0	3.7	(0.5)	(12.8)
201 Kent Street, Sydney	5.8	0.4	0.5	0.0	0.1	4.9	-	-	-	-	-	-	4.9	-
14 Lee Street, Sydney [^]	3.0	-	0.1	-	0.0	2.9	2.8	-	0.1	-	0.0	2.7	0.2	8.3
5 Martin Place, Sydney ²	1.1	-	-	-	-	1.1	(0.6)	-	-	-	-	(0.6)	1.7	(299.3)
201 Miller Street, North Sydney [^]	2.7	0.1	0.2	-	0.1	2.3	2.3	0.0	0.1	-	0.1	2.1	0.2	9.2
56 Pitt Street, Sydney [^]	4.7	0.2	0.1	-	0.2	4.2	5.1	0.1	0.4	-	0.2	4.5	(0.3)	(5.7)
175 Pitt Street, Sydney [^]	8.7	0.3	1.8	0.0	0.2	6.4	7.8	0.3	1.6	0.0	0.2	5.7	0.7	12.8
10 Shelley Street, Sydney [^]	6.3	-	-	-	0.0	6.3	6.0	-	-	-	0.0	6.0	0.3	4.2
Queensland														
145 Ann Street, Brisbane ³	7.9	0.0	0.2	-	-	7.7	3.3	-	-	-	0.0	3.3	4.3	129.9
10 Eagle Street, Brisbane [^]	7.2	0.1	0.1	-	0.0	7.0	7.8	0.1	0.0	-	0.0	7.6	(0.6)	(7.9)
South Australia														
108 North Terrace, Adelaide [^]	4.3	-	-	-	-	4.3	4.2	-	-	-	-	4.2	0.2	4.0
45 Pirie St, Adelaide ⁴	0.1	-	-	-	-	0.1	3.5	0.1	0.3	-	0.0	3.0	(2.9)	(96.3)
11 Waymouth Street, Adelaide [^]	6.3	0.0	0.0	-	0.0	6.3	5.6	0.0	0.0	-	0.0	5.6	0.7	12.5
Victoria														
385 Bourke Street, Melbourne ⁵	14.7	0.1	1.2	-	0.2	13.2	13.4	0.1	1.2	-	0.2	11.9	1.3	10.8
655 Collins Street, Melbourne [^]	3.4	-	-	-	-	3.4	3.3	-	-	-	-	3.3	0.1	3.7
750 Collins Street, Melbourne [^]	8.9	0.0	0.0	-	0.0	8.9	9.0	0.0	0.0	-	(0.0)	9.0	(0.1)	(1.3)
QV Centre (excl 180 Lonsdale Street), Melbourne [^]	8.0	-	-	-	0.1	7.9	7.5	-	-	-	0.1	7.4	0.5	6.6
180 Lonsdale Street, Melbourne ⁶	2.7	-	-	-	0.0	2.7	3.9	-	-	-	-	3.9	(1.2)	(31.0)
2 Southbank Boulevard, Melbourne [^]	7.2	0.2	0.3	0.0	0.0	6.7	7.3	0.1	0.3	-	0.0	6.9	(0.2)	(3.2)
Western Australia														
46 Colin Street, West Perth [^]	2.6	-	0.0	-	0.1	2.5	1.7	-	0.0	-	0.0	1.7	0.8	49.0
58 Mounts Bay Road, Perth [^]	4.0	0.0	0.0	-	-	4.0	3.9	0.0	0.0	-	-	3.9	0.1	2.6
197 St Georges Terrace, Perth ⁷	-	-	-	-	-	-	0.1	-	-	-	-	0.1	(0.1)	
Total	132.4	2.5	5.9	0.0	1.3	122.7	120.4	1.7	6.6	0.0	1.1	111.1	11.6	10.4
Distribution income from investments in equity accounted investments														
Grosvenor Place Holdings Trust [^]	9.8	0.2	0.8	-	0.1	8.7	9.8	0.2	1.0	-	0.1	8.6	0.1	0.9
Kent Street Trust ¹	-	-	-	-	-	-	3.0	0.3	0.8	0.0	0.1	1.8	(1.8)	
Site 6 Homebush Bay Trust [^]	1.3	-	-	-	(0.0)	1.3	1.4	-	-	-	-	1.4	(0.1)	(9.3)
Site 7 Homebush Bay Trust [^]	1.9	-	-	-	-	1.9	1.8	-	-	-	-	1.8	0.1	7.6
Total	13.1	0.2	0.8	-	0.1	11.9	16.0	0.5	1.8	0.0	0.1	13.6	(1.7)	(12.5)
GRAND TOTAL	145.5	2.7	6.7	0.0	1.5	134.6	136.4	2.2	8.3	0.0	1.2	124.7	9.9	8.0
Like-for-like total⁸						104.9						101.1	3.7	3.7

[^] Indicates properties held throughout the period 1 July 2012 to 31 December 2013 excluding development-affected properties

1. On 10 April 2013, the Fund acquired the remaining 50% interest in the Kent Street Trust. It has been determined that the Fund's 100% holding represents control. As such, the Kent Street Trust was fully consolidated from this date.

2. 5 Martin Place, Sydney is currently under development and is expected to be completed in early 2015.

3. The development of 145 Ann Street, Brisbane completed in November 2012.

4. In June 2013, the Fund sold its interest in 45 Pirie Street, Adelaide.

5. Refurbishment of 385 Bourke Street, Melbourne (former CBA space) commenced during the current period and is expected to be completed in August 2014.

6. Refurbishment of 180 Lonsdale Street, Melbourne (levels 19-28) commenced during the current period and is expected to be completed in April 2014.

7. In December 2011, the Fund sold its interest in 197 St George Terrace, Perth

8. Only includes investments as indicated by [^] above.

Commonwealth Property Office Fund

Valuation information by property

As at 31 December 2013



Property	CPA share %	Company	Valuation date	\$m	Discount rate ¹ %	Terminal yield %	Capitalisation rate %
Australian Capital Territory							
Finlay Crisp Centre, Canberra							
- Allara House	100	JLL	Oct 13	21.0	10.00	9.50	9.25
- Customs House	100	JLL	Oct 13	31.5	10.00	9.50	9.25
- Nara Centre	100	JLL	Oct 13	25.0	9.75	9.00	8.75
New South Wales							
60 Castlereagh Street, Sydney	100	JLL	Oct 13	251.5	8.75	7.00	6.75
2 Dawn Fraser Avenue, Sydney Olympic Park	50	m3	Dec-13	48.5	9.25	8.25	8.00
4 Dawn Fraser Avenue, Sydney Olympic Park	50	m3	Dec-13	36.0	9.25	8.00	7.75
36 George Street, Burwood	100	m3	Oct 13	51.2	9.25	8.75	8.75
101 George Street, Parramatta	100	JLL	Oct 13	96.0	9.00	8.00	7.75
150 George Street, Parramatta	100	CBRE	Sep 13	99.5	9.75	8.75	8.50
225 George Street, Sydney	25	KF	Dec-13	277.5	8.75	6.38	6.25
201 Kent Street, Sydney	50	KF	Oct 13	162.5	8.88	7.50	7.25
14 Lee Street, Sydney	100	Sav	Sep 13	67.5	9.75	8.75	8.50
5 Martin Place, Sydney ²	50	KF	Dec-13	63.7			
201 Miller Street, North Sydney	100	Sav	Sep 13	78.5	9.50	8.75	8.50
56 Pitt Street, Sydney	100	KF	Oct 13	173.0	8.75	7.25	7.13
175 Pitt Street, Sydney							
- Tower	100	CI	Oct 13	182.5	8.75	7.38	7.25
- Retail	100	CI	Oct 13	70.0	8.75	6.63	6.50
10 Shelley Street, Sydney	50	Sav	Oct 13	108.0	8.75	7.13	7.00
Queensland							
145 Ann Street, Brisbane	100	KF	Oct 13	230.0	9.00	7.20	7.05
10 Eagle Street, Brisbane	100	CI	Oct 13	201.3	9.00	7.50	7.50
South Australia							
108 North Terrace, Adelaide	100	JLL	Sep 13	68.5	9.75	8.50	8.50
11 Waymouth Street, Adelaide	100	KF	Sep 13	160.0	9.25	8.25	8.00
Victoria							
385 Bourke Street, Melbourne							
- Tower	100	CBRE	Sep 13	249.0	9.00	7.50	7.25
- Galleria	100	CBRE	Sep 13	66.0	9.00	7.00	6.75
655 Collins Street, Melbourne	100	Sav	Oct 13	103.0	9.00	7.00	6.75
750 Collins Street, Docklands	100	m3	Oct 13	253.0	8.75	7.50	7.25
180-222 Lonsdale Street, Melbourne							
- 180 Lonsdale Street, Melbourne	50	JLL	Oct 13	101.3	9.00	7.50	7.50
- 222 Lonsdale Street, Melbourne	50	JLL	Oct 13	44.3	8.75	7.50	7.50
- QV Retail Centre, Melbourne	50	JLL	Oct 13	125.0	9.00	7.00	6.75
- QV Centre car park, Melbourne	50	JLL	Oct 13	33.3	9.50	7.50	7.25
- QV Creche, Melbourne	100	JLL	Oct 13	3.9			9.00
2 Southbank Boulevard, Melbourne	50	CI	Oct 13	195.0	8.75	7.13	6.88
Western Australia							
46 Colin Street, West Perth	100	Sav	Oct 13	44.0	10.25	10.00	9.75
58 Mounts Bay Road, Perth	50	KF	Oct 13	109.0	9.50	8.00	7.75
Total portfolio weighted average rates					9.01	7.51	7.33

Note

1. Used to calculate discounted cash flow valuation over 10 years.

Valuation company legend

CBRE	CB Richard Ellis
CI	Colliers International
JLL	Jones Lang LaSalle
KF	Knight Frank
m3	m3 Property
Sav	Savills

Commonwealth Property Office Fund
Reconciliation of book values by property (\$m)

For the six months ended 31 December 2013



Property	Book value as at 30-Jun-13	Acquisitions/ (Divestments)	Capex	Leasing fees and incentives paid	Amortisation of fit-out incentives, cash incentives and leasing commissions	Amortisation of rent free incentives	Straight-lining revenue	Independent revaluation changes	AIFRS revaluation changes	Book value as at 31-Dec-13
Australian Capital Territory										
Finlay Crisp Centre, Canberra	77.5	-	0.4	(0.9)	0.7	(0.4)	(0.1)	0.4	0.1	77.6
New South Wales										
60 Castlereagh Street, Sydney	247.8	-	0.9	3.2	(0.7)	(0.4)	0.2	2.3	(0.2)	253.2
36 George Street, Burwood	52.1	-	0.6	0.8	(0.2)	(0.3)	0.0	(1.0)	(0.0)	52.0
101 George Street, Parramatta	93.0	-	0.0	-	(0.9)	(0.1)	(0.2)	3.6	0.2	95.7
150 George Street, Parramatta	98.9	-	1.0	-	(0.6)	(0.0)	(0.3)	0.4	0.3	99.7
201 Kent Street, Sydney	160.4	-	0.3	0.1	(0.6)	(0.4)	(0.1)	2.5	0.1	162.4
14 Lee Street, Sydney	70.1	-	0.0	-	(0.1)	-	(0.0)	(2.5)	0.0	67.5
5 Martin Place, Sydney	52.5	-	12.7	-	-	-	-	(1.5)	-	63.7
201 Miller Street, North Sydney	74.1	-	0.4	0.1	(0.3)	(0.1)	0.1	4.3	(0.1)	78.5
56 Pitt Street, Sydney	168.7	-	1.9	1.5	(0.3)	(0.2)	0.1	2.4	(0.1)	174.0
175 Pitt Street, Sydney	245.5	-	0.1	0.2	(2.0)	(0.3)	0.5	8.4	(0.5)	251.9
10 Shelley Street, Sydney	108.0	-	0.0	-	(0.0)	-	(0.6)	0.0	0.6	108.0
Queensland										
145 Ann Street, Brisbane	221.8	-	0.4	-	(0.2)	(0.0)	1.5	8.0	(1.5)	230.1
10 Eagle Street, Brisbane	209.5	-	3.2	0.2	(0.1)	(0.1)	0.4	(10.4)	(0.4)	202.3
South Australia										
108 North Terrace, Adelaide	73.8	-	0.6	-	-	-	(0.4)	(5.3)	0.4	69.1
11 Waymouth Street, Adelaide	155.0	-	0.1	0.1	(0.0)	(0.0)	0.0	4.9	(0.0)	160.1
Victoria										
385 Bourke Street, Melbourne	302.6	-	3.5	0.0	(1.4)	(0.1)	(0.3)	12.4	0.3	317.1
655 Collins Street, Melbourne	100.0	-	0.0	-	-	-	0.0	3.0	(0.0)	103.0
750 Collins Street, Melbourne	240.0	-	0.1	0.0	(0.0)	(0.0)	0.6	13.0	(0.6)	253.1
180-222 Lonsdale Street, Melbourne	296.4	-	5.2	0.3	(0.1)	-	0.1	10.4	(0.1)	312.2
2 Southbank Boulevard, Melbourne	182.9	-	0.2	0.7	(0.3)	(0.2)	(0.3)	11.8	0.3	195.0

Commonwealth Property Office Fund
Reconciliation of book values by property (\$m)

For the six months ended 31 December 2013



	Book value as at 30-Jun-13	Acquisitions/ (Divestments)	Capex	Leasing fees and incentives paid	Amortisation of fit- out incentives, cash incentives and leasing comissions	Amortisation of rent free incentives	Straight-lining revenue	Independent revaluation changes	AIFRS revaluation changes	Book value as at 31-Dec-13
Property										
Western Australia										
46 Colin Street, West Perth	44.0	-	0.1	-	(0.1)	-	-	0.0	-	43.9
58 Mounts Bay Road, Perth	102.9	-	0.0	-	(0.0)	(0.0)	0.5	6.1	(0.5)	109.0
Total	3,377.5	-	31.8	6.3	(7.2)	(2.5)	1.6	73.2	(1.6)	3,479.1
Investments in equity accounted investments										
Grosvenor Place Holdings Trust ¹	275.1	1.6	-	-	-	-	-	1.6	-	278.2
Site 6 Homebush Bay Trust ²	35.6	-	-	-	-	-	-	0.4	-	36.0
Site 7 Homebush Bay Trust ³	48.2	-	-	-	-	-	-	0.4	-	48.6
Total	358.9	1.6	-	-	-	-	-	2.4	-	362.8
GRAND TOTAL	3,736.4	1.6	31.8	6.3	(7.2)	(2.5)	1.6	75.5	(1.6)	3,841.9

1. The Fund indirectly owns 25% of 225 George Street, Sydney via units in Grosvenor Place Holdings Trust. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of the Grosvenor Place Holdings Trust.

2. The Fund indirectly owns 50% of 4 Dawn Fraser Avenue, Sydney Olympic Park via units in Site 6 Homebush Bay Trust. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of Site 6 Homebush Bay Trust.

3. The Fund indirectly owns 50% of 2 Dawn Fraser Avenue, Sydney Olympic Park via units in Site 7 Homebush Bay Trust. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of Site 7 Homebush Bay Trust.

Key debt statistics

Total borrowings ¹	\$965.4m
Borrowings as a proportion of total assets ²	24.9%
Weighted average interest rate (including margins and line fees)	5.6%
Weighted average debt maturity ³	3.2 years
Portion of debt hedged ⁴	94.3%
Weighted average interest rate on hedged debt (excluding margins and fees) ⁴	5.1%
Weighted average maturity of hedged debt ⁴	3.5 years

Credit rating

	Short term	Long term
- Moody's	P-2	A3
- Standard & Poor's	A-2	A-

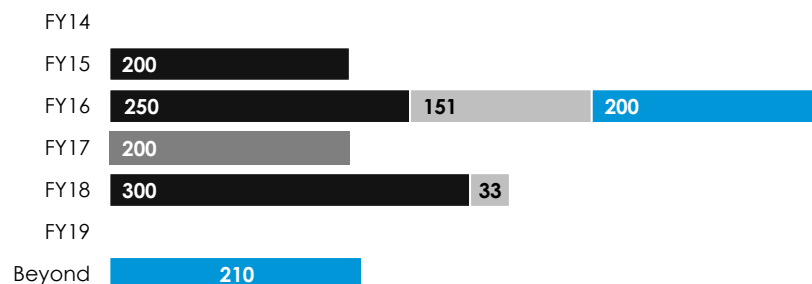
Debt position as at 31 December 2013³ (AUD)

Type	Maturity	Facility size \$m	Drawn \$m	Undrawn \$m
Bank debt facility	Jun-15	200.0	-	200.0
Bank debt facility	Jan-16	250.0	-	250.0
Bank debt facility	Apr-18	300.0	171.5	128.5
Medium term notes	Mar-16	200.0	200.0	-
Medium term notes	Dec-19	185.0	185.0	-
Medium term notes	Dec-22	25.0	25.0	-
Convertible notes ⁵	Dec-16	200.0	200.0	-
US Private Placement ⁶	Dec-15	150.6	150.6	-
US Private Placement ⁶	Dec-17	33.3	33.3	-
Total		1,543.9	965.4	578.5

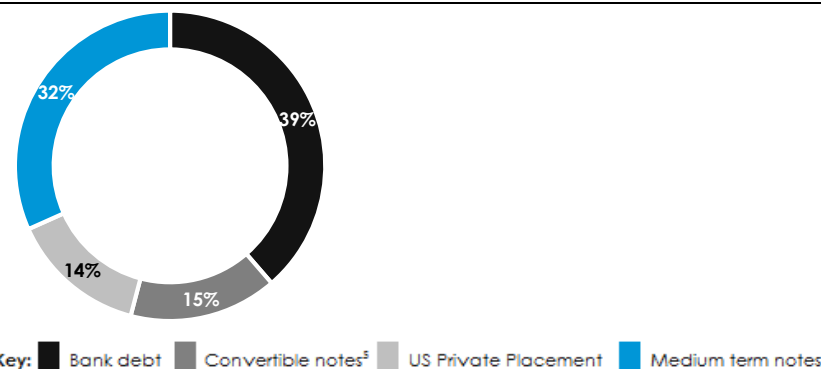
Notes:

- Borrowings is the amount of debt drawn as per Note 6 of the Interim Report equal to \$951.9 million, adjusted for the value of cross currency swaps of \$13.5 million liability.
- Total assets exclude the fair value of derivative financial instruments of \$2.2 million.
- Including a \$250 million facility executed post 31 December 2013.
- Including all fixed-rate debt.
- Convertible note investors have a put option on 11 December 2014.
- Converted to AUD at AUD/USD 0.7505.

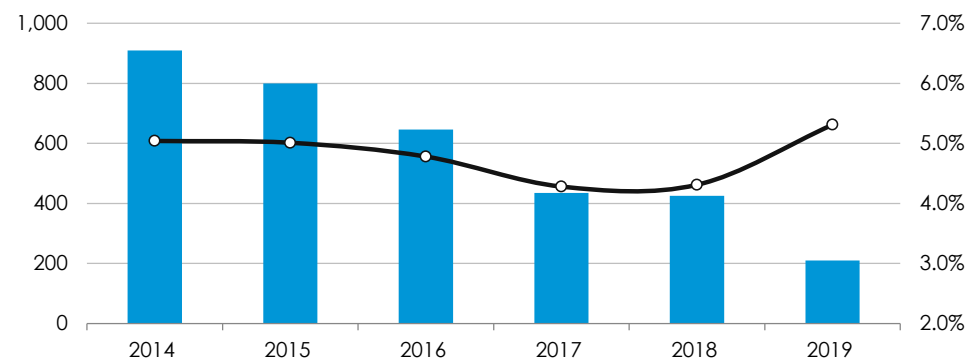
Debt maturity profile^{3, 5} \$m



Sources of debt



Hedge maturity profile for the financial years ended⁴



Key: Face value of hedges (\$m) (LHS) Weighted average interest rate on hedge debt (RHS)

**COMMONWEALTH PROPERTY OFFICE FUND
(ARSN 086 029 736)**

**INTERIM REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the financial year ended 30 June 2013 and any public announcements made by the Commonwealth Property Office Fund during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

COMMONWEALTH PROPERTY OFFICE FUND

DIRECTORS' REPORT

The Directors of Commonwealth Managed Investments Limited (CMIL), the Responsible Entity for the Commonwealth Property Office Fund (CPA), present their report together with the financial statements of Commonwealth Property Office Fund for the half-year ended 31 December 2013.

1.1. Directors

The names of the Directors of the Responsible Entity in office at any time during the half-year and up to the date of this report are:

(i) Chairman – Non-executive Director

R M Haddock AM (independent)

(ii) Non-executive Directors

J F Kropp (independent)

N J Milne OAM (independent)

R E Griffiths

(iii) Executive Director

M J Venter

All Directors were in office from the beginning of the half-year until the date of this report.

1.2. Principal activities

CPA is a registered managed investment scheme domiciled in Australia and has its principal place of business at Level 4, Tower 1, 201 Sussex Street, Sydney, New South Wales 2000.

The Responsible Entity of CPA is incorporated and domiciled in Australia and has its registered office at Ground Floor, Tower 1, 201 Sussex Street, Sydney, New South Wales 2000.

The principal activity of CPA and its controlled entities (the 'Fund') is investment in Australian office property in major markets. There were no significant changes in the nature of the Fund's activity during the half-year.

1.3. Distributions

The total distribution declared but not paid for the half-year to 31 December 2013 is 3.50 cents per unit (Dec 2012: 3.20 cents per unit).

1.4. Review and results of operations

The Fund operates as an externally managed office sector specific Australian Real Estate Investment Trust (A-REIT), with a mandate to invest in quality office buildings located in central business districts and major suburban markets in Australia. The Fund is focused on providing long-term sustainable returns for unitholders through actively managing assets, disciplined investment decisions, prudent capital management and investing responsibly, with a leading approach to corporate governance.

The Fund seeks opportunities to enhance rental growth by developing or refurbishing its office buildings to take advantage of tenant demand. The Fund periodically acquires assets that improve the long-term earnings prospects of the portfolio and sells assets where it believes capital might best be deployed elsewhere. The Fund targets a modest gearing level of 25% to 35%. This allows the Fund to take on some leverage which can enhance income returns for unitholders.

COMMONWEALTH PROPERTY OFFICE FUND

DIRECTORS' REPORT

1.4. Review and results of operations (continued)

(i) Financial results

Key financial highlights over the half-year include:

- The consolidated net profit for the half-year ended 31 December 2013 increased by 175.0% to \$152.1 million (Dec 2012: \$55.3 million), reflecting an increase in fair value adjustments to investment properties, partially offset by fair value adjustments to derivatives and a performance fee expense.
- From 1 July 2012, the performance of the Fund is measured by the following: net profit, Funds From Operations (FFO) and distribution per unit. FFO is an earnings measure which is assessed on profit under Australian Accounting Standards adjusted for fair value adjustments, certain unrealised and non-cash items, and amounts that are non-recurring or capital in nature. It does not represent cash flow from operations as defined by Australian Accounting Standards, should not be considered as an alternative to consolidated net profit and is not an alternative to cash flows as a measure of liquidity.

The consolidated net profit in the reported result has been adjusted for fair value adjustments, certain unrealised and non-cash items, amounts that are non-recurring or capital in nature and any other items in accordance with the Fund's Constitution to arrive at FFO for the half-year ended 31 December 2013 of \$103.8 million (Dec 2012: \$103.3 million). A reconciliation of net profit to FFO and distribution paid and payable is provided below:

	Consolidated 31 Dec 2013 \$m	Consolidated 31 Dec 2012 \$m
Total revenue and other income	256.2	170.2
Net profit for the half-year	152.1	55.3
Adjustments:		
- straight-lining revenue	(1.6)	(2.9)
- fair value adjustments from investment properties and equity accounted investments	(74.0)	33.1
- other fair value adjustments to derivatives	9.2	3.9
- non-cash convertible notes interest expense	3.1	2.8
- amortisation of fit-out incentives, cash incentives and leasing commissions	8.2	9.5
- transaction costs	2.8	-
- movement in fair value of unrealised performance fee	2.8	-
- other items	1.2	1.6
Funds From Operations (FFO)	103.8	103.3
Other adjustments:		
- Responsible Entity's realised performance fee ⁽¹⁾	5.7	-
- amount withheld in accordance with distribution policy ⁽²⁾	(27.4)	(28.2)
Distribution paid and payable	82.1	75.1
	Consolidated 31 Dec 2013	Consolidated 30 Jun 2013
Value of the Fund's total assets (\$m)	3,876.4	3,773.2
Net tangible asset backing per unit (\$) ⁽³⁾	1.17	1.15

(1) The Directors determined to pay the performance fee out of retained earnings.

(2) From 1 July 2012, the Fund will distribute 70% to 80% of FFO or the Fund's taxable income, whichever is greater, for any financial period. Prior to 1 July 2012, the Fund distributed either 70% to 80% of Distributable Income, or the Fund's taxable income, whichever was greater, for any financial period.

(3) Net tangible asset backing per unit is calculated by dividing the total equity attributable to unitholders of the Fund by the number of ordinary units on issue.

COMMONWEALTH PROPERTY OFFICE FUND

DIRECTORS' REPORT

1.4. Review and results of operations (continued)

(i) Financial results (continued)

- In June 2013, the Property Council of Australia (PCA) issued the Voluntary Best Practice Guidelines for disclosing FFO and AFFO. There are two main differences between these guidelines and the Fund's policy in determining FFO. The Fund adds back the amortisation of leasing commissions to net profit in reaching FFO and does not adjust for amortisation of rent free incentives. The Fund did not adopt 'Property Council FFO' as it is monitoring the reaction of market participants to the new guidelines.
- Rental and other property income, net of straight-lining revenue and property-related expenses, being rates, taxes and other outgoings, repairs and maintenance, increased by 10.4% to \$122.7 million (Dec 2012: \$111.1 million). The increase was predominantly driven by the completion of 145 Ann Street, Brisbane in November 2012 and the acquisition of an additional 50% interest in the Kent Street Trust in April 2013 which was partly offset by the sale of 45 Pirie Street, Adelaide in June 2013.
- For the half-year ended 31 December 2013, the Fund will pay a distribution of \$82.1 million (Dec 2012: \$75.1 million), equivalent to 79.1% of FFO (or 75.0% excluding realised performance fees), in line with the Fund's distribution policy. The distribution for the half-year equates to 3.50 cents per unit (Dec 2012: 3.20 cents per unit). The increase of 9.4% was driven by increases in rental income, a number of one-off favourable outcomes and a marginally higher pay-out ratio.
- Total assets increased by 2.7% to \$3,876.4 million (Jun 2013: \$3,773.2 million), reflecting an increase in property values.
- Net assets increased by 1.7% to \$2,748.8 million (Jun 2013: \$2,703.4 million), resulting in a net tangible asset backing per unit (NTA) at 31 December 2013 of \$1.17 (Jun 2013: \$1.15). The increase in NTA was primarily due to the revaluation of properties.
- All of the Fund's 25 properties were independently valued during the period to assist in the determination of fair value, contributing to a net revaluation gain included within net profit of \$74.0 million (Dec 2012: \$33.1 million loss). The valuation increase reflects leasing successes, improved market fundamentals and strong transactional evidence. Some of the key contributors to this movement were 750 Collins Street, Melbourne (\$13.0 million), 385 Bourke Street, Melbourne (\$12.4 million), 2 Southbank Boulevard, Melbourne (\$11.8 million), 180-222 Lonsdale, Melbourne (\$10.4 million) and 175 Pitt Street, Sydney (\$8.4 million). This was offset by a \$10.4 million loss at 10 Eagle Street, Brisbane which was impacted by more conservative valuation assumptions reflecting the challenging market conditions in Brisbane.
- Included within the net profit is a net loss on the fair value of the conversion option within the convertible notes of \$9.2 million (Dec 2012: nil). The fair value of interest rate swaps remained unchanged (Dec 2012: \$3.9 million loss). The swaps have been effective in meeting their objective of providing the Fund with greater certainty of financing costs.
- For the six months to 31 December 2013, the Fund outperformed the S&P ASX 200 Property Accumulation Index (the 'Index') by 18.9 percentage points. In accordance with the Trust Deed, the performance fee is determined on the Fund's relative performance since the last period in which a performance fee was accrued, being 31 December 2010. Since this period, the Fund has outperformed by 3.75 percentage points and, as such, the Fund has recognised a performance fee payable for the six months ended 31 December 2013 together with a liability for carried over outperformance of 2.08%.

(ii) Operations

Key operational highlights over the half-year include:

- The Fund executed leases over 59,831 sqm of space.
- The Fund continued the redevelopment of 5 Martin Place, Sydney. The amount spent to date is \$42.8 million. The redevelopment is expected to be completed in early 2015.
- Extensive refurbishment of 180 Lonsdale Street, Melbourne commenced in August 2013. Works are estimated at \$16 million and will involve the refurbishment of 10 office levels and will incorporate a foyer upgrade.

COMMONWEALTH PROPERTY OFFICE FUND DIRECTORS' REPORT

1.4. Review and results of operations (continued)

(ii) Operations (continued)

- In September 2013, the Fund commenced a major refurbishment of 385 Bourke Street, Melbourne. The \$57 million project involves the complete refurbishment of 15 levels, foyer upgrade and retail arcade refurbishment. The project is expected to be completed in August 2014.
- The \$22 million refurbishment of 108 North Terrace, Adelaide commenced in December 2013 and is expected to be completed in June 2015.

(iii) Capital management

Key capital management highlights over the half-year include:

- The Fund maintained a competitive weighted average interest rate of 5.6% at 31 December 2013 (Jun 2013: 5.6%).
- As at 31 December 2013, the Fund's borrowings were 94.3% hedged (Jun 2013: 95.9%). It is the Fund's policy that derivatives are used for hedging purposes only and not as speculative or trading instruments.
- Subsequent to reporting date, a new two year \$250.0 million cash advance facility was entered into, taking the Fund's weighted average duration of debt to 3.2 years (Jun 2013: 3.9 years) and increasing undrawn cash advance facilities expiring beyond one year to \$578.5 million. Undrawn facilities will be used to fund various working capital commitments including the development at 5 Martin Place, Sydney and to refinance the potential conversion of the convertible notes.

The Fund's principal debt covenants and corresponding results at 31 December 2013 are as follows:

	Covenant	Actual
Loan to value ratio (LVR) ⁽¹⁾	45% or less	28.4%
Interest cover ratio (ICR) ⁽²⁾	2.0 times or greater	4.3 times

(1) LVR is calculated as total liabilities divided by total assets excluding the effect of the option component of the convertible notes and the impact of the mark to market of the derivative financial instruments.

(2) ICR is calculated as earnings before interest divided by net interest expense. For the purposes of this calculation, earnings represent net profit excluding all fair value adjustments, straight-lining revenue, borrowing costs and net interest expense on interest rate swaps. Interest expense is the sum of borrowing costs, net interest expense on interest rate swaps, and capitalised interest, less non-cash convertible notes interest expense.

1.5. Significant changes in the state of affairs

On 24 July 2013, the CMIL Board announced it had received a highly conditional, indicative and incomplete proposal from Commonwealth Bank of Australia (the 'Bank') to internalise the management of the Fund.

The CMIL Board established a sub-committee of Independent Directors, being Richard Haddock AM, Nancy Milne OAM and James Kropp, to consider the proposal.

On 11 October 2013, DEXUS Property Group (DEXUS) and Canada Pension Plan Investment Board (together, the 'Consortium') announced an indicative, non-binding proposal to acquire all of the outstanding units in the Fund. The CMIL Board determined this proposal did not provide a compelling value proposition for the Fund's unitholders and did not progress with the proposal.

On 8 November 2013, CMIL advised that following further discussions and negotiations with the Consortium since the initial proposal was rejected, a revised proposal with improved terms had been agreed with the Consortium. CMIL entered into a Process Agreement with the Consortium on 8 November 2013. Under the Process Agreement, CMIL granted the Consortium a four-week period to conduct due diligence on an exclusive basis. Evaluation of the internalisation proposal received from the Bank was suspended at that stage as it was inferior to the Consortium revised proposal.

On 19 November 2013, the GPT Group announced its intention to make an off-market takeover offer for all outstanding units in the Fund. As the Consortium did not match the offer received from GPT, CMIL terminated the Process Agreement with the Consortium. CMIL agreed that the Consortium could undertake further due diligence on the Fund on a non-exclusive basis until 9 December 2013 under the Confidentiality Agreement signed between CMIL and the Consortium.

COMMONWEALTH PROPERTY OFFICE FUND

DIRECTORS' REPORT

1.5. Significant changes in the state of affairs (continued)

On 3 December 2013, the GPT Group lodged its off-market takeover bid statement with the Australian Securities and Investments Commission (ASIC) and the ASX Limited (ASX).

On 11 December 2013, the Consortium announced its intention to make a cash and scrip off-market takeover offer to acquire all of the issued units in the Fund.

On 19 December 2013, the DEXUS Group lodged its off-market takeover bid statement with ASIC and the ASX.

On 24 December 2013, CMIL lodged the Target's Statement in response to the off-market takeover bid by GPT. In view of the Consortium's superior off-market takeover offer the CMIL Independent Directors recommended that the Fund's unitholders do not accept the GPT Group offer.

Please refer to section 1.6 for events subsequent to the half-year ended 31 December 2013.

In the opinion of the Directors, there were no significant changes in the state of affairs of the Fund that occurred during the half-year under review, other than those matters stated in this report.

1.6. Matters subsequent to the end of the half-year

On 6 January 2014, the Bidder's Statement issued by the Consortium dated 19 December 2013 and a supplementary Bidder's Statement dated 6 January 2013 were despatched to CPA unitholders.

On 10 January 2014, a notice of variation and a second supplementary Bidder's Statement in relation to the Consortium's offer was sent to CPA unitholders. This offer (DEXUS Offer) provided two alternative forms of Offer Consideration:

- Option A: \$0.7745 cash and 0.4516 DEXUS securities per CPA unit, or
- Option B: \$0.8496 cash and 0.3801 DEXUS securities per CPA unit.

On 17 January 2014, CMIL lodged the Target's Statement in response to the off-market takeover bid by DEXUS. Having carefully considered the DEXUS Offer, the Independent Directors unanimously recommended that CPA unitholders accept the DEXUS Offer in the absence of a superior proposal. The Independent Directors did not make a recommendation as to which alternative Offer Consideration CPA unitholders should elect to receive. CPA unitholders could choose Option A if they prefer greater exposure to the enlarged DEXUS Property Group (which is expected to include most of CPA's assets) as this option included a larger component of DEXUS securities as compared to Option B. Alternatively, CPA unitholders preferring a higher proportion of cash could choose Option B.

On 17 January 2014, CMIL gave notice that should a conversion notice be duly lodged in respect of any CPA convertible notes during the DEXUS Offer period that ends on 7 February 2014, CMIL will exercise the cash settlement option to satisfy in full its obligation to convert these notes into CPA units.

On 17 January 2014, CMIL announced that the performance fee for the performance fee period ended 31 December 2013 is expected to be paid in cash by 28 February 2014 (given that any issue of CPA units requires the approval of CPA unitholders in accordance with the Listing Rules and the issue of CPA units in these circumstances could have breached conditions of the current takeover offer).

On 28 January 2014, the Fund executed a new two year \$250 million bank facility to refinance the potential conversion of the convertible notes. The potential cash settlement amount of these notes as at 31 December 2013 was \$225.6 million which will vary subject to the prevailing conversion price and traded CPA unit price at the time the conversion is exercised.

On 29 January 2014, the Consortium announced that the DEXUS Offer was unconditional. The DEXUS Offer was also extended to close on 14 February 2014.

On 12 February 2014, Dexus notified ASX that its relevant interest in CPA units increased to 54.26% of the total number of CPA units on issue as at 11 February 2014. Accordingly, Dexus and Canada Pension Plan Investment Board now effectively control CPA, having an ability to remove and replace CMIL as Responsible Entity and having significant influence over the outcome of CPA unitholder meetings.

COMMONWEALTH PROPERTY OFFICE FUND DIRECTORS' REPORT

1.6. Matters subsequent to the end of the half-year (continued)

On 12 February 2014, the Fund announced an adjustment to the conversion price for the \$200 million convertible notes. As a result of the change of control event on 11 February, the conversion price has changed from \$1.1182 to \$1.0154 for the duration of the change of control period, which ends on 12 March 2014. Furthermore, CMIL is required under the Note terms to exercise the cash settlement option in respect of any conversion notice that is received during the change of control event period, and will exercise the cash settlement option for any conversion notice received thereafter. Any conversion notice received after 12 March 2014 will be processed in accordance with the higher conversion price being \$1.1182.

On 14 February 2014, the DEXUS Offer was extended to close on 28 February 2014.

The Directors of the Responsible Entity are not aware of any other matters or circumstances occurring after the reporting date which may affect either the Fund's operations or the results of those operations or the state of affairs of the Fund, not otherwise disclosed in this report.

1.7. Rounding of amounts

The Fund is of a kind referred to in Class Order 98/100, issued by ASIC, relating to the 'rounding off' of amounts in the Directors' report. Accordingly, amounts in the Directors' report have been rounded off to the nearest tenth of a million dollars (\$m) in accordance with that Class Order, unless stated otherwise.

1.8. Auditor's independence declaration

A declaration of independence, as required under section 307C of the Corporations Act 2001, has been provided by our auditor, PricewaterhouseCoopers, and is set out on page 7.

This report is signed in accordance with the resolution of the Directors of Commonwealth Managed Investments Limited.



R M Haddock AM
Director

Sydney
18 February 2014



Auditor's Independence Declaration

As lead auditor for the review of Commonwealth Property Office Fund for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Commonwealth Property Office Fund and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'TJO Peel', with a horizontal flourish underneath.

TJO Peel
Partner
PricewaterhouseCoopers

18 February 2014
Sydney

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COMMONWEALTH PROPERTY OFFICE FUND

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2013

	Note	Consolidated 31 Dec 2013 \$m	Consolidated 31 Dec 2012 \$m
Revenue			
Rental and other property income		169.3	158.0
Interest income		0.2	0.3
Alignment fee income/(expense)		0.6	(0.1)
Other revenue		0.2	0.4
		170.3	158.6
Other income			
Share of net profits from equity accounted investments before fair value adjustments		11.9	13.6
Share of equity accounted investments gain/(loss) from fair value adjustments		2.4	(2.0)
Share of net profit accounted for using the equity method		14.3	11.6
Fair value adjustments to investment properties	4(b)	71.6	-
Total revenue and other income		256.2	170.2
Expenses			
Net interest expense/(income) on derivatives		0.8	(0.3)
Other fair value adjustments to derivatives		9.2	3.9
Net loss on derivatives		10.0	3.6
Fair value adjustments to investment properties		-	31.1
Rates, taxes and other outgoings		40.4	38.6
Repairs and maintenance		4.6	5.4
Borrowing costs		29.1	26.6
Responsible Entity's base fee		8.6	8.4
Responsible Entity's performance fee	8	8.5	-
Auditor's remuneration		0.2	0.2
Other expenses		2.7	1.0
Total expenses		104.1	114.9
Net profit for the half-year		152.1	55.3
Other comprehensive income		-	-
Total comprehensive income for the half-year		152.1	55.3
Basic earnings per unit (cents)		6.49	2.35
Diluted earnings per unit (cents)		6.72	2.51

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

COMMONWEALTH PROPERTY OFFICE FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	Consolidated 31 Dec 2013 \$m	Consolidated 30 Jun 2013 \$m
Current assets			
Cash and cash equivalents		6.3	9.6
Receivables		21.8	20.2
Derivatives		2.2	2.2
Other assets		4.2	4.8
Total current assets		34.5	36.8
Non-current assets			
Investment properties	4	3,479.1	3,377.5
Equity accounted investments	5	362.8	358.9
Total non-current assets		3,841.9	3,736.4
Total assets		3,876.4	3,773.2
Current liabilities			
Payables		44.9	53.5
Distribution payable		82.1	78.6
Responsible Entity's base fees payable		4.4	4.3
Responsible Entity's performance fees payable	8	8.5	-
Interest bearing liabilities	6	192.4	100.0
Derivatives		47.4	17.0
Total current liabilities		379.7	253.4
Non-current liabilities			
Interest bearing liabilities	6	747.9	816.4
Total non-current liabilities		747.9	816.4
Total liabilities		1,127.6	1,069.8
Net assets		2,748.8	2,703.4
Equity			
Contributed equity	7	2,358.7	2,383.3
Reserves		390.1	320.1
Total equity		2,748.8	2,703.4

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

COMMONWEALTH PROPERTY OFFICE FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2013

	Note	Consolidated 31 Dec 2013 \$m	Consolidated 31 Dec 2012 \$m
Cash flows from operating activities			
Rental and other property income received		190.0	168.5
Dividend received		0.1	0.2
Distributions received		10.0	12.0
Interest income received		0.2	0.3
Payments to suppliers		(79.3)	(62.3)
Borrowing costs paid		(25.7)	(26.6)
Net interest (expense)/income on interest rate swaps		(0.8)	0.4
Net cash flows from operating activities		94.5	92.5
Cash flows from investing activities			
Payments for property developments and improvements		(35.7)	(76.7)
Proceeds from disposal of investment properties	4(b)	-	4.7
Net cash flows used in investing activities		(35.7)	(72.0)
Cash flows from financing activities			
Proceeds from interest bearing liabilities		365.5	606.0
Repayment of interest bearing liabilities		(349.0)	(554.1)
Distributions paid		(78.6)	(75.1)
Net cash flows used in financing activities		(62.1)	(23.2)
Net decrease in cash and cash equivalents held		(3.3)	(2.7)
Cash and cash equivalents at the beginning of the half-year		9.6	8.2
Cash and cash equivalents at the end of the half-year		6.3	5.5

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

COMMONWEALTH PROPERTY OFFICE FUND

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2013

	Note	Contributed equity \$m	Reserves \$m	Total \$m
Total equity as at 30 June 2013		2,383.3	320.1	2,703.4
Net profit for the half-year		-	152.1	152.1
Other comprehensive income		-	-	-
Total comprehensive income for the half-year		-	152.1	152.1
Transactions with unitholders in their capacity as unitholders:				
Reclassification of conversion rights on convertible notes		(24.6)	-	(24.6)
Distributions payable	3	-	(82.1)	(82.1)
Total equity as at 31 December 2013		2,358.7	390.1	2,748.8

	Note	Contributed equity \$m	Reserves \$m	Total \$m
Total equity as at 30 June 2012		2,383.3	328.4	2,711.7
Net profit for the half-year		-	55.3	55.3
Other comprehensive income		-	-	-
Total comprehensive income for the half-year		-	55.3	55.3
Transactions with unitholders in their capacity as unitholders:				
Distributions payable	3	-	(75.1)	(75.1)
Total equity as at 31 December 2012		2,383.3	308.6	2,691.9

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

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

1. Summary of significant accounting policies

This interim financial report is for Commonwealth Property Office Fund (the 'parent entity' or 'CPA') and its controlled entities (together the 'Fund') for the half-year ended 31 December 2013.

(a) Basis of preparation

The interim report for the half-year ended 31 December 2013 is a general purpose financial report and has been prepared in accordance with the Fund Constitution, Accounting Standard AASB 134 Interim Financial Reporting, other applicable accounting standards, other mandatory professional reporting requirements, and the Corporations Act 2001. CPA is a for-profit entity for the purpose of preparing this financial interim report.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2013 Annual Report and any public announcements issued during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The interim report of the Fund for the half-year ended 31 December 2013 is presented in Australian dollars (\$) and was approved by the Board of Directors on 18 February 2014. The Directors have the power to amend and reissue the interim report.

Although the Fund has a net current deficiency (current liabilities exceed current assets) at reporting date, the Fund has sufficient current undrawn borrowing facilities (refer to notes 6 and 10) and operating cash flows to meet this deficit. The interim report is therefore prepared on a going concern basis.

New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, apart from policies affected by the adoption of the following new standards which became mandatory in the interim reporting period commencing 1 July 2013:

- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 27 Separate Financial Statements
- AASB 128 Investments in Associates and Joint Ventures
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements
- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
- AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
- AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures

The adoption of these standards did not materially impact any of the amounts recognised in the financial statements of the Fund but introduced new disclosures for the interim report. The changes to the Fund's accounting policies resulting from adoption of the new standards are as follows.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

New accounting standards and interpretations (continued)

i. Controlled entities

Under the new control principles established by AASB 10, the Fund is deemed to control those entities for which it 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 over the entity. Controlled entities are fully consolidated from the date on which control is transferred to the Fund and, where applicable, deconsolidated from the date on which control ceases.

Adoption of AASB 10 did not result in any changes in determining which entities the Fund controls.

ii. Joint arrangements

Under AASB 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Fund has assessed the nature of its joint arrangements and determined to have both joint operations and joint ventures.

Jointly controlled assets

The Fund's interest in jointly controlled assets qualify as joint operations under AASB 11, and the Fund continues to account for its share of, and direct right to, revenues, expenses, assets and liabilities under the appropriate headings in the consolidated statement of financial position and statement of comprehensive income (rather than as a separate line item). Adoption of AASB 11 has not resulted in any changes to the Fund's accounting for its interests in jointly controlled assets. Refer to note 4 for jointly controlled assets.

Joint venture entities

Investments in joint venture entities are accounted for in the consolidated statement of financial position using the equity method. Under this method, the joint venture investment in the statement of financial position is carried at cost plus post-acquisition changes in the Fund's share of the entity's net assets, less any impairment in value. The Fund's share of the entity's net profit after income tax expense is recognised in the consolidated statement of comprehensive income. Distributions received from joint venture entities are recognised in the consolidated financial report as a reduction in the carrying amount of the investment. Under AASB 11, the Fund accounts for its investment in Grosvenor Place Holdings Trust, Site 6 and Site 7 Homebush Bay Trusts, PIF Managed Property Pty Limited and Grosvenor Place Pty Limited as joint venture entities. These investments were previously accounted for and disclosed as associates using the equity method.

iii. Fair value measurement of financial assets and liabilities

AASB 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously, the fair value of financial assets and liabilities (including derivatives) was measured on the basis that the financial asset or liability would be settled or extinguished with the counterparty. AASB 13 has clarified that fair value is an exit price notion and, as such, the fair value of financial assets and liabilities should be determined based on a transfer value to a third party market participant. As a result, the fair value of derivative assets and liabilities has changed immaterially on transition to AASB 13, largely due to incorporating credit risk into the valuation. Under AASB 13, the change to the fair value of the derivative assets and liabilities is applied prospectively, with no restatement of comparative amounts.

AASB 13 has also introduced additional disclosure requirements (refer to note 9).

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(b) Critical accounting estimates and judgements

The preparation of the financial statements requires the Responsible Entity to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The Responsible Entity bases its judgements and estimates on historical experience and other various factors it believes to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which form the basis of the carrying values of assets and liabilities. As such, actual results could differ from those estimates.

The areas where a higher degree of judgement or complexity arises, or areas where assumptions and estimates are significant to the Fund's financial statements, are detailed below:

i. Valuation of investment properties and equity accounted investments

Critical judgements are made by the Responsible Entity in respect of the fair values of investment properties (including properties under development and properties classified as 'held for sale'). The fair values of these investments are reviewed regularly by the Responsible Entity with reference to external independent property valuations, recent offers and market conditions existing at reporting date.

At reporting date, the key assumptions used by the Fund in determining fair value for the Fund's investment properties, excluding properties under development, are outlined below:

	31 Dec 2013	30 Jun 2013
Weighted average discount rate	9.01%	9.17%
Weighted average terminal yield	7.51%	7.72%
Weighted average capitalisation rate	7.33%	7.55%
Expected vacancy period range	6 to 21 months	6 to 21 months
Rental growth rate range	2.50% to 4.50%	2.00% to 4.70%

All of the above key assumptions have been taken from the most recent independent valuation reports for the assets in the portfolio. If there is any change in these assumptions or regional or national economic conditions, the fair value of investment properties may differ.

The Fund continues to obtain independent valuations of properties at least annually, with the latest valuation details set out in note 4.

ii. Valuation of performance fees

The Responsible Entity is entitled to a performance fee when the Fund outperforms the S&P ASX 200 Property Accumulation Index customised to remove the effect of the Fund on the index.

Although the amount of the performance fee to be paid each six-month period is capped, any outperformance in prior periods may be carried over and used in the calculation of the performance fee in future periods. The fair value of the 'carry-over' outperformance has been determined as the present value of future cash flows, based upon assumptions relating to the probability of paying capped performance fees in future periods and an appropriate discount rate. Therefore, the actual future performance fee may differ from the fair value of the 'carry-over' outperformance if any of these assumptions change. In a period where the 'carry-over' equates to nil or is negative, the fair value of future performance fees is nil. Refer to notes 8 and 9(b).

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(b) Critical accounting estimates and judgements (continued)

iii. Valuation of derivatives and foreign currency denominated notes

The fair value of derivatives and foreign currency denominated notes is based on certain assumptions about future events and involves significant estimates. The Fund determines the fair value of derivatives and foreign currency denominated notes using a generally accepted pricing model based on a discounted cash flow analysis which uses assumptions supported by observable market rates. Whilst certain derivatives are not quoted in an active market, the Fund's valuation technique makes the maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Data inputs that the Fund relies upon when valuing derivatives and foreign currency denominated notes relate to interest rates, volatility, counterparty credit risk, foreign exchange rates, the Fund's unit price and option strike price. Volatility in global financial markets makes it difficult to estimate with certainty the present value of the estimated future cash flows. Therefore the fair value of derivatives and foreign currency denominated notes reported at 31 December 2013 may differ if there is volatility in interest rates, foreign exchange rates or the Fund's unit price in the future.

Periodically, the Fund calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (ie without modification) or based on any available observable market data. The determination of fair value of derivatives and foreign currency denominated notes is described further in note 9.

(c) Rounding of amounts

The Fund is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission (ASIC). Accordingly, amounts shown in the financial report have been rounded off to the nearest tenth of a million dollars (\$m), unless stated otherwise.

2. Segment information

The Fund operates in one segment, being office property in Australia.

This operating segment has been determined based on internal reports provided to the Fund Manager, Mr Charles Moore, and the Managing Director Property, Mr Angus McNaughton, being the Fund's chief operating decision makers.

From 1 July 2012, the performance of the Fund is based on the following measures: net profit, Funds From Operations (FFO) and distribution per unit. FFO is an earnings measure which is assessed on profit under Australian Accounting Standards adjusted for fair value adjustments, certain unrealised and non-cash items and amounts that are non-recurring or capital in nature. It does not represent cash flow from operations as defined by Australian Accounting Standards, should not be considered as an alternative to consolidated net profit and is not an alternative to cash flows as a measure of liquidity.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

2. Segment information (continued)

The consolidated net profit in the reported result has been adjusted for fair value adjustments, certain unrealised and non-cash items, amounts that are non-recurring or capital in nature and any other items in accordance with the Fund's Constitution to arrive at FFO for the half-year ended 31 December 2013 of \$103.8 million (Dec 2012: \$103.3 million). A reconciliation of net profit to FFO and distribution paid and payable (used in calculating the distribution per unit) is provided below:

	Note	Consolidated 31 Dec 2013 \$m	Consolidated 31 Dec 2012 \$m
Total revenue and other income		256.2	170.2
Net profit for the half-year		152.1	55.3
Adjustments:			
- straight-lining revenue ⁽¹⁾		(1.6)	(2.9)
- fair value adjustments from investment properties and equity accounted investments ⁽²⁾		(74.0)	33.1
- other fair value adjustments to derivatives ⁽³⁾		9.2	3.9
- non-cash convertible notes interest expense ⁽⁴⁾	6(a)	3.1	2.8
- amortisation of fit-out incentives, cash incentives and leasing commissions ⁽⁵⁾		8.2	9.5
- transaction costs ⁽⁶⁾		2.8	-
- movement in fair value of unrealised performance fee ⁽⁷⁾	8	2.8	-
- other items ⁽⁸⁾		1.2	1.6
Funds From Operations (FFO)⁽⁹⁾		103.8	103.3
Other adjustments:			
- Responsible Entity's realised performance fee ⁽¹⁰⁾		5.7	-
- amount withheld in accordance with distribution policy ⁽¹¹⁾		(27.4)	(28.2)
Distribution paid and payable	3	82.1	75.1

The material adjustments to the net profit to arrive at FFO for the half-year shown in the interim report are described below:

- (1) Straight-lining rental revenue, which is required by Australian Accounting Standards, is an unrealised non-cash amount. As such, it has been excluded to better reflect FFO.
- (2) Movements in the fair value of investment properties are required by Australian Accounting Standards for valuation purposes and include realised and unrealised gains and losses. Movements in the value of the underlying assets of the Fund's investments in equity accounted investments are required by Australian Accounting Standards but do not reflect the cash distributions received from these investments. As such, these amounts have been excluded to better reflect FFO.
- (3) Fair value movements in derivatives comprise mark-to-market movements required by Australian Accounting Standards for valuation purposes, including realised and unrealised amounts. These movements have been excluded to better reflect FFO.
- (4) The difference between the actual coupon paid on the Fund's convertible notes and the interest expense calculated at the market rate for an equivalent non-convertible bond is required to be recognised by Australian Accounting Standards. As it represents a non-cash amount, it has been excluded to better reflect FFO.
- (5) Amortisation of fit-out incentives, cash incentives and leasing commissions are non-cash amounts. The amounts have been excluded to better reflect FFO for the period.
- (6) The Fund has incurred costs in relation to a number of proposals such as a proposal to internalise management received from the Commonwealth Bank, the GPT Group takeover proposal and the various proposals from the DEXUS Property Group and Canada Pension Plan Investment Board (the 'Consortium'). These costs are one-off transaction costs and have been excluded to better reflect FFO.
- (7) Fair value movements in the carry-over of unrealised performance fees are required by Australian Accounting Standards for valuation purposes, but are unrealised non-cash amounts. These movements have been excluded to better reflect FFO.
- (8) For the half-year ended 31 December 2013, this item relates to the following:

On 3 August 2011, the Fund exchanged contracts to sell a 50% interest in 5 Martin Place, Sydney. As part of the negotiation, the Fund was granted a call option to acquire a 50% interest in 8 Exhibition Street, Melbourne, exercisable between 1 July 2012 and 30 June 2013 at market value. On 26 June 2013, the Fund entered into an agreement to sell the option. The sale proceeds of \$1.2 million were received by the Fund in August 2013. This amount was excluded from 30 June 2013 FFO and included in 31 December 2013 FFO to better reflect payment terms.

For the half-year ended 31 December 2012, the one-off adjustment of \$1.6 million relates to 145 Ann Street, Brisbane, which was anticipated to reach practical completion in July 2012 but achieved practical completion in November 2012. As a result of the delay in practical completion, the capitalised coupon income received and capitalised interest incurred from July 2012 to November 2012 has been added back to net profit to reflect income earned from the building post July 2012.
- (9) From 1 July 2012, the performance of the Fund is based on FFO which replaced Distributable Income. The adoption of FFO provides a more relevant basis for comparison with other REITs given it is a more widely recognised measure than Distributable Income.
- (10) The Directors determined to pay the performance fee out of retained earnings.
- (11) From 1 July 2012, the Fund distributes 70% to 80% of FFO or the Fund's taxable income, whichever is greater, for any financial period.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

2. Segment information (continued)

In June 2013, the Property Council of Australia (PCA) issued the Voluntary Best Practice Guidelines for disclosing FFO and AFFO. There are two main differences between these guidelines and the Fund's policy in determining FFO. The Fund adds back the amortisation of leasing commissions to net profit in reaching FFO and does not adjust for amortisation of rent free incentives. The Fund did not adopt 'Property Council FFO' as it is monitoring the reaction of market participants to the new guidelines.

The information provided to the Fund Manager in respect of total assets and total liabilities is measured in a manner consistent with the relevant accounting policies and is presented in the same manner as the consolidated statement of financial position.

The operating segment derives all its revenue in Australia primarily from the rental of office space from a large number of tenants. Only one tenant or group under common control, being Commonwealth Bank of Australia (the 'Bank'), contributed more than 10% of the Fund's revenues in the six months to 31 December 2013. The total revenue contributed by the Bank for the half-year is \$20,970,719 (Dec 2012: \$22,320,020).

3. Unitholders' distribution

Distributions declared and provided by the Fund during the half-year are:

	31 Dec 2013		31 Dec 2012	
	\$m	cents/unit	\$m	cents/unit
Distribution payable - February	82.1	3.50	75.1	3.20

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

4. Investment properties

Name	Ownership %	Original purchase date	Latest independent valuation date	Independent valuation ⁽¹⁾ \$m	Additions/ (disposals) since valuation ⁽¹⁾ \$m	Book value 31 Dec 13 \$m	Book value 30 Jun 13 \$m
Non-current							
ACT							
Finlay Crisp Centre, Canberra ⁽²⁾	100	Apr-99	Oct-13	77.5	0.1	77.6	77.5
NSW							
60 Castlereagh Street, Sydney	100	Oct-02	Oct-13	251.5	1.7	253.2	247.8
36 George Street, Burwood	100	Apr-99	Oct-13	51.2	0.8	52.0	52.1
101 George Street, Parramatta	100	Jan-05	Oct-13	96.0	(0.3)	95.7	93.0
150 George Street, Parramatta	100	Oct-02	Sep-13	99.5	0.2	99.7	98.9
14 Lee Street, Sydney ⁽²⁾	100	Oct-02	Sept-13	67.5	-	67.5	70.1
201 Miller Street, North Sydney	100	Jun-03	Sep-13	78.5	-	78.5	74.1
56 Pitt Street, Sydney	100	Oct-02	Oct-13	173.0	1.0	174.0	168.7
5 Martin Place, Sydney	50	Apr-99	Dec-13	63.7	-	63.7	52.5
175 Pitt Street, Sydney	100	Apr-99	Oct-13	252.5	(0.6)	251.9	245.5
10 Shelley Street, Sydney	50	Dec-03	Oct-13	108.0	-	108.0	108.0
201 Kent Street, Sydney ⁽²⁾	25	Dec-00	Oct-13	162.5	(0.1)	162.4	160.4
	25	Apr-13					
SA							
108 North Terrace, Adelaide	100	Oct-05	Sep-13	68.5	0.6	69.1	73.8
11 Waymouth Street, Adelaide	100	Dec-04	Sep-13	160.0	0.1	160.1	155.0
QLD							
145 Ann Street, Brisbane ⁽²⁾	100	Nov-09	Oct-13	230.0	0.1	230.1	221.8
10 Eagle Street, Brisbane	100	Jun-12	Oct-13	201.3	1.0	202.3	209.5
VIC							
385 Bourke Street, Melbourne	100	Apr-99	Sep-13	315.0	2.1	317.1	302.6
2 Southbank Boulevard, Melbourne	50	Jul-03	Oct-13	195.0	-	195.0	182.9
655 Collins Street, Melbourne	100	Nov-10	Oct-13	103.0	-	103.0	100.0
180-222 Lonsdale Street, Melbourne	50	Nov-10	Oct-13	307.7	4.5	312.2	296.4
750 Collins Street, Melbourne	100	Dec-10	Oct-13	253.0	0.1	253.1	240.0
WA							
46 Colin Street, West Perth ⁽²⁾	100	Apr-02	Oct-13	44.0	(0.1)	43.9	44.0
58 Mounts Bay Road, Perth	50	Jun-10	Oct-13	109.0	-	109.0	102.9
Investment properties						3,479.1	3,377.5

(1) Valuation excludes additions and disposals subsequent to the last independent valuation. Additions/(disposals) since valuation includes the cost of properties purchased and the carrying amount of properties sold. It also includes capital expenditure and payments of incentives and leasing fees, net of amortisation since valuation. For a summary of significant estimates and assumptions used in valuations, refer to note 1(b)(i).

(2) The titles to these properties are leasehold. The remaining lease terms range from 84 to 119 years. Only 46 Colin Street, West Perth has ongoing lease commitments.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

4. Investment properties (continued)

(a) Details of valuers

Property	Valuer	Qualifications	Company
Finlay Crisp Centre, Canberra ACT	S Celica	AAPI	Jones Lang LaSalle
60 Castlereagh Street, Sydney NSW	M Smallhorn	FAPI	Jones Lang LaSalle
36 George Street, Burwood NSW	A Duguid	AAPI	M3Property
101 George Street, Parramatta NSW	P Rhodes	AAPI	Jones Lang LaSalle
150 George Street, Parramatta NSW	R Anderson	AAPI	CBRE
14 Lee Street, Sydney NSW	L Alvis	AAPI	Savills
201 Miller Street, North Sydney NSW	R Nicolson	AAPI	Savills
56 Pitt Street, Sydney NSW	T Miles	AAPI	Knight Frank
5 Martin Place, Sydney NSW	D Castles	FAPI	Knight Frank
175 Pitt Street, Sydney NSW	C Mortimer	AAPI	Colliers
10 Shelley Street, Sydney NSW	L Alvis	AAPI	Savills
201 Kent Street, Sydney	T Miles	AAPI	Knight Frank
108 North Terrace, Adelaide SA	T Gornall	FAPI	Jones Lang LaSalle
11 Waymouth Street, Adelaide SA	C Simons	AAPI	Knight Frank
145 Ann Street, Brisbane QLD	P Zischke	AAPI	Knight Frank
10 Eagle Street, Brisbane QLD	C Clayworth	AAPI	Colliers
385 Bourke Street, Melbourne VIC	A Lett	AAPI	CBRE
2 Southbank Boulevard, Melbourne VIC	P Volakos	AAPI	Colliers
46 Colin Street, West Perth WA	M Foster-Key	AAPI	Savills
58 Mounts Bay Road, Perth WA	M Crowe	AAPI	Knight Frank
180-222 Lonsdale Street, Melbourne VIC	M Reynolds	AAPI	Jones Lang LaSalle
750 Collins Street, Melbourne VIC	G Londgen	FAPI	M3Property
655 Collins Street, Melbourne VIC	F Lynch	AAPI	Savills

(b) Reconciliations

Investment properties

A reconciliation of the carrying amount of investment properties at the beginning and end of the current period are set out below:

	Consolidated 31 Dec 2013 \$m	Consolidated 30 Jun 2013 \$m
Opening balance	3,377.5	3,229.8
Additions – capital expenditure	30.7	102.6
Additions – interest capitalised ⁽¹⁾	1.1	3.2
Additions – asset acquisitions	-	81.5
Disposals	-	(90.9)
Investment property reclassified from investment in associate	-	78.2
Revaluations	71.6	(38.1)
Leasing fees and incentives deferred	6.3	24.9
Amortisation of leasing fees and incentives	(9.7)	(19.7)
Movement in straight-lining rental income asset	1.6	6.0
Closing balance	3,479.1	3,377.5

(1) Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate ranging from 5.4% to 5.6% (Jun 2013: 5.4% to 5.6%).

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

4. Investment properties (continued)

(c) Capital commitments

Estimated capital expenditure contracted for at reporting date, but not provided for:

	Consolidated 31 Dec 2013 \$m	Consolidated 30 Jun 2013 \$m
Not later than one year	96.7	51.0
Later than one year and not later than five years	45.5	61.0
Total capital commitments⁽¹⁾	142.2	112.0

(1) As at 31 December 2013, the Fund's capital commitments include \$90.5 million of development payments for 5 Martin Place, Sydney.

5. Equity accounted investments

	Ownership 31 Dec 2013 %	Ownership 30 Jun 2013 %	Consolidated 31 Dec 2013 \$m	Consolidated 30 Jun 2013 \$m
Non-current				
Grosvenor Place Holdings Trust ^{(1)(A)}	50	50	278.2	275.1
Site 6 Homebush Bay Trust ^{(2)(A)}	50	50	36.0	35.6
Site 7 Homebush Bay Trust ^{(3)(A)}	50	50	48.6	48.2
PIF Managed Property Pty Limited ⁽⁴⁾	50	50	-	-
Grosvenor Place Pty Limited ⁽⁵⁾	25	25	-	-
Total equity accounted investments			362.8	358.9

(A) The titles to these properties are leasehold and the remaining lease terms range from approximately 85 to 94 years.

- The Fund owns 50% of the units in Grosvenor Place Holdings Trust, which in turn owns 50% of 225 George Street, Sydney. The Fund therefore indirectly owns 25% of the property. At 31 December 2013, the property was independently valued at \$1.11 billion (100%) (Dec 2012: \$1.1 billion). It has been determined that the Fund's 50% interest in the Trust does not represent control. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of the Grosvenor Place Holdings Trust.
- The Fund owns 50% of the units in Site 6 Homebush Bay Trust, which in turn owns 100% of 4 Dawn Fraser Avenue, Sydney Olympic Park (formerly known as Site 6 Dawn Fraser Avenue). The Fund therefore indirectly owns 50% of the property. At 31 December 2013, the property was independently valued at \$72.0 million (100%) (Dec 2012: \$71.1 million). It has been determined that the Fund's 50% interest in the Trust does not represent control. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of Site 6 Homebush Bay Trust.
- The Fund owns 50% of the units in Site 7 Homebush Bay Trust, which in turn owns 100% of 2 Dawn Fraser Avenue, Sydney Olympic Park (formerly known as Site 7 Dawn Fraser Avenue). The Fund therefore indirectly owns 50% of the property. At 31 December 2013, the property was independently valued at \$97.0 million (100%) (Dec 2012: \$96.3 million). It has been determined that the Fund's 50% interest in the Trust does not represent control. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of Site 7 Homebush Bay Trust.
- In February 2004, the Fund established an effective 50% interest in PIF Managed Property Pty Limited at a nominal cost of \$10. The net assets at balance date were nil (Jun 2013: \$20). The capital was returned in November 2013. The company will be deregistered this year.
- On 21 November 2008, the Fund purchased a 25% interest in Grosvenor Place Pty Limited from Commonwealth Funds Management Pty Limited at a nominal cost of \$25. Grosvenor Place Pty Limited is a dormant company with net assets of \$100.

These investments are domiciled in Australia, and their principal activity is investment in office property.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

6. Interest bearing liabilities

	Consolidated 31 Dec 2013 \$m	Consolidated 30 Jun 2013 \$m
Current - Unsecured		
Short-term notes	-	100.0
Convertible notes ⁽¹⁾	192.4	-
Total current interest bearing liabilities	192.4	100.0
Non-current - Unsecured		
Cash advance facility	169.7	52.9
US medium-term notes	170.4	166.9
Convertible notes ⁽¹⁾	-	189.1
Medium-term notes	407.8	407.5
Total non-current interest bearing liabilities	747.9	816.4
Total interest bearing liabilities	940.3	916.4

(1) On 11 December 2009, the Fund executed a \$200 million issuance of senior, unsecured convertible notes, redeemable at the option of the noteholder on 11 December 2014. Unless previously redeemed or converted to ordinary units, the notes will be redeemed on the final maturity date of 11 December 2016. At 31 December 2013, the conversion price is \$1.1182 (Jun 2013: \$1.1226) per unit. The price is subject to adjustments in accordance with the Offering Circular. The notes were issued to fund the acquisitions of 145 Ann Street, Brisbane and 58 Mounts Bay Road, Perth. The notes are listed on the Singapore Stock Exchange. The face value of remaining notes on issue at 31 December 2013 is \$200 million (Jun 2013: \$200 million).

(a) Reconciliation of convertible notes

A reconciliation of the carrying amounts of the convertible notes at the beginning and end of the current period and previous year are set out below:

Opening balance	189.1	182.8
Amortisation of issue costs	0.2	0.5
	189.3	183.3
Interest expense at market rate ⁽¹⁾	8.3	16.3
Less: accumulated coupon paid and payable	(5.2)	(10.5)
Closing balance of convertible notes	192.4	189.1

(1) The difference of \$3.1 million (Jun 2013: \$5.8 million) between interest expense calculated at the market rate for an equivalent non-convertible bond and the coupon rate paid is included in borrowing costs expense in the statement of comprehensive income and added to the carrying amount of the convertible notes liability in the statement of financial position. As a result, on 11 December 2014, the carrying amount of the liability will be equal to the face value of the notes less any amounts converted to units.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

6. Interest bearing liabilities (continued)

(b) Financing facilities

The Fund has the following facilities available:

	Expiry	31 Dec 2013			30 Jun 2013		
		Drawn ⁽⁴⁾ \$m	Facility limit \$m	Undrawn line of credit \$m	Drawn ⁽⁴⁾ \$m	Facility limit \$m	Undrawn line of credit \$m
Cash advance facility	30 Apr 18	171.5	300.0	128.5	55.0	300.0	245.0
Cash advance facility	12 Jun 15	-	200.0	200.0	-	200.0	200.0
Short-term notes ⁽¹⁾	-	-	-	-	100.0	100.0	-
Medium-term notes	11 Mar 16	200.0	200.0	-	200.0	200.0	-
Medium-term notes	13 Dec 19	185.0	185.0	-	185.0	185.0	-
Medium-term notes	13 Dec 22	25.0	25.0	-	25.0	25.0	-
Convertible notes ⁽²⁾	11 Dec 14 22 Dec 15	200.0	200.0	-	200.0	200.0	-
US medium-term notes	to 22 Dec 17	170.4	170.4	-	166.9	166.9	-
		951.9		328.5	931.9		445.0
Less: Short-term notes drawn ⁽³⁾				-			(100.0)
Total undrawn lines of credit				328.5			345.0

(1) The Fund has a same day funding facility within the existing cash advance facility providing liquidity support for maturing short-term notes.

(2) The convertible notes are redeemable at the option of the noteholder on 11 December 2014. Unless previously redeemed or converted to ordinary units, the notes will be redeemed on the final maturity date of 11 December 2016.

(3) As the Fund's same day funding facility was in place to provide liquidity support to maturing short-term notes, the capacity of the facilities is reduced by the total amount of short-term notes issued. As at 31 December 2013, the Fund did not have any short-term notes issued.

(4) In accordance with AASB 139 Financial Instruments: Recognition and Measurement, with the exception of US medium-term notes, interest bearing liabilities are carried at amortised cost, net of deferred borrowing costs of \$5.4 million (Jun 2013: \$6.2 million) and other adjustments to convertible notes of \$6.2 million (Jun 2013: \$9.3 million). However, for the purpose of this reconciliation, the actual drawn amounts are used and not adjusted to amortised cost and for other adjustments to convertible notes.

The facilities are senior unsecured. The Fund has a long-term credit rating of A3/Stable from Moody's and A-/Negative watch from Standard & Poor's.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

7. Contributed equity

	No. of units 31 Dec 2013 '000	No. of units 30 Jun 2013 '000	Unit value 31 Dec 2013 \$m	Unit value 30 Jun 2013 \$m
Opening balance	2,347,003	2,347,003	2,383.3	2,383.3
Issue of units	-	-	-	-
Reclassification of conversion rights on convertible notes ⁽¹⁾	-	-	(24.6)	-
Total contributed equity	2,347,003	2,347,003	2,358.7	2,383.3

(1) The conversion rights on the convertible notes previously recognised in equity have been reclassified as a liability since the Fund may now be required to settle conversion requests in cash.

(a) Rights and restrictions over units

Each unit ranks equally with all other units for the purpose of distributions and on termination of the Fund.

(b) Unit buy-back

On 14 December 2012, the Fund announced a continuation of the on-market buy-back. The Fund could purchase a maximum of 213.4 million units under this on-market buy-back offer over a 12-month period. On 9 August 2013, this on-market buy-back offer was halted. During the six-month period to 31 December 2013, the Fund did not buy back or cancel any of its units under this on-market buy-back offer.

8. Performance fee

The Responsible Entity is entitled to a performance fee if the Fund's total return (distributions and unit price performance) exceeds the benchmark provided by Standard & Poor's. The Fund's performance fee benchmark is the S&P ASX 200 Property Accumulation Index (excluding CPA).

The 20-day volume weighted average price (VWAP) is used in both the Fund's price and in the customised index to determine performance at the end of each performance fee period. The performance fee entitlement is determined on the Fund's cumulative performance since the last period in which a performance fee was accrued (the date of last reset). Maximum fee entitlement for a six-month performance period absorbs 1.67% of outperformance. Performance fees are usually satisfied via the issue of units. The number of units to be issued upon settlement of the performance fee is based on the higher of the Fund's net tangible assets (NTA) and the 10-day VWAP post the performance fee period. These units are accrued at the time of entitlement and issued when the Fund achieves positive, absolute performance. However, it is intended that the current performance fee will be paid in cash (given that any issue of CPA units requires the approval of CPA unitholders in accordance with the Listing Rules and the issue of CPA units in these circumstances could breach conditions of the current takeover offer).

The measure of outperformance will be assessed on a cumulative basis, meaning any underperformance needs to be earned back before the Responsible Entity can earn performance units (refer to the Fund Constitution for the complete method of calculation of the performance fee).

The performance fee is calculated and payable, if the Responsible Entity is entitled, each half-year at December and June. The performance fee rate is calculated as 5% of the first 1% of outperformance and 15% of outperformance in excess of 1%. This rate is multiplied by the Fund's average gross asset value. The fee is capped at 0.15% per six-month period of the Fund's average gross asset value.

Although the amount of the performance fee to be paid each period is capped, the 'carry-over' outperformance may be used to generate performance fee entitlement in future periods. The fair value of the outperformance has been calculated by assigning probabilities to the likelihood of paying capped performance fees in future periods, and discounting these estimated cash flows to the reporting date.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

8. Performance fee (continued)

The last period in which the Fund was entitled to a performance fee was six months ended 31 December 2010. As a result, the base for the calculation remains constant as at 31 December 2010 in accordance with the Fund Constitution and, accordingly, the performance fee entitlement for 31 December 2013 is based on a 36-month calculation. As the Fund outperformed the benchmark for this 36-month period, the Fund recognised a performance fee for the six months to 31 December 2013.

The performance fee for the half-year ended 31 December 2013 is \$5,745,898 (Dec 2012: nil). As the Fund has delivered a period of absolute positive performance, the performance fee of \$5,745,898 is expected to be paid in cash.

Carried over outperformance is equivalent to 2.08 percentage points compared to the benchmark as set out below. The Fund has recognised the fair value of 'carry-over' outperformance as \$2,760,490 (Jun 2013: nil). If a Trigger Event occurs in the next performance period, the carried over outperformance will be reassessed and any such outperformance will crystallise resulting in a cash payment to the Responsible Entity. Trigger Events include:

- CPA units being subject of a takeover bid which achieves the threshold for compulsory acquisition under Chapter 6A of the Corporations Act;
- the Fund ceasing to be officially listed or
- unitholders approving a formal or informal scheme of arrangement whereby there is a material change in the ownership or control of the Fund.

The relative performance of the Fund to the customised index is set out in the following table:

	Six months to 31 Dec 2013 Total return	Six months to 31 Dec 2012 Total return
Determination of performance fee at 31 December		
Performance since date of last reset ⁽¹⁾ :		
Reconciliation – 36 months performance (Dec 2012: 24 months performance)		
Opening 'carry-over' outperformance (percentage points)	-	-
Commonwealth Property Office Fund ⁽¹⁾ (%)	55.53	28.64
Performance fee benchmark ⁽¹⁾ (%)	51.78	48.04
Current out/(under) performance (percentage points)	3.75	(19.40)
Opening 'carry-over' outperformance (percentage points)	-	-
'Carry-over' absorbed to fund maximum performance fee for the half-year (percentage points)	(1.67)	-
Closing 'carry-over' outperformance (percentage points)	2.08	-
Performance fee for the six months to December		
	\$'000	\$'000
Performance fee capped for the period ⁽²⁾	5,746	-
Movement in fair value of 'carry-over' outperformance ⁽³⁾	2,760	-
Total performance fee recognised in the statement of comprehensive income	8,506	-

(1) Calculated in accordance with the customised index provided by Standard & Poor's. The 20-day volume weighted average price (VWAP) is used in both the Fund's price and in the performance fee benchmark. The Fund's performance fee benchmark prior to 1 July 2012 was the S&P ASX 200 Commercial Accumulation Index (excluding CPA). From 1 July 2012, the Fund's performance fee benchmark was changed to the S&P ASX 200 Property Accumulation Index (excluding CPA). The 'carry-over' underperformance as at 30 June 2012 was carried over to the new benchmark index. In accordance with the performance fee methodology, the performance fee is determined on the Fund's performance since the last period in which a performance fee was accrued (the date of the last reset).

(2) Performance fee is capped at 0.15% of the Fund's average gross asset value per six-month period, based on performance since the date of last reset.

(3) Although the amount of the performance fee to be paid each period is capped, the 'carry-over' outperformance may be used to absorb performance fee entitlement in future periods. The fair value of the outperformance has been calculated by assigning probabilities to the likelihood of paying capped performance fees in future periods, and discounting these estimated cash flows to the reporting date.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

9. Fair value of financial assets and liabilities

(a) Fair value hierarchy

The Fund has adopted the classification of fair value measurements into the following hierarchy as required by AASB 13 Fair Value Measurement:

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 or indirectly

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Fund's financial assets and financial liabilities measured and recognised at fair value on a recurring basis:

	Level 1		Level 2		Level 3		Total	
	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets								
Derivative assets								
- interest rate swaps	-	-	2.2	2.2	-	-	2.2	2.2
Total assets	-	-	2.2	2.2	-	-	2.2	2.2
Liabilities								
Derivative liabilities								
- cross-currency swaps	-	-	(13.5)	(17.0)	-	-	(13.5)	(17.0)
- conversion option	-	-	(33.9)	-	-	-	(33.9)	-
US medium-term notes	-	-	(170.4)	(166.9)	-	-	(170.4)	(166.9)
Responsible Entity's performance fee liability	-	-	-	-	(2.8)	-	(2.8)	-
Total liabilities	-	-	(217.8)	(183.9)	(2.8)	-	(220.6)	(183.9)

The Fund did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2013.

There were no transfers between the levels of the fair value hierarchy in the six months to 31 December 2013.

(b) Valuation techniques used to determine fair values

The level 2 derivatives that the Fund has at 31 December 2013 include interest rate swaps, cross-currency swaps and conversion option of the Fund's convertible notes. The fair values of interest rate swaps and cross-currency swaps are calculated as the present value of the estimated future cash flows based upon quoted market inputs (specifically the forward price curve of interest rates) adjusted for counterparty risk of default for assets and the Fund's risk of default for liabilities. The fair values of cross-currency swaps and interest rate swaps have also been confirmed with counterparties to within acceptable tolerances. The fair value of USD denominated debt is calculated as the present value of the estimated future cash flows based on the observable yield curve. The USD denominated debt is adjusted for the Fund's risk of default.

The market value of the conversion option is calculated using the difference between the market price of the convertible notes and non-convertible bonds with the same coupon and principal payments.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

9. Fair value of financial assets and liabilities (continued)

(b) Valuation techniques used to determine fair values (continued)

The Fund's level 3 liabilities consist of the fair value of the Responsible Entity's performance fee liability. The fair value of this liability is calculated as the present value of the estimated future cash flows, adjusted for the Fund's risk of default. Assuming no gross asset value growth and no change in the Fund's outperformance of 2.08 percentage points, the capped cash flow for the six months to 31 December 2013 would continue over one and a quarter performance fee periods when the current cumulative outperformance is 'fully deteriorated' through the deduction of 1.67 percentage points for the six-month period. A probability factor is applied, representing the likelihood of maintaining sufficient outperformance to entitle the Responsible Entity to a performance fee. The probability factors assigned to each of these periods are:

- Period to 30 June 2014 a probability factor of 50%.
- Period to 31 December 2014 a probability factor of 0%.

The present value is determined by discounting these probability-weighted cash flows at a rate equal to the Fund's approximate weighted average cost of capital.

(c) Sensitivity of fair values (level 3)

The measurement of the fair value of the Responsible Entity's performance fee liability is significantly dependent upon the probability factors applied in the discounted cash flow calculation. Determination of the probability factors is subjective and the sensitivity of the fair value calculation to applying reasonably possible alternatives is illustrated in the following table. The fair value calculation is not significantly impacted by changes in other unobservable inputs.

Level 3 financial liability	Probability factors applied per period	Impact on net profit Increase/(Decrease) \$m
Fair value of Responsible Entity's performance fee liability	100% to 30 Jun 2014; 0% thereafter.	(2.8)
	0% to 30 Jun 2014; 0% thereafter.	2.8

(d) Fair values of other financial instruments

The fair value of financial assets and liabilities included in the statement of financial position approximates their carrying value except for interest bearing borrowings. The fair values of interest bearing borrowings have been calculated by discounting the expected future cash flows by market swap rates applicable to the relevant term of the borrowing (for floating rate borrowings), and appropriate margins for borrowings with similar risk profiles. The carrying amounts and fair values of interest bearing borrowings for the Fund are:

	Carrying amount 31 Dec 2013 \$m	Fair value 31 Dec 2013 \$m	Carrying amount 30 Jun 2013 \$m	Fair value 30 Jun 2013 \$m
Medium-term notes	407.8	418.9	407.5	421.8
Convertible notes ⁽¹⁾	192.4	203.7	189.1	204.2
Cash advance facilities	169.7	172.2	52.9	55.0
Short-term notes	-	-	100.0	100.0
US medium-term notes	170.4	170.4	166.9	166.9
Total interest bearing borrowings	940.3	965.2	916.4	947.9

(1) Fair value shown reflects fair value of note component only excluding conversion options.

COMMONWEALTH PROPERTY OFFICE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

10. Subsequent events

On 6 January 2014, the Bidder's Statement issued by the Consortium dated 19 December 2013 and a supplementary Bidder's Statement dated 6 January 2013 were despatched to CPA unitholders.

On 10 January 2014, a notice of variation and a second supplementary Bidder's Statement in relation to the Consortium's offer was sent to CPA unitholders. This offer (DEXUS Offer) provides two alternative forms of Offer Consideration:

- Option A: \$0.7745 cash and 0.4516 DEXUS securities per CPA unit, or
- Option B: \$0.8496 cash and 0.3801 DEXUS securities per CPA unit.

On 17 January 2014, CMIL lodged the Target's Statement in response to the off-market takeover bid by DEXUS. Having carefully considered the DEXUS Offer, the Independent Directors unanimously recommended that CPA unitholders accept the DEXUS Offer in the absence of a superior proposal. The Independent Directors did not make a recommendation as to which alternative Offer Consideration CPA unitholders should elect to receive. CPA unitholders could choose Option A if they prefer greater exposure to the enlarged DEXUS Property Group (which is expected to include most of CPA's assets) as this option included a larger component of DEXUS securities as compared to Option B. Alternatively, CPA unitholders preferring a higher proportion of cash could choose Option B.

On 17 January 2014, CMIL gave notice that should a conversion notice be duly lodged in respect of any CPA convertible notes during the DEXUS Offer period that ends on 7 February 2014, CMIL will exercise the cash settlement option to satisfy in full its obligation to convert these notes into CPA units.

On 17 January 2014, CMIL announced that the performance fee for the performance fee period ended 31 December 2013 is expected to be paid in cash by 28 February 2014 (given that any issue of CPA units requires the approval of CPA unitholders in accordance with the Listing Rules and the issue of CPA units in these circumstances could have breached conditions of the current takeover offer).

On 28 January 2014, the Fund executed a new two year \$250 million bank facility to refinance the potential conversion of the convertible notes. The potential cash settlement amount of these notes as at 31 December 2013 was \$225.6 million which will vary subject to the prevailing conversion price and traded CPA unit price at the time the conversion is exercised.

On 29 January 2014, the Consortium announced that the DEXUS Offer was unconditional. The DEXUS Offer was also extended to close on 14 February 2014.

On 12 February 2014, Dexus notified ASX that its relevant interest in CPA units increased to 54.26% of the total number of CPA units on issue as at 11 February 2014. Accordingly, Dexus and Canada Pension Plan Investment Board now effectively control CPA, having an ability to remove and replace CMIL as Responsible Entity and having significant influence over the outcome of CPA unitholder meetings.

On 12 February 2014, the Fund announced an adjustment to the conversion price for the \$200 million convertible notes. As a result of the change of control event on 11 February, the conversion price has changed from \$1.1182 to \$1.0154 for the duration of the change of control period, which ends on 12 March 2014. Furthermore, CMIL is required under the Note terms to exercise the cash settlement option in respect of any conversion notice that is received during the change of control event period, and will exercise the cash settlement option for any conversion notice received thereafter. Any conversion notice received after 12 March 2014 will be processed in accordance with the higher conversion price being \$1.1182.

On 14 February 2014, the DEXUS Offer was extended to close on 28 February 2014.

There have been no other significant events occurring after reporting date which may affect either the Fund's operations or the results of those operations or the state of affairs of the Fund, not otherwise disclosed in this report.

11. Contingent liabilities

At 31 December 2013, the Fund had contingent liabilities of \$7.6 million (30 Jun 2013: nil) associated with the potential takeover of the Fund.

COMMONWEALTH PROPERTY OFFICE FUND

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Commonwealth Managed Investments Limited, the Responsible Entity for the Commonwealth Property Office Fund, we declare that:

- (a) in the opinion of the Directors, the financial statements and notes set out on pages 8 to 27 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Fund and its controlled entities' financial position as at 31 December 2013 and of the performance for the half-year ended on that date, and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001, the Fund Constitution and other mandatory professional reporting requirements, and
- (b) in the opinion of the Directors, there are reasonable grounds to believe that the Fund and its controlled entities will be able to pay their debts as and when they become due and payable.

In addition, the Directors have been given Declarations of the type required to be made to the Directors in accordance with section 295A of the Corporations Act 2001, for the half-year ended 31 December 2013.

Signed in accordance with the resolution of the Directors of Commonwealth Managed Investments Limited.



R M Haddock AM
Director

Sydney
18 February 2014



Independent auditor's review report to the unitholders of Commonwealth Property Office Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Commonwealth Property Office Fund (the registered scheme), which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Commonwealth Property Office Fund (the consolidated entity). The consolidated entity comprises the registered scheme and the entities it controlled during the half-year.

Directors' responsibility for the half-year financial report

The directors of Commonwealth Managed Investments Limited (the responsible entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Commonwealth Property Office Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Commonwealth Property Office Fund is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

TJO Peel

TJO Peel
Partner

18 February 2014
Sydney