

DEXUS Property Group (ASX: DXS)

ASX release

11 October 2013

Proposal to acquire Commonwealth Property Office Fund

Please refer to the attached presentation which provides further detail regarding today's announcement relating to a Proposal to acquire Commonwealth Property Office Fund.

For further information please contact:

Investor relations

David Yates T: +61 2 9017 1424
M: 0418 861 047
E: david.yates@dexus.com

Media relations

Martin DeBelle T: +61 2 9290 3033
M: 0409 911 189
E: martin.debelle@citadelpr.com.au

About DEXUS

DEXUS Property Group (DEXUS) is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties. With over \$13 billion of assets under management, DEXUS also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners. DEXUS manages an office portfolio of over 900,000 square metres across Sydney, Melbourne, Brisbane and Perth and is one of the largest institutional owners of office buildings in the Sydney CBD, Australia's largest office market. DEXUS is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange under the stock market trading code 'DXS' and is supported by more than 18,000 investors from 15 countries. With over 25 years of experience in commercial property investment, development and asset management, DEXUS has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns to investors. www.dexus.com

Download the DEXUS IR app to your preferred mobile device to gain instant access to the latest stock price, ASX Announcements, presentations, reports, webcasts and more.



DEXUS Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for DEXUS Property Group (ASX: DXS)

DEXUS PROPERTY GROUP

PROPOSAL TO ACQUIRE COMMONWEALTH PROPERTY OFFICE FUND (CPA)

11 OCTOBER 2013



IMPORTANT NOTICE AND DISCLAIMER

This presentation is issued by DEXUS Funds Management Limited (DXFM) in its capacity as responsible entity of DEXUS Property Group (ASX:DXS) (DEXUS) comprising DEXUS Diversified Trust (DDF), DEXUS Industrial Trust (DIT) DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO).

This presentation is for information purposes only and is not an invitation or offer of securities for subscription, purchase or sale in any jurisdiction. This presentation is not financial product advice and does not and will not form any part of any contract for the acquisition of DEXUS securities.

Information in this presentation including, without limitation, any forward looking statements or opinions may be subject to change without notice. To the maximum extent permitted by law, DXFM its affiliates officers, employees, agents and advisers do not make any representation or warranty, express or implied, as to the currency, accuracy, reliability or completeness of the Information and disclaim all responsibility and liability for the information (including, without limitation, liability for negligence).

The information contained in this presentation should not be considered to be comprehensive or to comprise all the information which a DEXUS or Commonwealth Property Office Fund (“CPA”) security holder or potential investor in DEXUS or CPA may require in order to determine whether to deal in DEXUS or CPA securities. This presentation does not take into account the financial situation, investment objectives and particular needs of any particular person.

The repayment and performance of an investment in DEXUS is not guaranteed by DXFM, any of its related bodies corporate or any other person or organisation.

An investment in DEXUS is subject to investment risk including possible loss of income and principal invested.

This presentation contains certain “forward-looking statements”. The words “expect”, “should”, “could”, “may”, “predict”, “outlook”, “guidance”, “plan” and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of DXFM, DEXUS and their officers, employees, agents and advisers, that may cause actual results to differ materially from those predicted or implied by any forward-looking statements. There can be no assurance that actual outcomes will not differ materially from these forward-looking statements.

The historical information in this presentation is, or is based upon, information that has been released to the market. For further information, please see past announcements released to the ASX including the Annual Results Release for the Financial Year ended 30 June 2013 and the accompanying Annual Results Release Presentation released to the market on 19 August 2013. Note, past performance is not a guarantee of future results.

AGENDA

Executive Summary

1. The Proposal
2. Rationale
3. Summary

Appendices

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Proposal

- DEXUS and Canada Pension Plan Investment Board (CPPIB) (together the “Consortium”) have made an indicative, non-binding proposal (the “Proposal”), to the responsible entity of Commonwealth Property Office Fund (CPA), Commonwealth Managed Investments Limited (CMIL), to acquire all of the issued units in CPA, other than those to which DEXUS is already entitled¹, by way of an informal trust scheme
- The Proposal, if implemented, will result in the Consortium acquiring a \$3.7 billion² prime grade Australian office portfolio
- The Proposal, if implemented, is in line with DEXUS’s strategy and provides the following benefits to new and existing DEXUS Security holders:
 - **Creates the leading owner and manager of prime grade Australian office**
 - Office Assets Under Management (AUM) increases from \$7.8 billion to \$11.5 billion, with a 26% share of Sydney prime grade office
 - **Brings together two complementary office portfolios**
 - **Further enhances strong third party funds management platform**
 - Platform AUM increases from \$6.1 billion to \$8.0 billion
 - **Generates accretion to Funds From Operations (FFO)³**
 - **Positions DEXUS as one of the A-REIT sector’s lowest cost operators**
 - Due to scalability of the DEXUS platform MER reduces to sub 45 basis points⁴
 - **Maintains DEXUS’s financial strength**

1. Under DEXUS’s forward contract with Deutsche Bank AG, announced to the ASX on 25 July 2013.

2. CPA book value as at 30 June 2013.

3. Refer to slide 11 which describes the impact of the Proposal, if implemented, on FFO and the appendices for the underlying assumptions.

4. Management Expense Ratio on an annualised basis. Refer to the appendices for the underlying assumptions.

EXECUTIVE SUMMARY

Significantly increases DXS portfolio and total platform AUM

Pro-forma DEXUS Property Group Platform¹ \$17bn AUM

Office \$11.5bn

Industrial \$2.5bn

Retail \$3.1bn

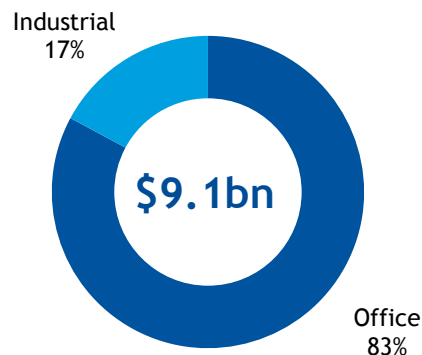
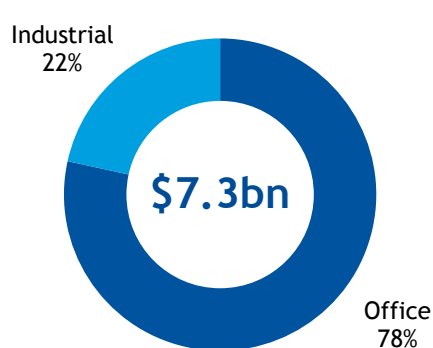
Development pipeline \$3.2bn

DXS Portfolio²

Total Assets Under Management

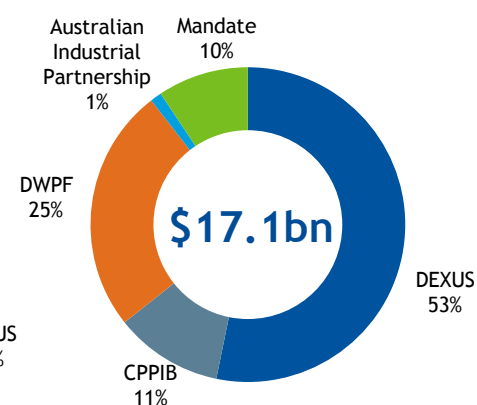
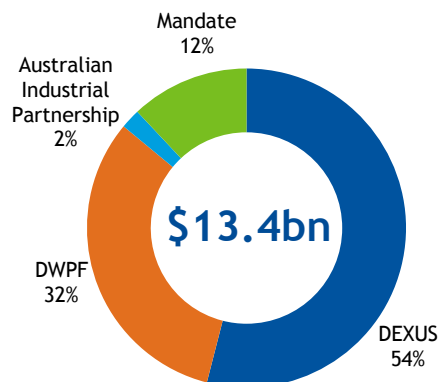
Pre

Post



Pre

Post



Asset
management
& leasing

Development
management

Transactions

Finance,
treasury
& tax

Research

Legal &
compliance

Funds
management

IR, marketing &
communications

Corporate
responsibility &
sustainability

1. At 30 June 2013.

2. DEXUS balance sheet portfolio.

1. THE PROPOSAL



THE PROPOSAL

Overview

- The Consortium has made an indicative proposal to the responsible entity of CPA to acquire all of the issued units in CPA, other than those to which DEXUS is already entitled¹
 - Offer comprises \$0.680 in cash and 0.4516 DEXUS securities per CPA unit
 - Headline offer price of \$1.150² per CPA Unit at time of announcement
 - NTA value of Proposal of \$1.155³ per CPA Unit
- In formulating the Proposal, the Consortium had regard to the transactions costs that both it and CPA would incur including costs arising under CPA's debt facilities. The price that the Consortium is offering under the Proposal takes account of those transaction costs and recognises they will be incurred in implementing the Proposal
- DEXUS has committed⁴ acquisition and term debt facilities to assist in meeting its funding requirements
- Post implementation of the Proposal, CPA will become an unlisted fund managed by DEXUS and equally owned by DEXUS and CPPIB
- The Consortium is seeking to engage with CMIL on a co-operative basis in order to implement the Proposal by an agreed informal trust scheme
- DEXUS has also submitted to the Commonwealth Bank of Australia (CBA) an indicative and non-binding proposal outlining a potential facilitation of the Proposal and transition of the management of CPA. DEXUS has proposed that it would make a cash payment to the CBA and its relevant subsidiaries for among other things facilitating the Proposal and the transition of CPA management to DEXUS
- The Independent Directors of the Responsible Entity of CPA, CMIL, have not advised a view at this stage as to the merits of the Proposal
- DEXUS currently holds an economic interest in CPA units equal to 14.9%¹

1. Under DEXUS's forward contract with Deutsche Bank AG, announced to the ASX on 25 July 2013.

4. Subject to documentation.

2. Based on DEXUS's closing price of \$1.04 as at 10 October 2013.

3. Represents the total value of the cash component of the offer price plus the value of the DXS scrip component at NTA per DXS Stapled Security.

THE PROPOSAL

Benefits to CPA Unitholders

- Opportunity to participate in the benefits associated with an investment in DEXUS
 - Ownership in a leading Australian office portfolio and established funds management platform
 - High quality management team and specialist office expertise
 - Established internalised property management model maximising alignment of interests
- Capacity to benefit from superior liquidity, capital market positioning and growth prospects

Proposal represents demonstrable value for CPA Unitholders




	NTA Value ² (at \$1.05 per DXS Stapled Security)	Headline Offer Price (at \$1.04 per DXS Stapled Security)
Proposal value	\$1.155	\$1.150
Proposal represents a premium/(discount) to CPA's:		
- 30 day VWAP on 23 July 2013 ¹ (\$1.071)	7.8%	7.3%
- Closing price on 23 July 2013 ¹ (\$1.085)	6.4%	6.0%
- Closing price on 10 October 2013 (\$1.155)	0.0%	(0.4%)
- Stated 30 June 2013 NTA price (\$1.15)	0.4%	0.0%

1. The day prior to CMIL's announcement that it had received a preliminary internalisation proposal from the CBA, which was released to the ASX on 24 July 2013.

2. Represents the total value of the cash component of the offer price plus the value of the DXS scrip component at NTA per DXS Stapled Security.

THE PROPOSAL

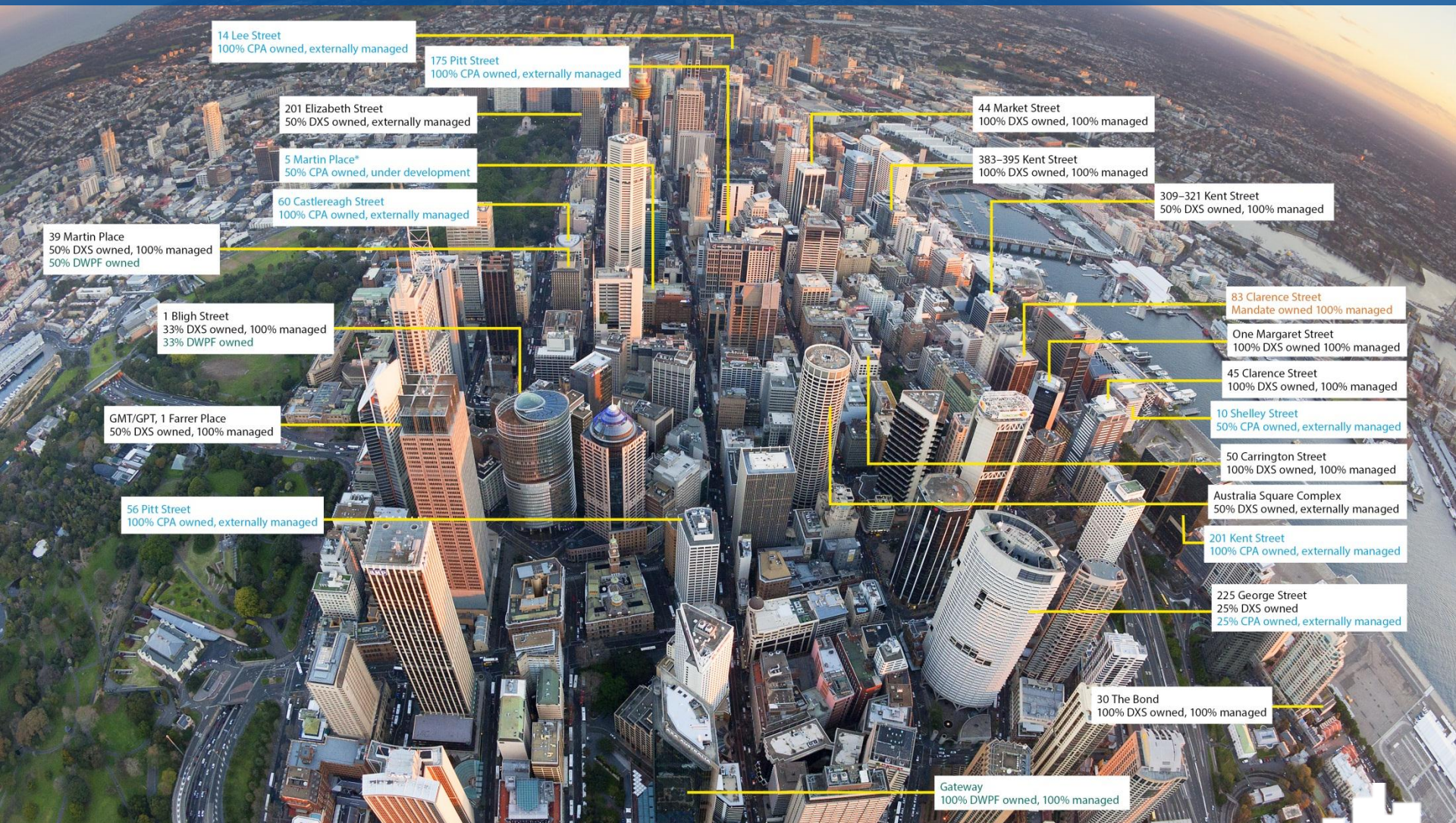
Pro-forma impact on DEXUS key metrics

METRIC	PCA FFO ¹	Gearing ²	NTA
IMPACT	<p>DXS FY14 PCA FFO per security guidance</p> <p>2% - 2.5% increase¹</p> <p>Market guidance PCA FFO 8.63 cents</p> <p>Post¹ 8.80 - 8.85 cents</p> <p>(DEXUS FFO 8.15 cents)</p> 	<p>DXS gearing</p> <p>4.5% - 5.5% increase</p> <p>30 June 2013 29.0%</p> <p>Post 33.5% - 34.5%</p> 	<p>DXS NTA per security</p> <p>2% - 3% decrease</p> <p>30 June 2013 \$1.05</p> <p>Post \$1.02 - \$1.03</p> 

- The metrics shown on this slide are based on the key assumptions detailed in the Appendices

1. Funds from Operations and impact per security is based on PCA FFO. Refer to appendices for the definition of PCA FFO.
 2. Refer to appendices for definition of "gearing".

2. RATIONALE



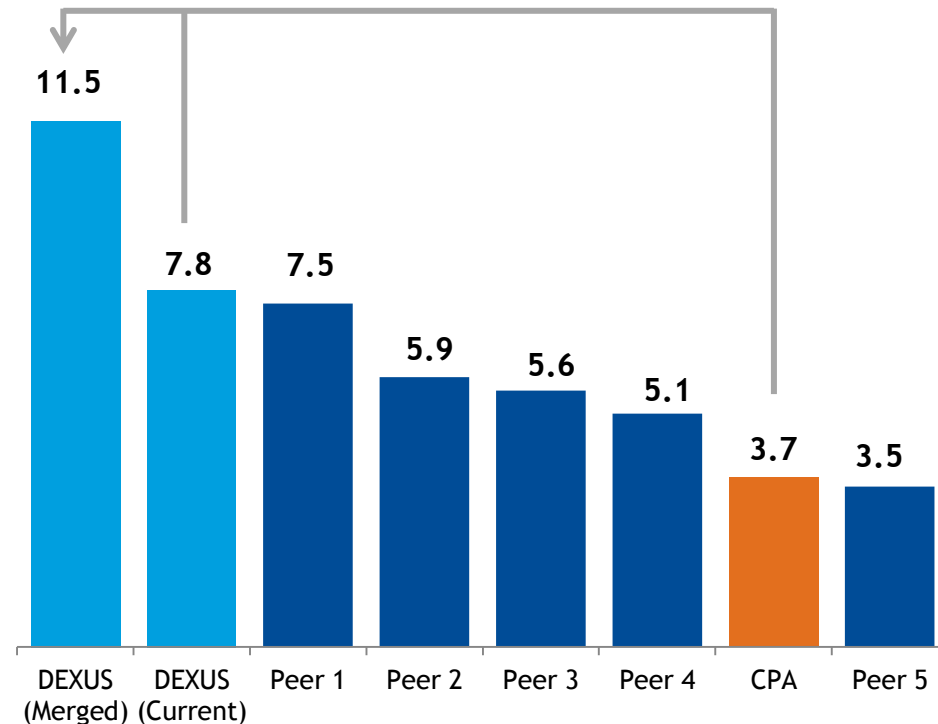
DEXUS existing owned and managed portfolio and CPA portfolio - Sydney CBD, NSW

RATIONALE

Creates a market leading Australian office platform

- DEXUS will become the largest owner and manager of prime grade Australian office property
 - \$11.5 billion of office properties AUM
 - 1.5 million sqm of office space¹ in core Australian office markets
 - Strengthened position in office AUM among peers

Australian office asset managers by AUM (\$bn)

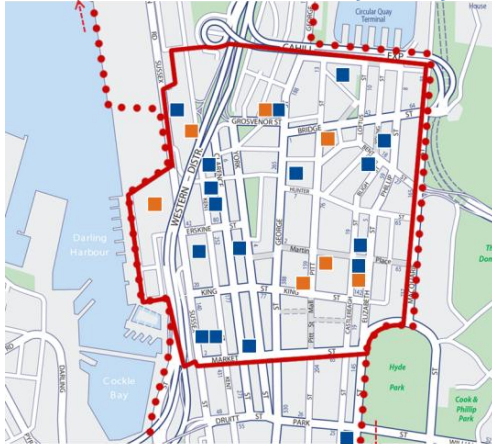


1. Proportional for ownership. Excludes developments and fund through acquisitions in progress.

RATIONALE

Creates a market leading Australian office platform - scale in core markets

Sydney



\$5.6bn

Office Assets Under Management¹

540,000sqm

Existing Office NLA²

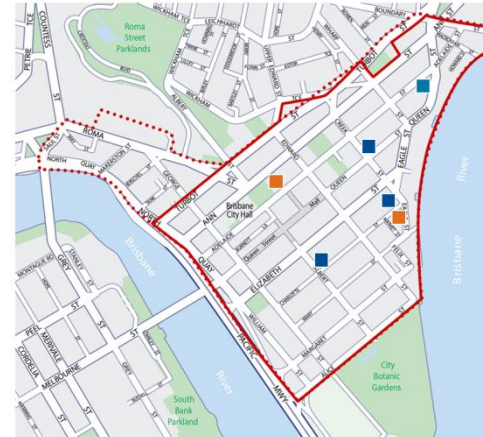
17,000sqm

NLA Under Construction²

26%

'Prime Grade' CBD Share³

Brisbane



\$1.2bn

Office Assets Under Management¹

138,000sqm

Existing Office NLA²

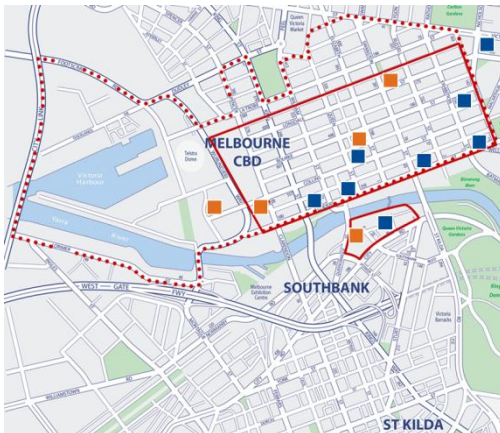
55,600sqm

NLA Under Construction²

12%

'Prime Grade' CBD Share³

Melbourne



\$2.1bn

Office Assets Under Management¹

360,000sqm

Existing Office NLA²

Nil

NLA Under Construction²

15%

'Prime Grade' CBD Share³

Perth



\$0.6bn

Office Assets Under Management¹

58,000sqm

Existing Office NLA²

53,000sqm

NLA Under Construction²

7%

'Prime Grade' CBD Share³

● ● ● PCA CBD Definition

— DEXUS Core Target Market

■ DEXUS asset (including third party funds)

■ CPA asset

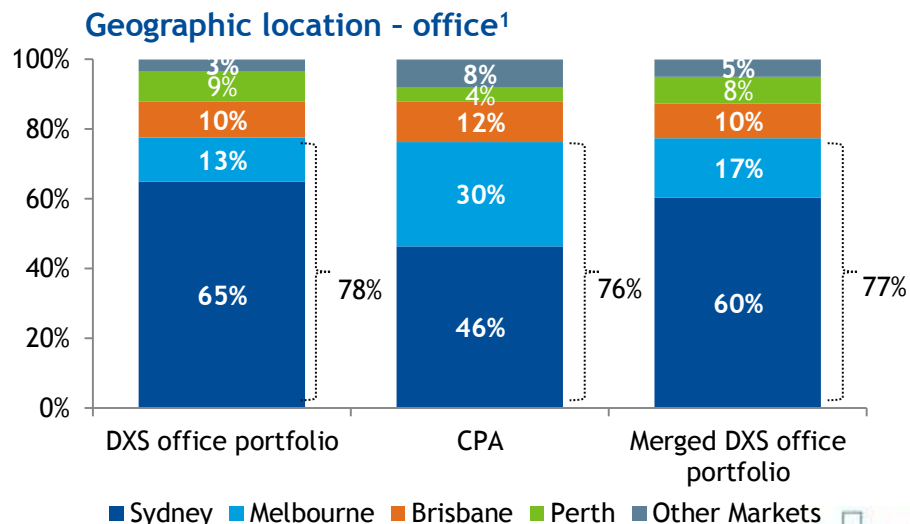
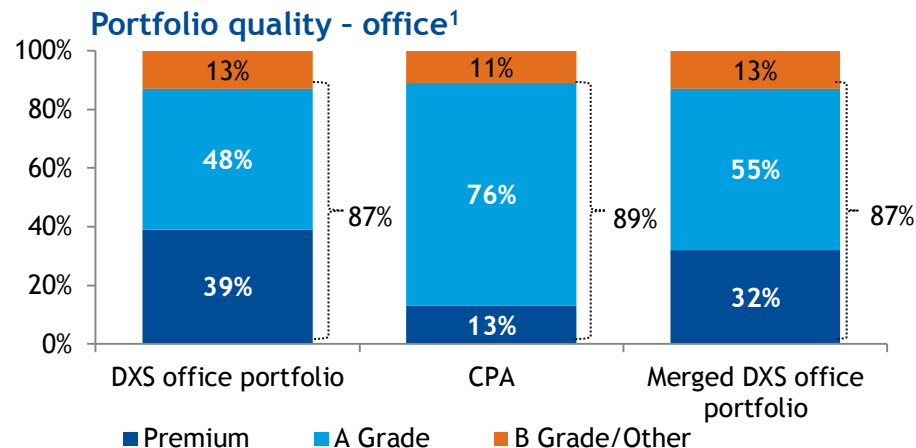
1. AUM includes assets owned by DEXUS, CPA and DEXUS third party managed funds. Represents assets within the CBD, as defined by the Property Council of Australia ("PCA") Office Market Report plus DEXUS Core Target Markets of Kings Square, Perth and Southbank, Melbourne. Values based on book values as at 30 June 2013.
2. NLA represents Net Lettable Area. Proportional for ownership percentage.

3. Represents the percentage of total NLA in 'Prime Grade' assets within each CBD market in which the merged entity will have a representation via assets under management. Calculation excludes developments in progress and is not proportional for ownership percentage. Total market NLA sourced from Property Council of Australia July 2013 Office Market Report and company filings. Market includes PCA defined boundaries plus DEXUS Core Target Markets of Kings Square, Perth and Southbank, Melbourne.

RATIONALE

Brings together two complementary portfolios – enhanced diversity in DXS office portfolio

- Creates a highly diversified office platform
 - Provides enhanced diversification across assets, tenants and markets
- Combines complementary office platforms
 - Consistent investment approaches with a focus on prime grade office investment
 - Maintain 87% prime grade portfolio
- Retains core exposure to the key office markets of Sydney and Melbourne
 - Allocation maintained at ~75% of portfolio

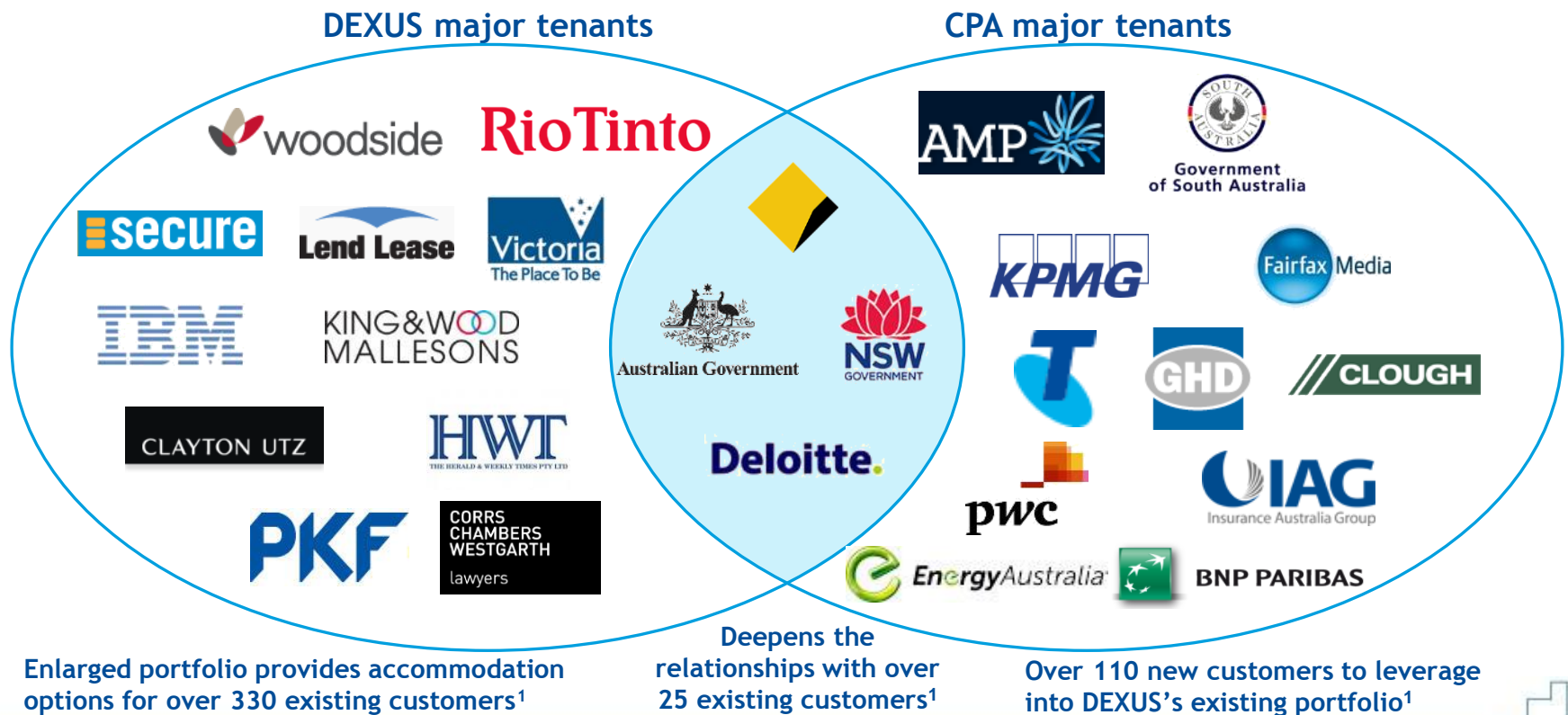


1. Book values as at 30 June 2013, represents 50% of CPA's portfolio in merged DXS office portfolio. "Other" includes development land, CBD car parks, business parks and the QV retail centre.

RATIONALE

Brings together two complementary portfolios - broader tenant exposure

- Broadens DEXUS's exposure to quality, blue chip tenants, underpinning quality of earnings
- Strong tenant representation across S&P/ASX 100, government, legal and accounting firms
- Increased ability to retain quality tenants by providing superior accommodation solutions



Note: Major tenants represent top 15 office tenants by income for both DEXUS and CPA.

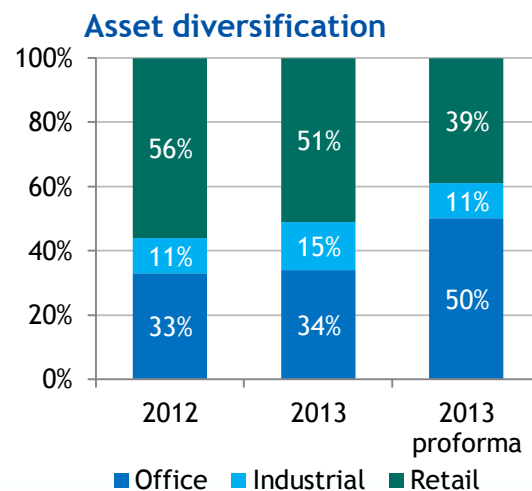
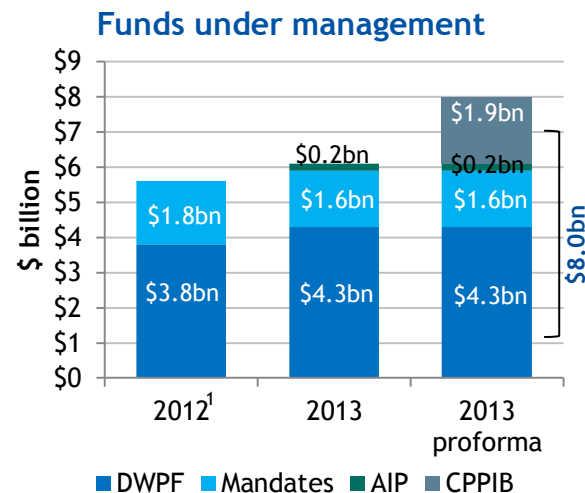
Source: 30 June 2013 results presentations and DEXUS management information.

1. Tenants with identified lettable space of at least 150 sqm.

RATIONALE

Further enhances strong third party funds management platform

- Expands leading \$6.1 billion third party funds management platform to \$8 billion
- Executes on strategic objective to grow third party funds management platform through capital partnerships
- Further diversifies long-term capital sources
- Builds on platform growth following the establishment of the Australian Industrial Partnership in October 2012
- Consistent with DEXUS's strategy of fewer, deeper capital partner relationships



1. Mandates for 2012 included a \$0.2 billion US mandate.

RATIONALE

Leverages DEXUS's fully integrated office platform and experienced team

- Fully integrated office management platform spanning asset management, leasing, development
- Internalised property platform enhances alignment of interests to drive optimal asset outcomes

Strong office asset management and leasing platform

- Highly credentialed senior team with average property experience of over 20 years
- Established office management team with deep corporate and leasing agency backgrounds and substantial leasing experience
- Demonstrated experience in de-risking future lease expiries

Extensive development expertise

- Extensive development expertise across office, industrial and retail sectors
- Team of nine professionals with an average of 14 years experience
- DEXUS has a track record in office development, developing landmark office towers including 1 Bligh Street, Sydney 123 Albert Street, Brisbane and Woodside Plaza, Perth

Established corporate team

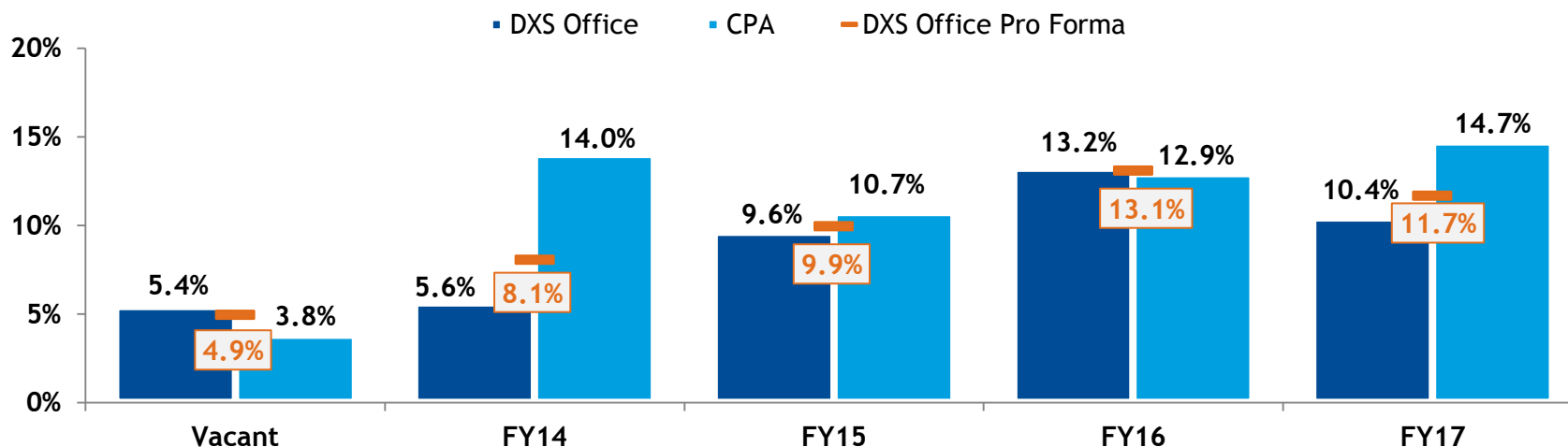
- Established internalised model with demonstrated track record
- DEXUS Treasury team awarded “Treasury Team of the Year” in 2012
- Strong commitment to corporate responsibility and sustainability with significant NABERS Energy improvement program recognised in 2013 Green Globe Awards

RATIONALE

Provides operational and leasing synergies due to portfolio scale

- Enhances DEXUS's ability to deliver superior asset management results
 - Increased ability to accommodate current and future tenant needs
 - Improved customer experience from DEXUS's management model
- Scale delivers superior market intelligence = better leasing outcomes = better buy/sell decisions
- Balances lease expiry profile with enhanced diversification across tenants, assets and markets

Lease Expiry Profile By Income¹



1. Lease expiry profiles are as at 30 June 2013.

3. SUMMARY



SUMMARY

- The Proposal, if implemented
 - Is in line with DEXUS's strategy
 - Delivers an attractive outcome for all stakeholders, in a timely manner with limited business interruption
 - Creates a market leading Australian office platform
- Post implementation of the Proposal, new and existing DEXUS Security holders will have access to
 - A clear strategy with demonstrated execution capability
 - DEXUS's experienced management team
 - A platform with clear leadership in Australian office and strong growth potential
 - A strong and conservative balance sheet
 - An established capital partnering model

1 Bligh Street and Governor Phillip Tower, 1 Farrer Place, Sydney, NSW



APPENDICES



CANADA PENSION PLAN INVESTMENT BOARD¹ (CPPIB)

- CPPIB is a leading global professional investment management organisation that invests the assets of the Canada Pension Plan (CPP) not currently needed to pay benefits
- With net assets of C\$188.9 billion, including C\$20.9 billion in real estate investments, the CPP Fund is Canada's largest single-purpose pension fund and ranks among the ten largest retirement funds in the world today
- CPPIB is a long-term investor in Australia with C\$5.8 billion committed to real estate, infrastructure, public equities and private equity
- With C\$3.2 billion committed to real estate in Australia, CPPIB has deep investment expertise and a significant investor presence in high-quality real estate assets, including ownership interests in
 - The Barangaroo South project in Sydney;
 - Goodman Trust Australia, an industrial real estate vehicle; and
 - AMP Capital Retail Trust, which owns 80% of Pacific Fair Shopping Centre and 50% of Macquarie Centre

1. As at 30 June 2013.

PROPOSAL TERMS

- Under the Proposal, DEXUS intends that the DEXUS Stapled Securities issued to CPA Unitholders will participate in the next distribution for the number of days they are on issue during the distribution period
- Any CPA Units which are issued to CPA convertible noteholders following a conversion of their notes prior to any approval of the Proposal by CPA Unitholders will be acquired under the Proposal. Under the Proposal, CPA convertible noteholders who submit valid conversion notices after CPA Unitholder approval is obtained (if any) will be cashed out by the responsible entity of CPA in accordance with the terms of the convertible notes
- The Proposal has limited conditions, including satisfactory due diligence, court, regulatory (including FIRB and ACCC), key third party and unitholder approvals
- DEXUS has committed¹ acquisition and term debt facilities to assist in meeting its funding requirements
- Details of the Consortium's arrangements are set out in the Co-operation Letter attached to DEXUS's latest substantial holder notice



1. Subject to documentation.

BASIS OF PREPARATION OF PRO-FORMA IMPACT ON KEY METRICS

The metrics are prepared on the basis of current guidance provided to the market by both CPA and DEXUS (refer to Slides 26 and 27)

If the Proposal is implemented between the Consortium and CMIL, further information will be released to DEXUS Security holders and CPA Unitholders. That will include financial information about the impact of the Proposal that will be based on the actual terms of the Proposal agreed between the parties. It may also be based on additional information provided by CMIL. Given this fact, any financial information released to the market after a Proposal is agreed may differ materially from the metrics shown in this presentation.

The following slides set out:

- A description of the relevant methodologies for calculating FFO used in this presentation (refer Slide 25); and
- Key assumptions underlying the pro-forma Proposal impact on DEXUS key metrics presented on Slide 10 (refer Slides 26 and 27)

FUNDS FROM OPERATIONS (FFO) DEFINITIONS

The Property Council (PCA) White Paper on FFO (“Voluntary Best Practice Guidelines for Disclosing Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO)”) outlines voluntary guidelines to be used for calculating FFO. The inclusions and exclusions in the PCA definition of FFO (referred to as PCA FFO) are described in the table below.

At 30 June 2013, DEXUS and CPA had not formally adopted the PCA definition. Nevertheless, DEXUS and CPA included PCA FFO in their respective 2013 annual results presentations. In addition, both DEXUS and CPA included FFO calculated on the basis of their own definitions (DEXUS FFO and CPA FFO respectively). The inclusions and exclusions in the definitions of DEXUS FFO and CPA FFO are described in the table below.

PCA FFO has been used as the basis of the key metrics pre and post Proposal in order to provide a consistent FFO methodology for both DEXUS and CPA.

Reference	Item	PCA FFO	DEXUS FFO	CPA FFO
Statutory AIFRS net profit after tax		✓	✓	✓
A Investment property and inventory				
A1/A2	Gains/Losses from sales of investment property	✓	✓	✓
A3/A4	Fair value gain/loss on investment property	✓	✓	✓
A5/A6	Impairment/reversal of impairment charges on inventory	✓	✓	✓
B Goodwill and intangibles				
B1/B2	Impairment/reversal of impairment of goodwill or intangibles	✓	✓	✓
C Financial instruments				
C1/C2	Fair value gain/loss on the mark-to-market of derivatives	✓	✓	✓
C3	Fair value movement of equity component of convertible bonds	✓	n/a	✓
D Incentives and rent straightlining				
D1	Amortisation of fit out incentives	✓	✓	✓
D2	Amortisation of cash incentives	✓	✓	✓
D3	Amortisation of project incentives	✓	n/a	n/a
D4	Amortisation of rent-free periods	✓	✗	✗
D5	Rent straightlining	✓	✓	✓
	Amortisation of leasing commissions	✗	✗	✓
E Tax				
E1/E2	Non-FFO deferred tax benefits/expenses	✓	✓	n/a
F Other unrealised or one-off Items				
F1	Recycling of foreign currency translation reserve (FCTR)	✓	✓	n/a
F2	Other unrealised or one-off items	✓	✓	✓
FFO		✓	✓	✓

KEY FFO ASSUMPTIONS

DXS Standalone

- 19 August 2013 market guidance of 8.15 cents per security (cps) or 8.63 cps using the PCA FFO definition which adds back amortisation of rent-free periods
- Assumptions:
 - Delivering 2.5-3.5% like-for-like income growth across the DEXUS office and industrial portfolios
 - Approximately \$4m in trading profits
 - DEXUS cost of funds in line or slightly below FY13 cost of funds of 6%
 - Excludes the distribution, net of funding costs of DEXUS's 14.9% economic interest in CPA

CPA Standalone

- 20 August 2013 market guidance of 8.73 cps which is materially consistent with the PCA FFO definition
- The assumptions underlying this guidance are set out on slide 40 of the CPA Annual Results 2013 presentation dated 20 August 2013

Pro-forma DEXUS post implementation of the Proposal

- Includes DEXUS' 50% share of CPA
- Assumes the Proposal is implemented and completes on 31 December 2013
- Total incremental and assumed debt at 5.0% - 5.2% cost of debt
- A reduction of DXS Group MER¹ to sub 45 basis points on an annualised basis as a result of a more efficient and scalable cost structure due to cost synergies. Cost synergies arise as a result of a reduction in CPA corporate expenses and external fund fees as CPA would no longer be a listed trust
- In addition, an increase in profitability from management operations on FY13 of approximately \$6m on an annualised basis relating to property management and funds management
- Includes impact of on-market securities buy-back

1. Management Expense Ratio is calculated as annualised costs arising from managing DEXUS asset and corporate activity divided by funds under management.

KEY GEARING AND NTA ASSUMPTIONS

Gearing Assumptions

- Gearing is calculated as interest bearing liabilities (excluding deferred borrowing costs and including the fair value of cross currency swaps and post implementation of Proposal DXS's share of residual debt in unlisted fund) less cash divided by total tangible assets (excluding derivatives and deferred tax assets including post implementation of Proposal DXS's share of assets in unlisted fund) less cash
- DXS standalone 30 June 2013 gearing of 29.0% adjusted for the following:
 - Incremental funding requirements of approximately \$0.8bn in relation to the Proposal
 - 50% share of CPA assets acquired (excluding derivative financial instruments and deferred tax assets)

NTA Assumptions

DXS Standalone

- 30 June 2013 NTA of \$1.05 per security

CPA Standalone

- 30 June 2013 NTA of \$1.15 per unit. Refer slide 14 of the CPA Annual Results 2013 presentation dated 20 August 2013.

Pro-forma DEXUS post implementation of the Proposal

- Basis - DXS standalone NTA plus 50% share of CPA standalone NTA less assumed transaction related costs being:
 - Transaction costs including advisor fees and stamp duty
 - Debt make whole costs (ie CPA's existing USPP and Convertible Bond debt)
 - Facilitation fee payable to CBA
 - Other treasury costs such as interest rate swaps