CREATING CITY CENTRE **PRECINCTS**

INTERIM REPORT **2018**

Precinct PROPERTIES NEW ZEALAND

Cover page image: Artists impression of Commercial Bay retail offering

Contents page Image: Artists impression of Commercial Bay, lower Queen Street, Auckland

More information can be found at www.precinct.co.nz

**Commercial Bay.
Developing a premium
retail offering in the heart of
Auckland CBD.**

CHAIRMAN'S AND CEO'S REPORT

RESULTS OVERVIEW

It has been an active six-month period since June 2017. We have continued to focus on our long-term strategy as city centre specialists and have achieved strong rental growth across our investment portfolio.

We have advanced our developments with construction progressed at Commercial Bay in Auckland and Bowen Campus in Wellington. Bowen Campus continues to track well with the project benefitting from further office leasing while remaining on budget and on programme. Commercial Bay has also progressed with retail leasing advancing to 60% and office pre-leasing maintained at 66%. Enquiry levels for both retail and office remain elevated and the company is buoyed by the interest from potential occupiers in this development.

The recent completion of Wynyard Quarter Stage One and high occupancy levels across our portfolio have both contributed positively to our increased revenues, with our Wellington corporate assets achieving particularly strong growth during the period.

As projects advanced during the year we reduced our risk profile, and continued to diversify our funding sources which remains a core component of Precinct's capital management strategy. During the period, Precinct further improved its capital structure through a number of capital management initiatives including a successful convertible notes offer and bond issue, totalling $250 million.

$38.2 M

Net operating income

INTERIM RESULTS

Precinct has delivered another good operating performance for the first half of its 2018 financial year.

Net operating income, which adjusts for a number of non-cash items, was $38.2 million or 3.15 cents per share (cps), and was consistent with the previous comparable period (31 December 2016: $38.8 million).

A further valuation write down at 10 Brandon Street in Wellington, movement in financial instruments and a higher current tax expense this period contributed to net profit after tax of $17.7 million for the six months ended 31 December 2017 (31 December 2016: $39.1 million).

Dividends attributable to shareholders for the six months ending 31 December 2017 totalled 2.90 cps (31 December 2016: 2.80 cps) representing an increase of 3.6%.

The completion of Wynyard Quarter Stage One, higher occupancy levels and improved rental growth have contributed to an increase in net property income by 3.7% to $47.6 million (31 December 2016: $45.9 million).

After adjusting for Wynyard Quarter Stage One, foregone income associated with development projects and 10 Brandon Street, like for like income was 3.1% higher than the previous comparable period. The Auckland portfolio saw an increase of 2.5% while in Wellington the corporate assets saw net property income increase by an impressive 12.4%. This was due to occupancy increasing by around 10%.

+12.4 %

Increase in net property income in our Wellington corporate assets

ANZ CENTRE, AUCKLAND (CENTRE OF PHOTO)

The fall in the New Zealand interest rate swap curve during the period was the primary reason for the fair value loss in financial instruments of $6.9 million. This loss compared with a $15.3 million gain for the same period last year.

Current tax expense increased by $2.1 million to $2.7 million. This was a result of a higher level of deductibles in the prior period due to the disposal of depreciable assets at Bowen Campus in October 2016.

An internal review of the 30 June 2017 property valuations undertaken at 31 December 2017 indicated no material value movement in the period for all the assets apart from 10 Brandon Street in Wellington.

With a number of options for 10 Brandon Street having been assessed to date, we have now

KEY FINANCIAL INFORMATION

Key Financial Information

($ millions unless otherwise stated)	31 December 2017	31 December 2016	Change
Gross rental income	**65.7**	64.3	2.2%
Operating income before indirect expenses	**47.6**	45.9	3.7%
Operating income before income tax	**40.9**	39.4	3.8%
Net operating income[1]	**38.2**	38.8	(1.5%)
Net profit after income tax	**17.7**	39.1	(54.7%)
Earnings per share based on operating income before tax (cents)	**3.38**	3.25	4.0%
Earnings per share based on operating income after tax (cents)	**3.15**	3.20	(1.6%)
Net distribution (cents per share)	**2.90**	2.80	3.6%
Payout Ratio (%)	**92**	87	5.2%

The information set out above has been extracted from the financial statements set out on pages 13 to 25.

1 Net operating income is an alternative performance measure which adjusts net profit after tax for a number of non-cash items. This alternative performance measure is provided to assist investors in assessing Precinct's performance for the year.

CHAIRMAN'S AND CEO'S REPORT (CONTINUED)

completed our options analysis and tested the market for the asset to be sold. Following an independent valuation at 31 December 2017, a further valuation write down of $14.7 million to $7.0 million (30 June 2017: $20.2 million) has occurred at this property. Whilst not imminent, the most likely option for this asset is for it to be strengthened and repositioned.

The value of net tangible assets per share at interim balance date was $1.23 (30 June 2017: $1.24).

CAPITAL MANAGEMENT

In September 2017, Precinct successfully raised $150 million of four-year, fixed-rate subordinated convertible notes. Precinct considers this to be a capital management solution which is well suited to its current strategy and opportunities. It is a flexible funding option that gives Precinct the capital available to match development commitments while ensuring that earnings are not diluted in the short term. Also in the period, Precinct issued $100 million of senior secured seven year bonds with the proceeds used to repay bank debt. Both issues have further strengthened Precinct's capital management position.

$250 M

Non bank funding secured in the period

At balance date Precinct has total borrowings (including convertible notes) of $600.4 million (30 June 2017: $452.1 million) and total assets of $2.2 billion (30 June 2017: $2.1 billion). Gearing as measured under borrower covenants, which disregards subordinated debt, has consequently decreased during the period to 23.0% (30 June 2017: 25.1%).

23.0 %

Gearing as at 31 December 2017

Precinct was 75% hedged through the use of interest rate swaps (30 June 2017: 65%) and had a weighted average interest rate including all fees of 5.4% at 31 December 2017 (30 June 2017: 5.6%).

Consistent with Precinct's capital recycling strategy and ongoing capital management, we are seeking to progress the sale of a 50% interest of ANZ Centre in Auckland. Real estate agency firm Colliers International has been appointed to market the asset for sale.

"DIVERSIFYING OUR FUNDING SOURCES REMAINS A CORE COMPONENT OF PRECINCT'S CAPITAL MANAGEMENT STRATEGY"

>> **Craig Stobo**, Chairman.

($ millions unless otherwise stated)	31 December 2017	30 June 2017	Change
Total assets	**2,202.6**	2,079.2	5.9%
Total liabilities	**713.9**	573.6	24.5%
Total equity	**1,488.7**	1,505.6	(1.1%)
Shares on issue (million shares)	**1,211.1**	1,211.1	0.0%
NTA per share (cents)	**122.9**	124.3	(1.1%)
Gearing ratio at balance date (%)[1]	**23.0**	25.1	(8.4%)

1 *For loan covenant purposes deferred tax losses, fair value of swaps and the convertible note are not included in the calculation of gearing ratio.*

INTERIOR IMAGES AT CO-WORKING SPACE, GENERATOR

OPERATIONAL UPDATE

Leasing progress has continued over the last six months with overall portfolio occupancy remaining in excess of 99% (30 June 2017: 100%) and WALT increased to 8.8 years (30 June 2017: 8.7 years).

In addition, 57 rent reviews were settled over the 6 months to 31 December 2017, resulting in a 4.1% increase on valuation rents at 30 June 2017. Market rent reviews across the investment portfolio provided a 3.0% uplift.

With good levels of leasing enquiry in both Auckland and Wellington, we expect to reduce the remaining vacant office space in the portfolio and to see further organic growth achieved.

Precinct's 50% owned co-working space provider, Generator successfully launched its new innovation focused co-working space at GridAKL in Wynyard Quarter. Occupancy is sitting well ahead of expectations and contributing to the emerging vibrancy of the new commercial precinct. Generator now manages 12,000 square metres across three locations. Generator House at 11 Britomart Place, Takutai Square will be the newest site to join Generator's co-working offering. Located across three upper levels, this new executive space will be available for occupation from May 2018.

99%

Portfolio occupancy

8.8 YEARS

Weighted average lease term

"HIGH OCCUPANCY LEVELS ACROSS OUR INVESTMENT ASSETS IS A MAJOR ACHIEVEMENT AND REFLECTS THE HIGH QUALITY REAL ESTATE WITHIN OUR PORTFOLIO"

>> **Scott Pritchard**, CEO.

CHAIRMAN'S AND CEO'S REPORT *(CONTINUED)*

DEVELOPMENT PROGRESS

Commercial Bay

As strong retail leasing progress has been achieved over the last six months, we have also achieved a pleasing level of success with securing the key retailers who will define our unique retail mix at Commercial Bay. This includes renowned food and beverage operators Mimi Gilmour, Al Brown and Josh Emett who will each have a concept in Commercial Bay alongside legendary New York restaurant Saxon + Parole, as well as a number of leading local and international fashion retailers who remain confidential at this stage.

In August 2017, Harbour Eats, the communal dining offer at Commercial Bay was also launched. Located on level 2, the 700-seat eatery is designed by one of the world's leading hospitality design firms, New York-based, AvroKO and will offer a food destination unlike anywhere else in the world.

In the period we were also excited to share a taste of Commercial Bay with the release of a tower lobby fly-through and a 360 degree retail experience. These can be viewed at www.commercialbay.co.nz.

As outlined at the full year FY17 results, Precinct received independent advice that the completion of the retail centre will likely be delayed beyond its contracted date of November 2018, potentially to late Q1 2019. Our contractor has recently advised that their programmed date for retail completion is December 2018. Our updated independent advice remains that the contractor's December 2018 programme date is unlikely to be achieved. With construction still at an early stage we continue to closely monitor progress on site.

The contractor's programme date for completion of the office tower remains mid 2019 (July).

ARTISTS IMPRESSION OF HARBOUR EATS

Independent programme advice has also been sought for the office tower. This advice shows that there is some risk to achieving the programme completion date, but that this will depend on the rate of façade installation, a workstream which has just commenced and will be closely monitored. Precinct notes that these reviews are independent of the contractor and have been sought by Precinct so that we can inform lessees of likely occupation dates.

Precinct remains comfortable with the provisions of its construction contract and the provisions which protect Precinct from losses due to contractor delay.

Precinct continues to forecast a profit on cost of over $200 million and a yield on cost of 7.5%.

Bowen Campus

Construction works remain on programme and on budget with 100% of the office space at Bowen Campus pre-committed.

During the period, the lease to the New Zealand Defence Force at Bowen State was extended to 18 years. The WALT across Bowen Campus has increased to almost 17.0 years (June 2017: 15.0 years).

The previously announced lease to the Crown across the top four floors totalling 4,700 square metres at Bowen State building also became unconditional during the period.

BOWEN CAMPUS PROGRESS AT JANUARY 2018

CHAIRMAN'S AND CEO'S REPORT *(CONTINUED)*

ARTISTS IMPRESSION OF WYNYARD QUARTER STAGE TWO

FUTURE OPPORTUNITES

Wynyard Quarter Stage Two

Following on from the successful completion of Wynyard Quarter Stage One, we are continuing to advance Stage Two, being one of the remaining three sites available for future development. Negotiations are taking place with occupiers for Stage Two and we remain on target to commit to developing another 8,000 square metre office building.

1 Queen Street

As a second stage of the Commercial Bay project, we are continuing to assess our development options at 1 Queen Street. We have identified the most feasible option to be a mixed use development, comprising hotel with office above. Negotiations are on-going with a preferred hotel operator and we believe this offering will further support the Commercial Bay retail precinct, particularly food and beverage.

Bowen balance land

The remaining development land at Bowen Campus is currently being designed to accommodate up to 20,000 square metres of commercial office space. This space is considered suitable for both Crown and corporate occupiers. The existing 3,800 square metre Annex building is currently being demolised to allow for future development.

MARKET UPDATE

The overall Auckland CBD office vacancy rate was recorded at 5.9% or approximately 86,100 square metres of vacant space as at December 2017, a slight uplift compared to the 5.7% or 81,700 square metres reported by Colliers International as at June 2017. The Prime CBD office vacancy rate also increased over the past six months to 4.3% or approximately 26,200 square metres of vacant space (June 2017: 3.8%).

Consistent with recent market trends, the current low prime grade vacancy rate remains driven by elevated demand from commercial occupiers. Taking into consideration the limited supply pipeline with no new prime grade building expected to be completed prior to the new PwC Tower at Commercial Bay in 2019, prime vacancy rates are not forecast to significantly increase in the short term.

The Wellington CBD office market has in recent months experienced a flurry of activity with many commercial occupiers forced to quickly relocate to alternative premises due to their buildings being withdrawn temporarily and in some cases permanently, from the market following the November 2016 Kaikoura earthquake. According to the latest Colliers International research the overall Wellington CBD office vacancy rate further decreased from 7.8% or 107,500 square metres in June 2017 to 7.4% or 103,400 square metres as at December 2017 (December 2016: 10.5% or 154,500 square metres).

The increased demand for seismically strong buildings have accordingly resulted in the prime vacancy rate falling throughout the post-quake months, with the latest survey results sourced from Colliers indicating the prime vacancy rate in Wellington is at a historic low of 0.1% or 283 square metres as at December 2017 (June 2017: 0.1% and December 2016: 2.0%). Looking ahead, whilst a significant increase in prime inventory is forecast from 2018 onwards, the prime vacancy rate in Wellington is anticipated to remain subdued over the short term due to strong occupier demand and high levels of pre-commitment across the Wellington Accommodation Project (WAP 2) assets and other projects such as 20 Customhouse Quay and PwC Centre.

OUTLOOK

Precinct has a clear strategy of city centre specialisation which is expected to provide long term outperformance. We remain comfortable with our earnings pathway into the future.

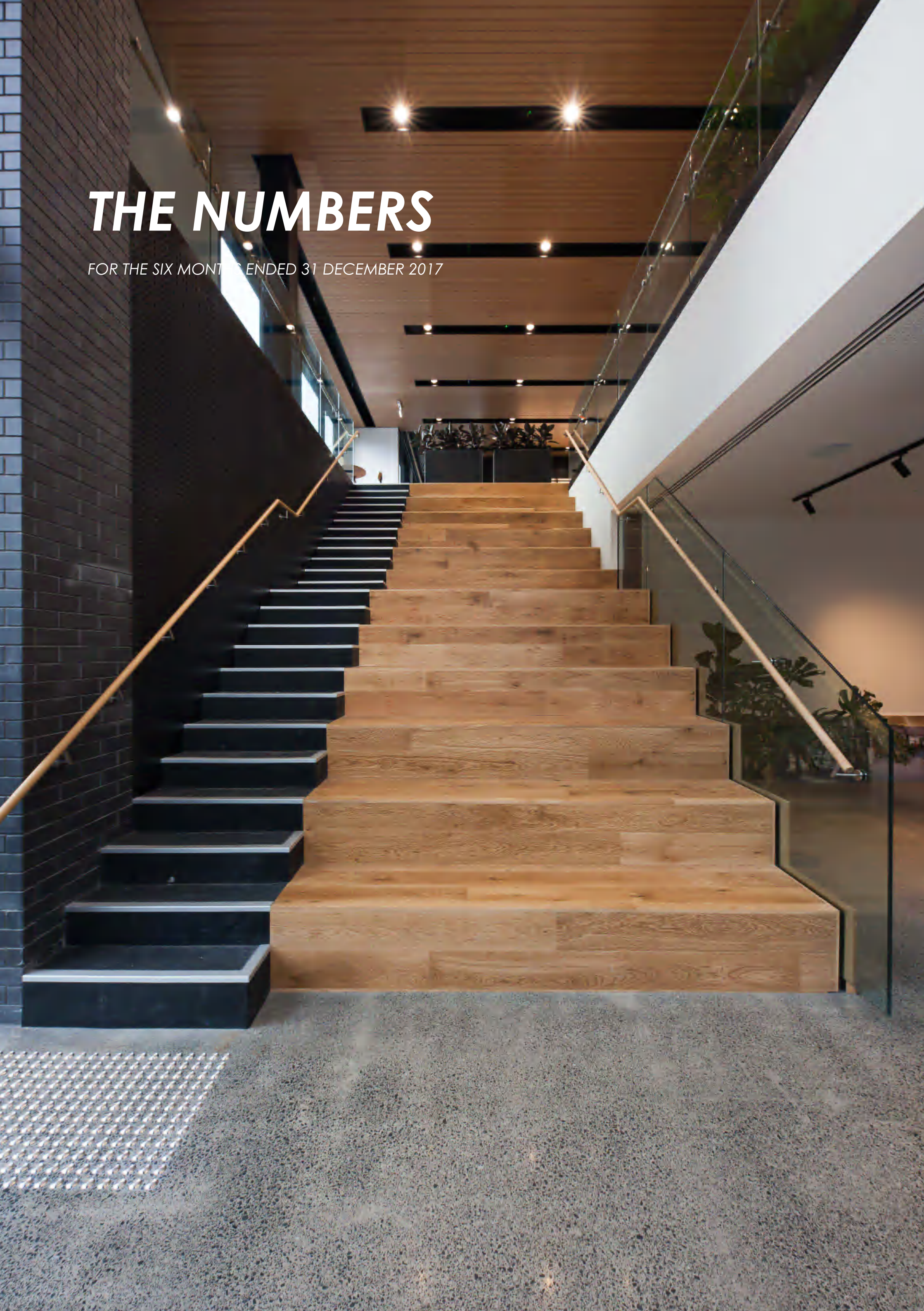
With supportive capital markets and both occupier and investment markets remaining strong, Precinct is well positioned to advance our city centre strategy and increase shareholder value in 2018 and beyond.

Full year operating earnings after tax for the 2018 financial year are expected to be approximately 6.30 cents per share, before performance fees. Dividend guidance also remains unchanged at 5.80 cents per share, representing a 3.6% increase in dividends to shareholders.

Craig Stobo, Chairman   Scott Pritchard, CEO

THE NUMBERS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2017

Amounts in $millions	Notes	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016	Audited year ended 30 June 2017
Revenue				
Gross rental income		**65.7**	64.3	**126.2**
Less direct operating expenses		**(18.1)**	(18.4)	**(35.8)**
Operating income before indirect expenses		**47.6**	45.9	**90.4**
Indirect expenses / (revenue)				
Interest expense		**1.8**	1.6	**3.5**
Interest income		**(0.2)**	-	**(0.1)**
Other expenses	7	**5.1**	4.9	**9.8**
Total indirect expenses / (revenue)		**6.7**	6.5	**13.2**
Operating income before income tax		**40.9**	39.4	**77.2**
Non operating income / (expenses)				
Unrealised net gain / (loss) in value of investment and development properties	6	**(14.7)**	(12.1)	**77.5**
Unrealised net gain / (loss) on financial instruments		**(6.9)**	15.3	**11.8**
Net realised gain / (loss) on sale of investment properties	6	**-**	-	**-**
Total non operating income / (expenses)		**(21.6)**	3.2	**89.3**
Net profit before taxation		**19.3**	42.6	**166.5**
Income tax expense / (benefit)				
Current tax expense		**2.7**	0.6	**2.5**
Depreciation recovered on sale		**-**	-	**-**
Deferred tax expense / (benefit) - financial instruments		**(1.6)**	4.3	**3.3**
Deferred tax expense / (benefit) - depreciation		**-**	(1.4)	**(1.4)**
Total taxation expense / (benefit)		**1.1**	3.5	**4.4**
Share of profit or (loss) of joint ventures		**(0.5)**	-	**-**
Net profit and total comprehensive income after income tax attributable to equity holders		**17.7**	39.1	**162.1**
Earnings per share (cents per share)				
Basic and diluted earnings per share	8	**1.46**	3.23	**13.38**
Other amounts (cents per share)				
Operating income before income tax per share		**3.38**	3.25	**6.37**
Net operating income per share	11	**3.15**	3.20	**6.17**

The accompanying notes on pages 17 to 25 form part of these Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2017

Amounts in $millions unless otherwise stated	*Cents per share*	*Shares (m)*	*Ordinary shares*	*Retained earnings*	*Total equity*
At 1 July 2016		1,211.1	1,046.7	364.2	1,410.9
Total comprehensive income for the period				39.1	39.1
Distributions					
FY16 Q4 final distribution	1.35			(16.4)	(16.4)
FY17 Q1 interim distribution	1.40			(17.0)	(17.0)
At 31 December 2016		1,211.1	1,046.7	369.9	1,416.6
Total comprehensive income for the period				123.0	123.0
Distributions					
FY17 Q2 interim distribution	1.40			(17.0)	(17.0)
FY17 Q3 interim distribution	1.40			(17.0)	(17.0)
At 30 June 2017		1,211.1	1,046.7	458.9	1,505.6
Total comprehensive income for the period				**17.7**	**17.7**
Distributions					
FY17 Q4 final distribution	**1.40**			**(17.0)**	**(17.0)**
FY18 Q1 interim distribution	**1.45**			**(17.6)**	**(17.6)**
At 31 December 2017		**1,211.1**	**1,046.7**	**442.0**	**1,488.7**

All shares have been fully paid, carry full voting rights, have no redemption rights, have no par value and are subject to the terms of the constitution.

The accompanying notes on pages 17 to 25 form part of these Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

Amounts in $millions	*Notes*	*Unaudited six months ended 31 December 2017*	*Audited year ended 30 June 2017*
Current assets			
Cash		**2.6**	4.3
Debtors and other current assets		**6.7**	8.9
Provision for tax		**0.6**	1.9
Total current assets		**9.9**	15.1
Non current assets			
Fair value of derivative financial instruments	*10*	**15.0**	12.8
Other assets		**2.8**	2.1
Investment in joint ventures		**7.0**	4.6
Development properties	*6*	**623.1**	509.2
Investment properties	*6*	**1,544.8**	1,535.4
Total non current assets		**2,192.7**	2,064.1
Total assets		**2,202.6**	2,079.2
Current liabilities			
Fair value of derivative financial instruments	*10*	**1.6**	2.9
Accrued development capital expenditure		**23.9**	34.5
Acquisition settlement obligation		**27.2**	26.7
Other current liabilities		**5.6**	8.4
Total current liabilities		**58.3**	72.5
Non current liabilities			
Interest bearing liabilities	*9*	**606.6**	456.9
Fair value of derivative financial instruments	*10*	**27.3**	20.9
Deferred tax liability		**21.7**	23.3
Total non current liabilities		**655.6**	501.1
Total liabilities		**713.9**	573.6
Total equity		**1,488.7**	1,505.6
Total liabilities and equity		**2,202.6**	2,079.2

Signed on behalf of the Board of Precinct Properties New Zealand Limited, who authorised the issue of these financial statements on 27 February 2018.

DON HUSE
CHAIRMAN AUDIT & RISK COMMITTEE

CRAIG STOBO
CHAIRMAN

The accompanying notes on pages 17 to 25 form part of these Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2017

Amounts in $millions	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016	Audited year ended 30 June 2017
Cash flows from operating activities			
Gross rental income per statement of comprehensive income	**65.7**	64.3	**126.2**
Less: Current year incentives	**(3.6)**	(0.9)	**(2.2)**
Add: Amortised incentives	**2.2**	1.7	**3.6**
Add: Working capital movements	**(0.3)**	(1.8)	**(1.4)**
Cash flow from gross rental income	**64.0**	63.3	**126.2**
Interest income	**0.2**	-	**0.1**
Property expenses	**(19.8)**	(23.9)	**(43.8)**
Other expenses	**(4.9)**	(4.5)	**(9.9)**
Interest expense	**(4.5)**	(1.1)	**(2.4)**
Income tax	**(1.5)**	(15.6)	**(17.5)**
Net cash inflow / (outflow) from operating activities	**33.5**	18.2	**52.7**
Cash flows from investing activities			
Capital expenditure on investment properties	**(7.9)**	(10.4)	**(18.2)**
Capital expenditure on development properties	**(123.7)**	(70.0)	**(172.8)**
Capital expenditure on other assets	**(0.7)**	(0.7)	**(1.5)**
Investment in and advances to joint ventures	**(2.5)**	-	**(4.6)**
Disposal of investment properties	**-**	-	**-**
Capitalised interest on development properties	**(14.2)**	(7.4)	**(17.5)**
Net cash inflow / (outflow) from investing activities	**(149.0)**	(88.5)	**(214.6)**
Cash flows from financing activities			
Loan facility drawings to fund capital expenditure	**132.3**	81.1	**192.5**
Other loan facility drawings / (repayments)[1]	**(134.0)**	22.2	**38.3**
Loan facility cancellations	**(100.0)**	-	**-**
Issue of convertible notes	**150.0**	-	**-**
Issue of senior secured bonds	**100.0**	-	**-**
Distributions paid to share holders	**(34.5)**	(33.3)	**(67.2)**
Net cash inflow / (outflow) from financing activities	**113.8**	70.0	**163.6**
Net increase / (decrease) in cash held	**(1.7)**	(0.3)	**1.7**
Cash at the beginning of the period	**4.3**	2.6	**2.6**
Cash at the end of the period	**2.6**	2.3	**4.3**

1 Loan facility drawings are net of repayments made throughout the period.

The accompanying notes on pages 17 to 25 form part of these Financial Statements

1. REPORTING ENTITY

Precinct Properties New Zealand Limited (Precinct) is incorporated in New Zealand and is registered under the New Zealand Companies Act 1993.

Precinct is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

These interim financial statements are those of Precinct, its two 100% owned subsidiaries and its joint venture (the Group). Precinct's investment in Generator New Zealand Limited is accounted for using the equity method.

The Group's principal activity is investment in predominantly prime CBD properties in New Zealand. Precinct is managed by AMP Haumi Management Limited (the manager).

2. BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with NZ IAS 34 and IAS 34 Interim Financial Reporting.

The financial statements have been prepared:

- On a historical basis except for financial instruments, US private placement notes, investment and development properties which are measured at fair value.
- Using the New Zealand Dollar functional and reporting currency.
- On a GST exclusive basis, except for receivables and payables that are stated inclusive of GST.

All financial information has been presented in millions, unless otherwise stated.

These interim financial statements should be read in conjunction with the financial statements and related notes included in Precinct's Annual Report for the year ended 30 June 2017.

Precinct has elected to include additional comparative periods to assist users of the financial statements.

3. FAIR VALUE ESTIMATION

Precinct classifies its fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active market 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 (by price) or indirectly (derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing Precinct's interim financial statements, management continually make judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on Precinct.

All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions made by management.

The significant judgements, estimates and assumptions made in the preparation of these interim financial statements are in relation to:

i. Investment and development properties

ii. Deferred tax assets and deferred tax liabilities

iii. Cross currency interest rate swaps and USPP notes

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

5. SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

Precinct's financial position and performance was affected by the following events and transactions that occurred during the reporting period:

i. Convertible notes

On 27 September 2017, Precinct raised $150 million through a subordinated convertible note issue with a conversion price cap of $1.40 per share. Refer to Note 9 for details.

ii. Senior secured bonds

On 27 November 2017, Precinct raised $100 million through a New Zealand public bond issue. Refer to Note 9 for details.

6. INVESTMENT AND DEVELOPMENT PROPERTIES

Amounts in $millions	Valuer[1]	Valuation 30 June 2017	Capitalised incentives	Additions /[2] disposals	Revaluation gain / (loss)	Book value 31 December 2017
Investment properties[3]						
Auckland						
AMP Centre	CBRE	**163.4**	(0.1)	1.2	-	**164.5**
ANZ Centre - Auckland	JLL	**324.0**	0.1	0.2	-	**324.3**
HSBC House	JLL	**93.8**	(0.1)	1.1	-	**94.8**
PwC Tower	CBRE	**329.0**	0.4	0.7	-	**330.1**
Zurich House	JLL	**95.5**	(0.3)	0.7	-	**95.9**
Mason Brothers	Colliers	**37.2**	0.1	-	-	**37.3**
12 Madden Street	Colliers	**67.8**	0.3	0.2	-	**68.3**
Wellington						
Dimension Data House	Colliers	**114.3**	0.6	0.7	-	**115.6**
Mayfair House	Colliers	**40.8**	0.2	0.2	-	**41.2**
No.1 and 3 The Terrace	Bayleys	**70.5**	-	0.7	-	**71.2**
No. 3 The Terrace[4]	CBRE	**11.7**	-	-	-	**11.7**
Pastoral House	Colliers	**42.9**	0.1	0.7	-	**43.7**
State Insurance Tower	Bayleys	**144.5**	1.3	0.4	-	**146.2**
Market value (fair value) of investment properties		**1,535.4**	2.6	6.8	-	**1,544.8**
Development properties[3]						
Commercial Bay	JLL	**370.0**	0.1	85.8	-	**455.9**
Bowen Campus Stage One	Colliers	**108.5**	-	40.5	-	**149.0**
Bowen Campus Stage Two	Colliers	**10.5**	-	0.7	-	**11.2**
10 Brandon Street[5]	CBRE[6]	**20.2**	-	1.5	(14.7)	**7.0**
Market value (fair value) of development properties		**509.2**	0.1	128.5	(14.7)	**623.1**

1 *30 June 2017 valuer.*
2 *Additions arise from subsequent expenditure recognised in the carrying amount. Disposals relate to completed sales, unconditional contracts for sale at period-end and transfers to other categories of property.*
3 *All properties are categorised as level 3 in the fair value hierarchy. All properties are CBD office properties with the exception of Commercial Bay, Bowen Campus and 10 Brandon Street which are under development.*
4 *No. 3 The Terrace relates to the freehold title in respect to Precinct's leasehold interest.*
5 *Leasehold property on a perpetually renewable lease. This property was previously known as Deloitte House.*
6 *30 June 2017 and 31 December 2017 valuer.*

7. OTHER EXPENSES

Amounts in $millions	*Unaudited six months ended 31 December 2017*	*Unaudited six months ended 31 December 2016*	*Audited year ended 30 June 2017*
Other expenses			
Audit fees	**0.1**	0.1	**0.2**
Directors' fees and expenses	**0.3**	0.3	**0.5**
Manager's base fees	**4.0**	3.8	**7.7**
Manager's performance fees	**-**	-	**-**
Other[1]	**0.7**	0.7	**1.4**
Total other expenses	**5.1**	4.9	**9.8**

1 Other expenses includes valuation fees, share registry costs and annual report design and publication.

8. EARNINGS PER SHARE

Amounts in $millions	*Unaudited six months ended 31 December 2017*	*Unaudited six months ended 31 December 2016*	*Audited year ended 30 June 2017*
Net profit after tax for basic and diluted earnings per share ($millions)	**17.7**	39.1	**162.1**
Weighted average number of shares for basic and diluted earnings per share (millions)	**1,211.1**	1,211.1	**1,211.1**

There have been no new shares issued subsequent to balance date that would affect the above calculations.

9. INTEREST BEARING LIABILITIES

Amounts in $millions	*31 December 2017*	*30 June 2017*
Interest bearing liabilities		
Bank loans	**177.5**	279.2
US private placement	**97.9**	97.9
NZ senior secured bond	**175.0**	75.0
Convertible note	**150.0**	-
Total drawn debt	**600.4**	452.1
US private placement - fair value adjustments	**11.7**	8.8
Convertable note - embedded financial derivative adjustment	**1.8**	-
Capitalised borrowing costs	**(7.3)**	(4.0)
Net interest bearing liabilities	**606.6**	456.9

Breakdown of borrowings:

Amounts in $ millions	*Held at*	*Maturity*[1]	*Coupon*[1]	*31 December 2017*	*30 June 2017*
Bank loans	Amortised cost	Nov-20	Floating[2]	**177.5**	279.2
NZ senior secured bond (PCT010)	Amortised cost	Dec-21	5.54%	**75.0**	75.0
NZ senior secured bond (PCT020)	Amortised cost	Nov-24	4.42%	**100.0**	-
Convertible note (PCTHA)	Amortised cost	Sep-21	4.80%	**150.0**	-
US private placement	Fair value	Jan-25	4.13%	**73.2**	71.4
US private placement	Fair value	Jan-27	4.23%	**36.4**	35.3
Total				**612.1**	460.9

Weighted average term to maturity	**3.8 years**	4.0 years
Weighted average interest rate before swaps (including funding costs)	**4.09%**	3.58%

1 *As at 31 December 2017*

2 *Interest rates on bank loans are at the 90-day benchmark borrowing rate (BKBM) plus a margin. Precinct also pays facility fees.*

Precinct has committed funding of $1,182.9 million (June 2017: $1,032.9 million) including the NZ retail bond, convertible note and US private placement.

All lenders have the benefit of security over certain assets of the Group. The Group has given a negative pledge which provides that it will not permit any security interest in favour of a party other than the lenders to exist over more than 15% of the value of its properties.

To substantially remove currency risk, US private placement proceeds have been fully swapped back to New Zealand dollars.

Accounting Policy

Interest bearing liabilities

The US private placement is recognised at fair value including translation to NZD with any gains or losses recognised in the profit or loss as they arise. This fair value is determined using swap models and present value techniques with observable inputs such as interest rate and cross-currency curves. This measurement falls into level 2 of the fair value hierarchy.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Amounts in $millions	*31 December 2017*	*30 June 2017*
Fair value of derivative financial instruments		
Current assets	**-**	-
Non-current assets[1]	**15.0**	12.8
Current liabilities	**(1.6)**	(2.9)
Non-current liabilities	**(27.3)**	(20.9)
Total	**(13.9)**	(11.0)
Notional contract cover (fixed payer)	**1110.0**	990.0
Notional contract cover (fixed receiver)	**325.0**	75.0
Notional contract cover (cross currency swaps - fixed receiver)	**97.9**	97.9
Percentage of net drawn borrowings fixed	**75.0%**	65.3%
Weighted average term to maturity (fixed payer)	**4.17 years**	3.98 years
Weighted average interest rate after swaps (including funding costs)	**5.42%**	5.59%

1 This includes the cross currency interest rate swap valuation of $10.2 million (June 2017: $8.3 million) and a net credit value adjustment of $0.4 million (June 2017: $0.4 million).

Accounting Policy

Derivative financial instruments

Precinct uses derivative financial instruments (interest rate and cross currency swaps) to manage its exposure to interest rate and foreign exchange risks arising from operational, financing and investment activities.

Derivative financial instruments are recognised initially at fair value and subsequently re-measured and carried at fair value. They are carried as assets when the fair value is positive and liabilities when the fair value is negative. The gain or loss on re-measurement to fair value is recognised directly in profit or loss.

The fair value is the estimated amount that Precinct would receive or pay to terminate the swap at the balance date, taking into account current rates and creditworthiness of the swap counterparties. This is determined using swap models and present value techniques with observable inputs such as interest rate and cross-currency curves. The fair value of derivatives fall into level 2 of the fair value hierarchy.

11. RECONCILIATION OF NET PROFIT AFTER TAX TO NET OPERATING INCOME

Net operating income is net profit after tax, before revaluations on investment and development properties, revaluations of derivative financial instruments, realised gain or loss on sale of investment property, tax on disposal of depreciable assets and deferred tax.

Amounts in $millions	*Unaudited six months ended 31 December 2017*	*Unaudited six months ended 31 December 2016*	*Audited year ended 30 June 2017*
Net profit after taxation	**17.7**	39.1	**162.1**
Unrealised net (gain) / loss in value of investment and development properties	**14.7**	12.1	**(77.5)**
Unrealised net (gain) / loss on financial instruments	**6.9**	(15.3)	**(11.8)**
Net realised (gain) / loss on sale of investment properties	**-**	-	**-**
Depreciation recovered on sale	**-**	-	**-**
Deferred tax (benefit) / expense	**(1.6)**	2.9	**1.9**
Share of (profit) / loss of joint ventures	**0.5**	-	**-**
Net operating income	**38.2**	38.8	**74.7**
Weighted average number of shares for net operating income per share (millions)	**1,211.1**	1,211.1	**1,211.1**
Net operating income per share (cents)	**3.15**	3.20	**6.17**

This additional performance measure is provided to assist share holders in assessing their returns for the period.

12. CAPITAL COMMITMENTS

Precinct has $303.8m of capital commitments as at 31 December 2017 (June 2017: $405.3 million; December 2016: $499.9 million) relating to construction contracts.

13. RELATED PARTY TRANSACTIONS

Fees charged by and owing to the manager:

Amounts in $ millions	*31 December 2017*		*31 December 2016*		*30 June 2017*	
	Fees charged	**Owing at 31 December**	Fees charged	Owing at 31 December	**Fees charged**	**Owing at 30 June**
Base management services fee	**4.0**	**0.7**	3.8	1.3	**7.7**	**0.6**
Performance fee	**-**	**-**	-	-	**-**	**-**
Leasing fees	**1.6**	**1.2**	6.5	0.2	**9.9**	**1.2**
Development manager fees	**1.2**	**-**	0.9	-	**3.3**	**0.8**
Acquisition and disposal fees	**-**	**-**	-	-	**-**	**-**
Property and facilities management fee	**1.5**	**-**	1.3	-	**2.7**	**(0.1)**

a) Base management services fee

The base management services fee structure is as follows:

- 0.55% of the value of the investment properties to the extent that the value of the investment properties is less than or equal to $1 billion; plus
- 0.45% of the value of the investment properties to the extent that the value of the investment properties is between $1 billion and $1.5 billion; plus
- 0.35% of the value of the investment properties to the extent that the value of the investment properties exceeds $1.5 billion.

These fees are expensed through indirect other expenses in the year in which they arise.

b) Performance fee

The performance fee is based on Precinct's quarterly adjusted equity total returns relative to its peers in the NZ listed property sector as measured by the NZX listed property index. The performance fee is calculated as 10% of Precinct's quarterly performance in excess of a benchmark index, subject to an outperformance cap of 1.25% per quarter and after taking into account any brought forward surpluses or deficits from prior quarters.

Any Initial Amount credited to the Carrying Account which is not used up in paying Performance Fees or in offsetting subsequent Deficits will effectively expire 2 years after it is credited to the Carrying Account. Similarly, any Deficit debited against the Carrying Account which is not used up in off-setting subsequent Initial Amounts will also effectively expire 2 years after it is debited against the Carrying Account.

No performance fee is payable in quarters where equity total returns are negative. As at 31 December 2017 there is a notional performance fee deficit of $1,113,039 to be carried forward to the calculation of performance fees in future quarters (June 2017: $11,388,088 deficit; December 2016: $10,777,024 deficit).

These fees are expensed through indirect other expenses in the year in which they arise.

c) Leasing fees

Precinct pays the Manager leasing fees where the manager has negotiated leases instead of or alongside a real estate agent.

Leasing fees are capitalised to the respective investment or development property in the Statement of Financial Position and amortised over the term certain life of the lease.

d) Development manager fees

Precinct pays development manager fees where the manager acts as development manager on Precinct developments.

These fees are capitalised to the respective investment or development property in the Statement of Financial Position.

e) Acquisition and disposal fees

Precinct pays fees to the manager for managing the sale or purchase of properties instead of or alongside a real estate agent.

Acquisition fees are capitalised to the respective investment or development property in the Statement of Financial Position.

Disposal fees are expensed through net realised gain or loss on sale of investement properties in the year in which they arise.

f) Property and facilities management fee

Precinct pays a property and facilities management fee on a cost recovery basis to the manager.

These fees are expensed through direct operating expenses in the year in which they arise.

g) Other transactions with the manager

Precinct does not employ personnel in its own right. Under the terms of the Management Services Agreement, the manager is appointed to manage and administer Precinct. The manager is responsible for the remuneration of personnel providing management services to Precinct. Precinct's Directors are considered to be the key management personnel and received Directors' fees for the period ended 31 December 2017 of $222,860 (June 2017: $443,813; December 2016: $220,000).

Precinct received rental income from AMP Haumi Management Limited, AMP Capital Investors (New Zealand) Limited, National Mutual Life Association of Australasia Ltd and AMP Services (NZ) Limited, being the Manager or companies related to the Manager for premises leased in PWC Tower, AMP Centre and 157 Lambton Quay. Total rent received by Precinct from these parties during the period ended 31 December 2017 was $1,342,995 (June 2017: $3,223,101 December 2016 $1,532,479). As at 31 December 2017 an amount of $213 (June 2017: $208; December 2016: $1,548) was owing to Precinct from these related parties.

h) Related party debts

No related party debts have been written off or forgiven during the year (June 2017: $nil; December 2016: $nil).

14. EVENTS AFTER BALANCE DATE

On 2 February 2018 Precinct's purchase of Queen Elizabeth Square from Auckland Council for $27.2 million was completed.

On 27 February 2018 the Board approved the financial statements for issue and approved the payment of a dividend of $17,561,250 (1.45 cents per share) to be paid on 23 March 2018.

REVIEW REPORT

EY
Building a better working world

Chartered Accountants

INDEPENDENT REVIEW REPORT TO THE SHAREHOLDERS OF PRECINCT PROPERTIES NEW ZEALAND LIMITED

We have reviewed the interim financial statements of Precinct Properties New Zealand Limited ("the company") and its subsidiaries (together "the group") on pages 13 to 25, which comprise the statement of financial position of the group as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the group for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our review work, for this report, or for our findings.

Directors' Responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Reviewer's Responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*. As the auditor of the group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Basis of Statement

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Ernst & Young provides other assurance services to the group including the statutory audit of the group's year-end financial statements and provides limited assurance opinions in respect of individual property expenses. We provide an agreed upon procedures engagement recalculating the performance fee paid to the group's manager. We also provide reporting to the trustee of the group's secured fixed rate bonds in relation to our audit. Other than the provision of those services and in our capacity as auditor we have no relationship with, or interest in, the company or any of its subsidiaries.

Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 13 to 25, do not present fairly, in all material respects, the financial position of the group as at 31 December 2017 and its financial performance and cash flows for the six month period ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

Our review was completed on 27 February 2018 and our findings are expressed as at that date.

Ernst + Young

Ernst & Young

Auckland

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Graeme Wong – Independent Director
Chris Judd – Director
Mohammed Al Nuaimi – Director
Rob Campbell – Director

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Please contact our registrar;

- To change investment details such as name, postal address or method of payment
- To elect to receive electronic communication
- For queries on dividends and interest payments.

www.precinct.co.nz