

CREATING
CITY CENTRE
PRECINCTS

ANNUAL REPORT **2018**



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Cover page image: Artist's impression of Commercial Bay and One Queen Street
More information can be found at
www.precinct.co.nz



CHAIRMAN'S REPORT



CRAIG STOBO, CHAIRMAN

HIGHLIGHTS

\$254.9 M

Net profit after tax

\$208.7 M

Revaluation gain

\$250.0 M

Non bank funding secured

+3.6%

Increase in dividend YoY

FOCUSED STRATEGY

The 2018 financial year has been both an active and defining period for Precinct. Significant progress has been made on our major initiatives and we have seen the business take substantial steps forward.

The quality of Precinct's portfolio including its active development pipeline has resulted in a significant portfolio revaluation gain of \$208.7 million or 9.0% for the period, increasing the value of Precinct's portfolio to around \$2.5 billion. This has contributed to a net profit after tax of \$254.9 million, up 57.2%. Net operating income also increased by 2.5% to \$76.6 million or 6.32 cents per share (cps). This was in line with guidance. Full year dividend to shareholders was 5.80 cps, representing a 3.6% increase.

We are pleased with our strong result this year and the performance achieved across our business. On behalf of the Board of Precinct, we are pleased to present investors with our 2018 Annual Report.

As we continue to focus on our long-term strategy as city centre specialists, we are particularly pleased with the strong position we are in. Our FY18 results reflect continued growth in earnings as well as the targeted lift in portfolio quality being achieved.

The Board continually focuses on Precinct's strategy, while monitoring risk and applying sound capital management. Focusing on a number of capital management initiatives during the year has resulted in a total of \$250 million of capital raised through the completion of a convertible notes offer and a bond issue. We believe these initiatives are well suited to Precinct's strategy and provides the necessary available capital to match our development commitments.

The recent post balance date refinancing of Precinct's \$760 million bank debt facility in July 2018 further supports our committed developments by providing sufficient funding capacity to deliver these projects.

Precinct has circa \$300 million of development spend remaining. With a number of development milestones reached during the year, the Board is very pleased with the progress achieved to date on each of our projects.

"FY18 HAS BEEN A PERIOD OF INTENSE FOCUS ON DELIVERY OF OUR MAJOR DEVELOPMENT PROJECTS. WE ARE COMMITTED TO ENSURING THEIR SUCCESSFUL COMPLETION."

>> **Craig Stobo**, Chairman.

INCREASED DISCLOSURE

This year Precinct has prepared its annual report in accordance with the Global Reporting Initiative (GRI) Standards. We are pleased with the progress made over the year. As part of this year's annual report we have taken a more robust approach in expanding our reporting on sustainability which encompasses Environmental, Social and Governance (ESG) factors material to Precinct. By reporting to GRI Standards we are providing greater clarity and accountability around our material sustainability issues including how we are responding to them.

Notable achievements during the year include:

- Establishing a Sustainability Committee to act as custodian for Precinct's sustainability strategy
- Becoming a member of and participating in the Global Real Estate Sustainability Benchmark (GRESB), the global ESG benchmark for real estate
- Disclosing a written Diversity and Inclusion policy for Precinct
- Progressing initiatives to increase overall client wellbeing
- Achieving a 5 stars NABERSNZ Energy Base Building rating at the Mason Bros. building, demonstrating market leading performance in energy efficiency
- Improving electricity and gas use efficiency at a portfolio level in both Auckland and Wellington.

The Board is focused on our material ESG issues, which extends beyond reporting on them. We recognise that sustainability is an important part of Precinct's business activities. It's strategy has therefore been designed in parallel with Precinct's broader business strategy.

You are welcome to read more about Precinct's material issues in detail on pages 22 to 34.

6.00 CPS

FY19 dividend guidance

Our next Annual General Meeting of Shareholders is scheduled to be held on 1 November 2018. We encourage all shareholders to attend. It is a great forum for us to meet with you, our shareholders, to discuss these results and answer any questions during the meeting that you may have.

More details on the meeting including time and venue will be provided to shareholders in the coming months.

GOVERNANCE

The Board of Precinct understands the importance of its role and responsibilities. It is something we take very seriously. We are committed to reviewing, monitoring and assessing the overall strategy and activities across the business, including the developments currently underway. We significantly enhanced our corporate governance when we corporatised in 2011 and have continued to refine our ongoing strategy in order to grow shareholder value.

Ensuring Precinct maintains best practice governance structures and the highest ethical standards are key objectives for Precinct and the Board. In accordance with best practice, Precinct reviewed its corporate governance manual during the year. It incorporates (to the extent relevant) the NZX listing rules relating to corporate governance and the NZX Corporate Governance Code 2017 and Guidelines.

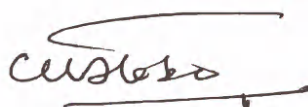
We recognise an effective board comprises a balance of independence, skills, knowledge, experience and perspectives amongst directors. We are a member of Diversity Works New Zealand and proud to support The Women's Empowerment Principles, a joint initiative of the UN Global Compact and UN Women. The Board continues to assess the diversity of the Board and Officers of Precinct. We have set clear targets to improve gender diversity across Precinct and will report on this annually. You can find out more about our diversity and inclusion policy in the corporate governance section of this annual report.

OUTLOOK AND DIVIDEND GUIDANCE

The Board expects full year earnings for the 2019 financial year of approximately 6.60 cps, before performance fees and expects to pay a dividend of 6.00 cps. This represents a 3.4% increase in dividend to shareholders.

With supportive capital markets and both occupier and investment markets remaining strong, we believe Precinct is well positioned to advance our city centre strategy and increase shareholder value in 2019 and beyond. We have a clear strategy with a targeted approach to our markets and remain confident about both the New Zealand economy and the performance of our investment and development portfolio.

Thank you to my Board colleagues and Management for their support, the Precinct team for their on-going work during another successful year, and also you, our shareholders, for your continued investment in our business. We look forward to delivering more strong results as we execute our long-term strategy for continued future growth.



CRAIG STOBO, CHAIRMAN

MANAGEMENT REPORT

DELIVERING RESULTS

The last financial year has delivered another strong result for our business. As we moved forward with our strategy, we progressed a number of initiatives and achieved key milestones during the year. We have continued to take an active management approach with both our investment portfolio and our development pipeline, leveraging Precinct's market position.

Major milestones achieved during the year include:

- \$191 million of capital recycled through asset sales¹
- \$250 million non bank funding secured
- \$760 million bank debt facility refinanced (July 2018)
- 100% portfolio occupancy in Auckland
- Uplift in Commercial Bay forecast value on completion to just over \$1 billion
- Development commitment of One Queen Street (Aug 2018).

Precinct's financial performance highlights for FY18 include:

- Net profit of \$254.9 million
- 3.6% increase in dividend to shareholders
- Revaluation gain of \$208.7 million
- Gearing of 25.0%.

Further details on this year's financial performance is provided in the results overview section on page 08.

\$191M

Capital recycling through asset sales during the year

CAPITAL RECYCLING

Progressing the sale of a 50% interest in ANZ Centre in Auckland and the sale of 10 Brandon Street in Wellington are further examples that demonstrate Precinct's active management approach.

The sale of the 50% interest in ANZ Centre was to a fund controlled by Invesco for \$181 million which is consistent with the 30 June 2018 independent valuation and reflects a 12% premium to 30 June 2017 valuation on a pro-rata basis. Acquired by Precinct in 1997, ANZ Centre has performed well since it became part of the portfolio generating a property level IRR of 9.0%. Precinct completed a \$76 million upgrade in 2013. We remain committed to maintaining this building as one of New Zealand's premium office towers through our 50% stake and ongoing management.

These sales are in line with our business strategy and enable Precinct to recycle capital into higher yielding development opportunities. The ANZ sale transaction remains subject to Overseas Investment Office approval and the sale of 10 Brandon Street for \$10.2 million is conditional on ground lessor approvals and is due to settle in August 2018.

¹ Sale of 10 Brandon Street and 50% interest in ANZ Centre are conditional. Refer to Note 8 in the Notes to the Financial Statements for more detail.

DEVELOPMENT UPDATE

Over the past 12 months, the Board and Management of Precinct have considered a range of development opportunities for One Queen Street in Auckland. Post balance date, Precinct announced that it will proceed with the \$298 million redevelopment at One Queen Street (currently HSBC House). As a second stage of the Commercial Bay project, the mixed use redevelopment of the building comprises a luxury hotel, premium office accommodation above and a variety of unique food and beverage options including a roof-top hospitality venue. Construction is scheduled to commence in 2020.

Commercial Bay continues to achieve a good level of leasing enquiry and we have secured a number of additional occupiers during the period, advancing retail commitments to 76% and office commitments to 78%.

Phase one of the retail remains on schedule with H&M opening its flagship 3,800 square metre (sqm) store on 30 August 2018, marking an important development milestone.

Commercial Bay remains on track to deliver a yield on cost of 7.5% and an increased profit on cost of 41% (June 17: 31%) or \$283 million. Based on current project metrics, there remains a further \$100 million of unrecognised development profit expected to materialise on completion.

Construction has reached several key milestones during the period, with the completion of key tower structural elements, retail construction out of the ground and completion of the first phase of façade installation.

Up until this point, Precinct has estimated the completion programme from independent advice. Following considerable engagement with the main contractor, Fletcher Construction, a revised completion programme has recently been provided.

The completion programme provided by Fletcher Construction has been reviewed by Precinct's expert programmer, RCP, who have confirmed the revised dates are achievable, subject to the main contractor's performance. The revised completion dates for the Commercial Bay retail and the new PwC office tower are September 2019 and December 2019, respectively.

Precinct remains confident with the provisions of its construction contract, which protect Precinct from losses due to contractor delay. Liquidated damages will effectively mitigate the impact on Precinct from any loss of income and other costs over the delayed period.

Precinct continues to work closely with retailers at Commercial Bay to communicate the revised occupation dates. For those occupiers coming into the new PwC office tower, all have existing lease terms which extend beyond the revised completion dates of the office tower.

In Wellington, construction works have continued to progress at Bowen Campus with the façade installation at Charles Fergusson Tower now complete. At Bowen State Building we have completed the majority of the structural works for the building and the façade is now 90% complete.

INVESTMENT PORTFOLIO

At year end our investment portfolio has continued to benefit from strong occupier markets. Achieving a high portfolio occupancy of 99% at year end and a weighted average lease term (WALT) of 8.7 years demonstrates this.

Our Auckland portfolio has performed well with occupancy sitting at 100% reflecting demand for premium inner-city office space. A key focus during the year has been to reduce portfolio vacancy. We successfully leased all of the existing PwC Tower and reduced vacancy exposure at HSBC House and ANZ Centre through redevelopment and capital transactions. In Wellington, we have also reduced vacancy increasing occupancy levels through active leasing during the year.

OUTLOOK

Following the successful execution of our capital management initiatives over the past 12 months, we have a strong balance sheet to take our business forward. We are confident Precinct is well positioned relative to our markets. Our portfolio is demonstrating the benefits of owning premium quality real estate in strategic locations.

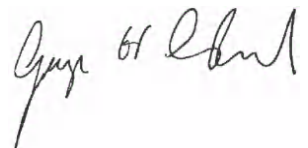
The long-term outlook for the Auckland market remains strong, with solid demand drivers for city centre real estate across the office, retail, hotel and residential markets.

The office market in particular is supported by increased growth in the working age population, with continued elevated visitor growth projected to underpin hotel demand. Similarly, outlook for the Wellington market has significantly improved in contrast to previous years.

We are committed to our long-term strategy as city centre specialists. This strategy is progressing well and is reflected in our strong results this year.



Scott Pritchard, CEO



George Crawford, COO



Richard Hilder, CFO



FROM LEFT TO RIGHT, GEORGE CRAWFORD (COO), SCOTT PRITCHARD (CEO) AND RICHARD HILDER (CFO)

RESULTS OVERVIEW

FY18 RESULTS

High occupancy levels and a significant revaluation gain of \$208.7 million recorded during the period contributed to net profit after tax increasing to \$254.9 million (June 2017: \$162.1 million).

Net operating income, which adjusts for a number of non-cash items, was up 2.5% to \$76.6 million or 6.32 cps, and was in line with guidance (June 2017: \$74.7 million).

Dividends paid and attributed to the 2018 financial year totalled 5.80 cps. The dividend paid matched adjusted funds from operations (AFFO) of 5.80 cps which is considered to align with international 'best practice' for real estate entities.

\$76.6M

Net operating income

RECONCILIATION OF NET OPERATING INCOME

(Amounts in \$ millions)	2018	2017
Net profit after taxation	254.9	162.1
Unrealised net (gain) / loss in value of investment and development properties	(208.7)	(77.5)
Unrealised net loss / (gain) on financial instruments	11.1	(11.8)
Deferred tax expense / (benefit)	17.0	1.9
Share of (profit) / loss of joint venture	2.3	0.0
Net operating income	76.6	74.7

Note: Net operating income is an alternative performance measure which adjusts net profit after tax for a number of non-cash items as detailed in the reconciliation above. Precinct's dividend policy is based upon net operating income. This alternative performance measure is provided to assist investors in assessing Precinct's performance for the year.

Funds from operations (FFO)

FFO and AFFO are measures used by real estate entities to describe the underlying performance from their operations. Aligning dividends with AFFO is generally considered to be best practice for real estate entities. FFO and AFFO are defined in more detail on page 44.

FFO for the year increased \$2.5 million to \$83.4 million (June 2017: \$80.9 million) or 6.89 cps. This represented an FFO payout ratio of 84%. AFFO for the year was \$70.2 million, or 5.80 cps, matching the dividend paid.

PRECINCT'S AFFO PAYOUT RATIO OVER THE PAST 5 YEARS HAS AVERAGED 101%

Gross rental revenue was \$130.7 million, 3.6% higher than the previous year (June 2017: \$126.2 million). This increase was primarily due to the completion of Wynyard Quarter Stage One which was partially offset by foregone income related to development activity and 10 Brandon Street. On a like for like basis gross rental income was 3.7% higher than the previous period.

Property expenses of \$35.4 million were consistent with the previous period (June 2017: \$35.8 million).

Net property income increased to \$95.3 million (June 2017: \$90.4 million). After adjusting for development projects and non recoverable earthquake costs, like for like income growth was 3.0% higher than the previous comparable period. The Auckland portfolio saw an increase of 3.1% and Wellington achieved an uplift of 2.9%.

Development spend at Bowen Campus and Commercial Bay saw total borrowings increase in the period resulting in a corresponding lift in interest expense. This was offset by capitalised interest associated with developments and interest income, which resulted in net expense for the period of \$2.2 million (June 2017: \$3.4 million).

Precinct recorded a 16.3% shareholder total return for the year to 30 June 2018. This outperformed the benchmark New Zealand listed property sector return (excluding Precinct) of 8.9%. Due to previous under performance and in line with the agreed process for recognising outperformance of the market no performance management fees were paid.

Overall indirect expenses were \$10.2 million, 4.1% higher than the previous period reflecting an increase in management fees paid following the completion of Wynyard Stage One.

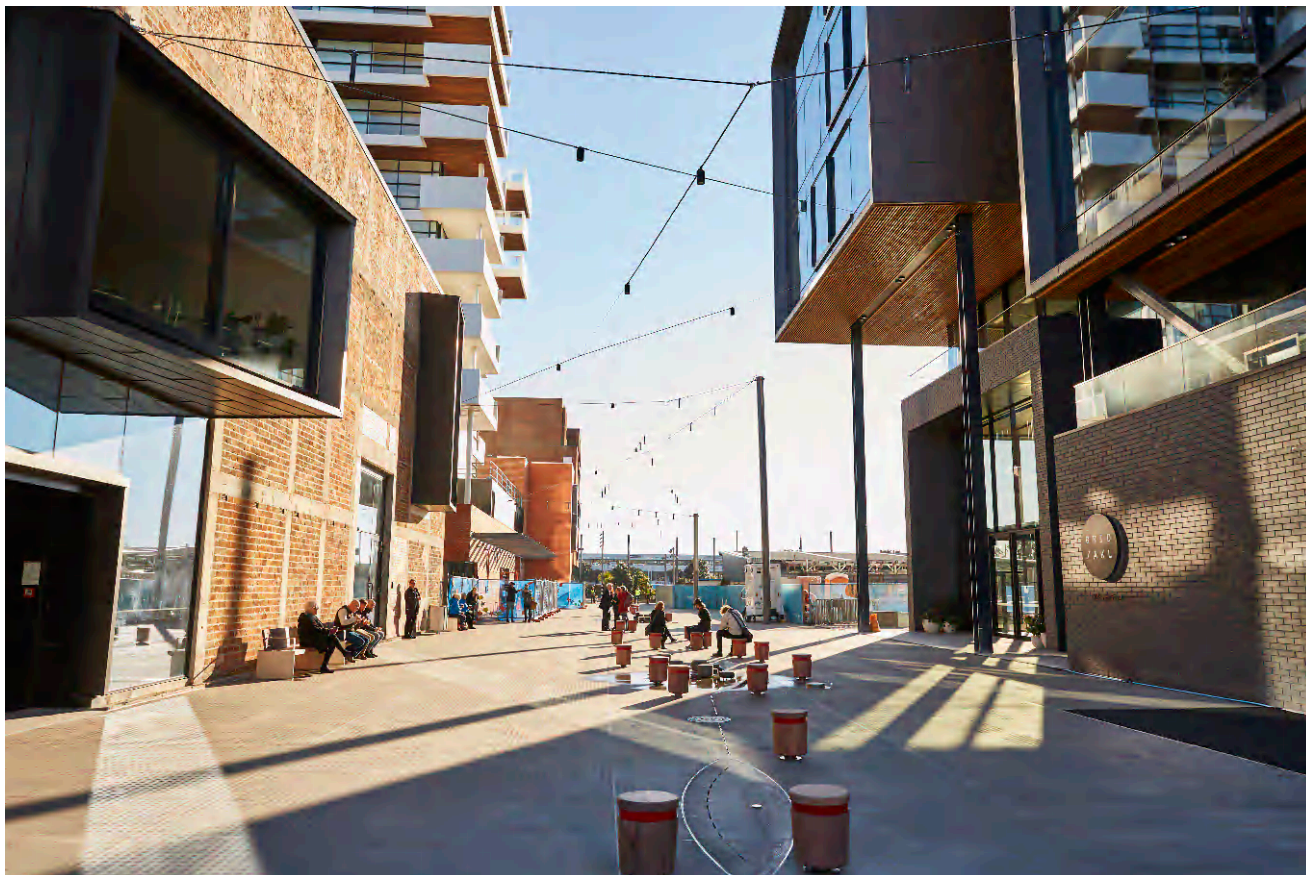
Current tax expense increased by \$3.8 million to \$6.3 million (June 2017: \$2.5 million). This was a result of a lower level of deductible leasing costs and the disposal of depreciable assets at Bowen Campus in the 2017 financial year.

The fair value loss in financial instruments of \$11.1 million compared with a gain of \$11.8 million the previous year. The loss resulted from a fall in market interest rates during 2018.

The valuation gain of \$208.7 million (2017: \$77.5 million) reflected valuations increasing by \$108.4 million across Precinct's investment portfolio and recording a \$100.3 million gain on its current development projects due to development profit recognition and capitalisation rate firming. On a like for like basis, Auckland asset valuations increased by 9.6% and Wellington has remained largely unchanged. The increase recorded in Auckland was mainly attributable to a firming in capitalisation rates supported by recent asset sales evidence, together with market rental growth. In Wellington, while rentals and capitalisation rates have further improved over the last 12 months, this has been offset by additional operating expenses, mainly insurance premiums and rates.

The deferred tax expense of \$17.0 million related primarily to a change in estimate for determining the provision for deferred tax consequences of a sale of investment property at market value. The provision now better reflects the net sale price allocation process that occurs at the point of sale.

The strong valuation gain increased Precinct's portfolio value to \$2.5 billion (June 2017: \$2.04 billion) and was the key contributor for the 16 cps uplift in Precinct's NTA per share to \$1.40 (June 2017: \$1.24).



TIRAMARAMA WAY, WYNYARD QUARTER IN AUCKLAND - LANEWAY BETWEEN MASON BROS. BUILDING AND 12 MADDEN STREET

KEY FINANCIAL INFORMATION

(Amounts in \$ millions unless otherwise stated)

	2018	2017	Change (%)
Rental revenue	130.7	126.2	3.6
Operating income before indirect expenses	95.3	90.4	5.4
Operating income before tax	82.9	77.2	7.4
Net operating income ¹	76.6	74.7	2.5
Net profit after income tax	254.9	162.1	57.2
Earnings per share based on operating income before tax (cents)	6.84	6.37	7.4
Earnings per share based on operating income after tax (cents)	6.32	6.17	2.4
Gross distribution (cents per share) ²	6.29	6.35	(1.0)
Net distribution (cents per share) ²	5.80	5.60	3.6
Payout ratio (%)	91.8	90.8	1.1
Total assets	2,561.7	2,079.2	23.2
Total liabilities	871.0	573.6	51.8
Total equity	1,690.7	1,505.6	12.3
Shares on issue (million shares)	1,211.1	1,211.1	0.0
NTA (cents per share)	140	124	12.9
Gearing ratio at balance date (%) ³	25.0	25.1	(0.5)

The information set out above has been extracted from the financial statements set out on pages 70 to 89.

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.

² Dividend paid and proposed relating to financial year.

³ For loan covenant purposes deferred tax losses, fair value of swaps and subordinated debt are not included in the calculation of gearing ratio.

RESULTS OVERVIEW (CONTINUED)

CAPITAL MANAGEMENT

At balance date total borrowings (including convertible notes) increased to \$751.4 million (June 2017: \$452.1 million). The increase related to the development spend at Bowen Campus and Commercial Bay. Gearing as measured under borrower covenants, which disregards subordinated debt as at 30 June 2018 is 25.0% (June 2017: 25.1%).

A key focus of Precinct's capital management approach has been to continue to diversify its funding sources that are well suited to its current strategy and opportunities. As at 30 June 2018, 56% of drawn debt was sourced from non bank sources.

During the period, a total of \$250 million of non bank funding has been secured. This includes \$150 million of four-year, fixed-rate subordinated convertible notes and \$100 million of senior secured seven year bonds. Both issues have further strengthened Precinct's capital management position. In particular, the convertible notes provide a flexible funding option giving Precinct the available capital to match development commitments while ensuring that earnings are not diluted in the short term.

Post balance date, Precinct successfully refinanced its \$760 million bank debt facility which was due to expire in November 2020. The refinance extends \$460 million of the existing facilities in two new tranches expiring in July 2022 and July 2023, with the balance of the facility expiring in November 2020.

The refinance in July 2018 extends the tenor of the existing facilities, reducing refinancing risk and improves the weighted average term to expiry out from 3.3 years at 30 June 2018 to over 4 years (June 2017: 4.0 years). Funding continues to be provided by Precinct's existing lenders ANZ, BNZ, CBA, HSBC and Westpac.

Precinct has total debt facilities of \$1.18 billion and remains within its borrowing covenants and is in a strong financial position with sufficient funding capacity to deliver its committed developments.

"OUR NEW BANK DEBT FACILITY REDUCES REFINANCING RISK TO OUR BUSINESS AND PROVIDES SUFFICIENT FUNDING CAPACITY TO DELIVER OUR COMMITTED DEVELOPMENTS."

>> **Richard Hilder, CFO**

As at 30 June 2018, Precinct was 85% hedged through the use of interest rate swaps (June 2017: 65%). Average hedging for the 2019 financial year will be around 80% as forward swaps commence in the period. The weighted average interest rate including all fees was 5.3% at 30 June 2018 (June 2017: 5.6%).

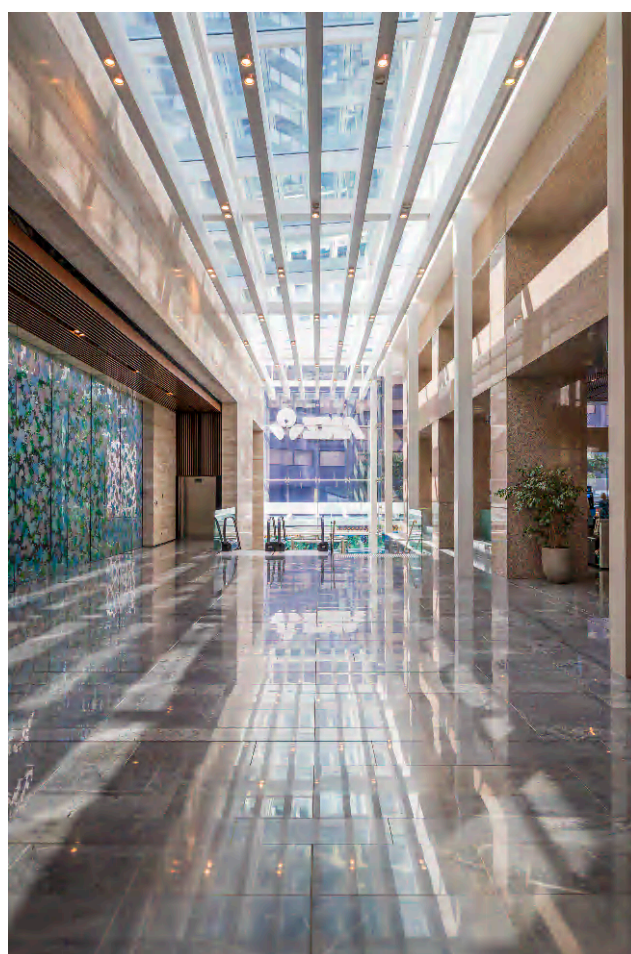
19.4%

Pro forma gearing as at 30 June 2018, following asset sales

CAPITAL MANAGEMENT METRICS

	2018	2017
Debt drawn (\$ millions) ¹	751.4	452.1
Gearing - banking covenant (%)	25.0	25.1
Weighted average term to expiry (years)	3.3	4.0
Weighted average debt cost (incl fees) (%)	5.3	5.6
% of debt hedged (%)	84.5	65.3
Weighted average hedging (years)	3.2	2.7
Interest coverage ratio (previous 12 months)	2.4 x	3.9 x
Total debt facilities (\$ millions)	1,183	1,033

¹ Excludes the USPP note fair value adjustment of \$15.0 million (June 2017: \$8.8 million). Interest bearing liabilities are detailed in Note 15 of the Financial Statements.



ANZ CENTRE, AUCKLAND

OPERATIONAL UPDATE

Our investment portfolio has continued to perform well over the last financial year and we have achieved strong metrics as a result. At 30 June 2018, overall portfolio occupancy was 99% (June 2017: 100%) and WALT was maintained at 8.7 years (June 2017: 8.7 years).

Positive leasing momentum has continued with a total of 41 leasing transactions completed, encompassing over 21,900 sqm and 598 car parks on a WALT of 6.1 years. Overall leasing transactions were secured at a 1.4% premium to valuation rentals.

In Auckland, we achieved 100% occupancy. Leasing highlights include signing a 7 year lease with the New Zealand Transport Agency at the AMP Centre, totalling around 2,200 sqm.

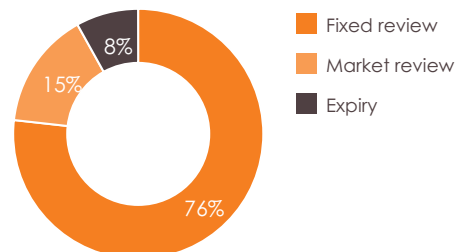
In Wellington, the carparking facilities for both Mayfair House and Dimension Data House secured new leases with Care Park and Wilson Parking. This represents a total of 458 carparks and was secured on a 6.7 year WALT.

In the period, Precinct settled 13,000 sqm of market rent reviews at a 3.3% premium to the 30 June 2017 valuation rentals. In total, including structured rent reviews, Precinct settled 85,600 sqm of reviews at a 3.9% premium to previous contract rental and 3.5% premium to 2017 valuations.

The portfolio is now under-rented by 6.4% (June 2017: 4.7% under-rented). We expect to reduce the remaining vacant office space in the portfolio and achieve further market rental growth going forward.

Generator, Precinct's 50% owned co-working space provider has achieved occupancy of 73%, well above expectations. With 75% (9,500 sqm) of its space launched during the year, the business recorded a loss, as anticipated for this trading-up period. With 900 Generator members and the launch of its new innovation focused co-working space at GridAKL in Wynyard Quarter and premium site at Britomart Place, we are seeing continued growth across this investment.

2019 LEASING EVENTS BY NLA



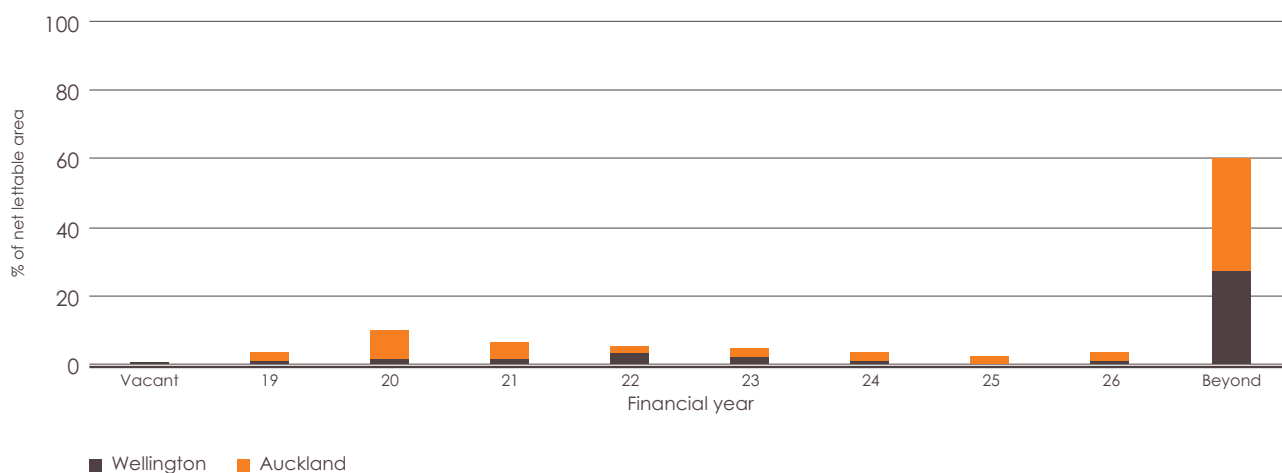
Generator, Britomart Place at 11 Britomart Place, Takutai Square is the newest site to join Generator's co-working offering and brings the total square metres managed by Generator to 12,000 sqm across three locations.

You can read more about flexible space on page 38 of this annual report.

“OUR INVESTMENT PORTFOLIO HAS PERFORMED WELL OVER THE LAST 12 MONTHS WITH RENT REVIEWS ACHIEVED AT A PREMIUM TO BOTH PREVIOUS CONTRACT RENTAL AND 2017 VALUATIONS.”

>> **George Crawford, COO.**

LEASE EXPIRY PROFILE BY OFFICE NLA



Lease expiry includes all committed office developments and excludes Commercial Bay retail

RESULTS OVERVIEW (CONTINUED)



AUCKLAND CITY CENTRE

OUR MARKETS

AUCKLAND CBD

CBD Office

Latest JLL Research reported prime grade (premium plus A Grade) vacancy rates increased marginally to 5.3% as at 30 June 2018 (June 2017: 4.8%) with prime stock increasing by approximately 38,900 sqm, largely in the Viaduct and Wynyard precinct, following completion of developments such as 46 Sale Street and 12 Madden Street, which are offset by strong net absorption totalling 33,792 sqm over the 12 month period. Over the same period, rents in both the premium and A Grade markets have further risen, albeit growth rates have slowed. Looking ahead, continued economic growth and growing employment are anticipated to drive both occupier demand for office space and underpin rental rates despite new supply being added to the market over the short term.

CBD Retail

Robust retail expenditure and a lack of quality retail premises have resulted in a tightening in the CBD retail market. JLL Research has vacancy reducing to 2.1% as at 30 June 2018 (June 2017: 2.6%) and virtually no vacant premises available at the waterfront end of Queen Street and within Britomart. While online retail spend is anticipated to grow at a faster pace than expenditure at physical stores, demand for retail premises are expected to prevail based on the positive outlook for fundamentals such as net migration, inbound tourism arrivals and growth in the CBD resident and worker populations.

WELLINGTON CBD

CBD Office

The Wellington CBD office market has now largely recovered to post-quake levels in terms of the overall stock in operation. Notwithstanding this, occupier demand continues to remain near record highs with prime vacancy at 1.0% as at 30 June 2018 (June 2017: 1.2%) with overall vacancy at 5.4% (June 2017: 5.3%) across the wider CBD according to JLL Research. While some developers have delivered a supply response subsequent to the Kaikoura earthquake, net absorption and rental growth is anticipated to remain strong given the current supply pipeline is largely pre-committed together with there being a number of government agencies actively seeking additional space.



Artist's impression of 1 Queen Street, Auckland

DEVELOPMENT PORTFOLIO

ONE QUEEN STREET

Post balance date, Precinct announced that it will proceed with the \$298 million redevelopment of One Queen Street (currently HSBC House). As a second stage of the Commercial Bay project, the mixed use redevelopment of the building comprises a luxury hotel, premium office accommodation above and a variety of unique food and beverage options including a roof-top hospitality venue.

The development will be fully integrated into the Commercial Bay retail precinct, providing a further and complementary demand driver especially for the weekend, evening and holiday trading periods. The hotel will operate across 11 levels of the building and provide a total 244 guest rooms and suites, together with an all-day dining restaurant, meeting suites, health club and club lounge facilities. The commercial office space will encompass 8,700 sqm across 7 levels.

The mixed use redevelopment of One Queen Street will significantly enhance Commercial Bay for retail, business and visitors alike. To have such a large area operating seamlessly under single ownership and management provides a unique opportunity to generate strong synergies between the uses. We believe this offering will further support the Commercial Bay retail precinct, particularly food and beverage.

Construction is scheduled to commence in H1 2020. The hotel is expected to open in early 2022 and the commercial office and hospitality space to open in mid 2022.

LT McGuinness will be the main contractor for the One Queen Street development. With a proven record of delivering projects on time and to the highest standard, we are confident about the delivery of this project. We are pleased with their performance to date on site at Bowen Campus in Wellington and with their work in Wynyrd Quarter in Auckland.

Warren and Mahoney are the lead architect on this project with interior design to be completed by international design firm, AvroKO.

Level 1 and 2 of One Queen Street are currently being integrated seamlessly into Commercial Bay stage one forming the food and beverage offering, Harbour Eats, and will open as part of Commercial Bay in 2019.

The project will be funded through Precinct's existing debt facilities. On completion, the project is expected to generate a stabilised yield on cost of 7.0% and a profit on cost of 15%.

INTERCONTINENTAL AUCKLAND

Following a comprehensive international hotel operator selection process, Precinct is pleased to announce the appointment of InterContinental Hotels Group (IHG) as the hotel operator for the One Queen Street hotel under their flagship InterContinental brand and to be known as InterContinental Auckland.

Securing InterContinental, one of the world's most recognised luxury hotel brands, reflects the high demand from operators for this unparalleled waterfront location.

HIGHLIGHTS TO DATE:

- Overall project is 75% precommitted.
- Commitment includes a signed heads of agreement² across 3,700 sqm for the office premises.
- Appointing IHG, one of the world's largest hotel operators with more than 5,400 hotels, to manage the new hotel as InterContinental Auckland.
- Entering into a 50% fixed price construction contract with LT McGuinness.

PROJECT INFORMATION

	Hotel	Office	Hospitality
Expected completion	Late 2021	Mid 2022	Mid 2022
Key commitment to date	IHG	43% ¹	
Net lettable area	244 rooms	8,700 sqm	400 ² sqm

¹ Signed heads of agreement

² Excludes the level 1 and 2 food and beverage offering which will open as part of the Commercial Bay retail centre in 2019.

"THE LAUNCH OF ONE QUEEN STREET IS FURTHER EVIDENCE OF PRECINCT'S ROLE IN CREATING A WORLD CLASS WATERFRONT DESTINATION ON PAR WITH OTHER GLOBAL CITIES."

>> Scott Pritchard, CEO .

\$298^M

Estimated total project cost

7.0%

Expected yield on cost

15%

Expected stabilised profit on cost

² Signed heads of agreement records all commercial terms agreed subject to negotiation and execution of binding documentation.

HOTEL MARKET OVERVIEW

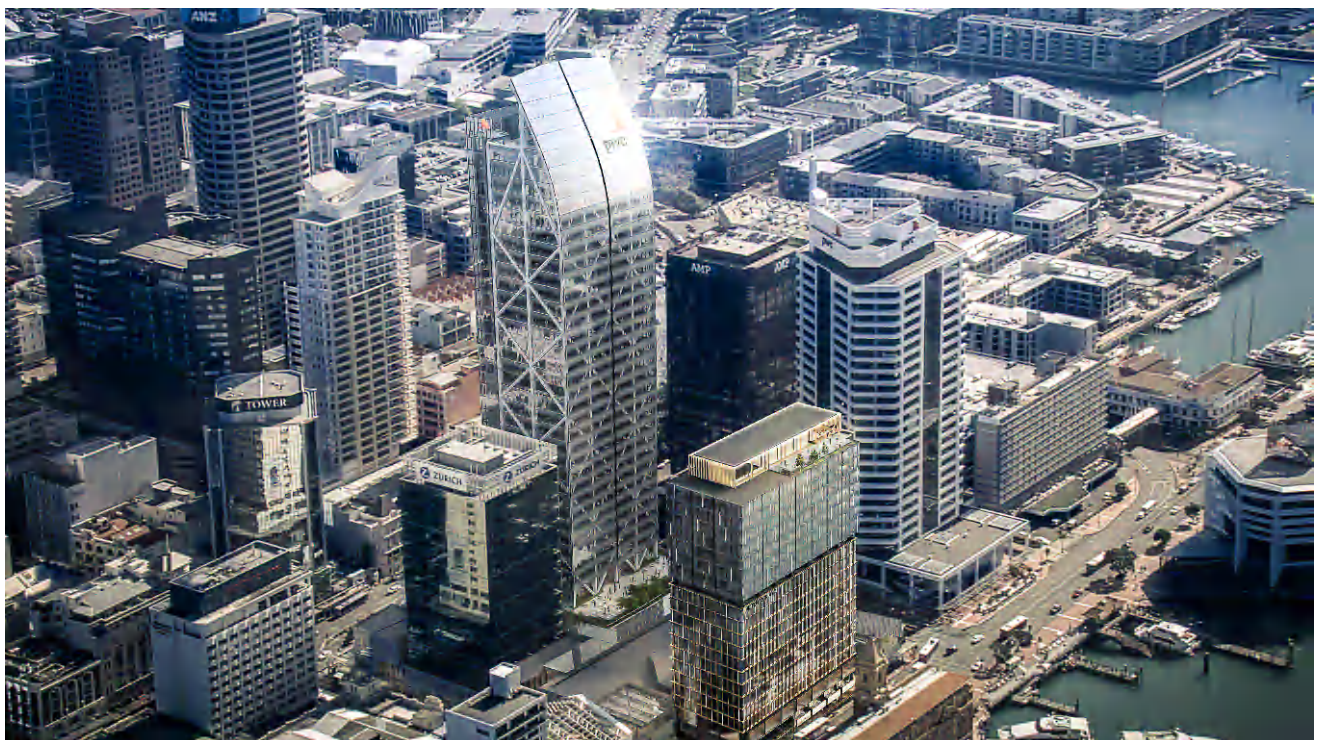
Dean Humphries, National Director Hotels, Colliers International

The Auckland hotel market is experiencing unprecedented levels of growth in demand, which is forecast to persist through further growth in tourism numbers through to at least 2025. While a number of new hotel projects have been announced in the last 24 months, the increase in supply is expected to still fall short of demand over the short term and reach equilibrium over the medium to long term. This is expected to underpin robust room and occupancy rates moving forward.

- According to MBIE, annual visitor arrivals are projected to grow 4.6% per annum reaching 5.1 million by 2024, up 37% from 3.7 million in 2017.
- Based on current forecasts, the Auckland hotel market will likely require up to circa 4,000 new hotel rooms by 2025 to cater for current demand projections. Based on recent supply estimates, these rooms should be delivered to meet this unprecedented demand. However a constrained construction sector could well see some of these projects being deferred which will then add further pressure to existing hotel stock.
- The Auckland hotel sector has significantly outperformed other commercial property sectors post-GFC, and has according to market research achieved the second highest ADR growth in Asia Pacific since 2011, second only to Osaka where occupancy consistently reached 90 percent over the past three years.

"COMMERCIAL BAY IS SET TO TRANSFORM AUCKLAND'S CITY CENTRE AND RESHAPE THE WATERFRONT AREA IN THE HEART OF THE CITY, SO IT IS ABSOLUTELY FITTING THAT ONE OF THE WORLD'S BEST-KNOWN LUXURY BRANDS FORMS PART OF THIS WORLD-CLASS DEVELOPMENT. THE ADDITION OF THE INTERCONTINENTAL AUCKLAND FURTHER SOLIDIFIES COMMERCIAL BAY'S STATUS AS THE HEART OF AUCKLAND, AND WE ARE VERY PROUD TO PARTNER WITH PRECINCT TO BRING THIS FLAGSHIP PROPERTY TO LIFE."

>> **Leanne Harwood**, Managing Director - Australasia & Japan, InterContinental Hotels Group (IHG).



AERIAL VIEW OF AUCKLAND CITY CENTRE WITH ARTIST'S IMPRESSION OF COMMERCIAL BAY AND ONE QUEEN STREET

DEVELOPMENT PORTFOLIO (CONTINUED)

COMMERCIAL BAY

During the year strong retail leasing has been achieved with over 35 leasing transactions secured, advancing commitments across the retail centre to 76% (June 2017: 46%). With retail enquiry levels remaining elevated, we expect leasing momentum to continue into 2019.

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.

Also joining the food precinct, renowned food and beverage operators Mimi Gilmour, Al Brown and Josh Emmett who will each have a concept in Commercial Bay alongside legendary New York restaurant Saxon + Parole.

Ollie Simon and David Lee will also be part of the dining precinct with their new eatery in Commercial Bay. It is expected to be an extension of their Simon & Lee eatery in Parnell, but will focus on higher-end lunch, dinner and drink offerings.

"WE WERE INITIALLY ATTRACTED TO COMMERCIAL BAY AS IT IS THE FIRST PRECINCT OF ITS KIND IN NEW ZEALAND. IT WILL BRING TOGETHER THE BEST HOSPITALITY AND RETAIL AND ACT AS A HUB FOR LOCALS AND VISITORS ALIKE. WE CAN'T WAIT TO BE PART OF THIS REINVIGORATED SPACE AND BRING WHAT WE LOVE TO THE AREA."

>> Ollie Simon and David Lee, Simon & Lee.

PROJECT INFORMATION

	Announcement	Current Projections	Variance
Retail committed	0%	76%	76%
Office committed	52%	78%	26%
Total project cost	\$681 m	\$685 m	\$4 m
Value on completion	\$853 m	\$1,011 m	\$158 m
Yield on cost	7.5%	7.5%	-
Retail completion date	October 2018	September 2019	
Office completion date	Mid 2019 (July)	December 2019	

\$1.0_B

Expected value on completion

76%

Retail commitments by net lettable area

In March of this year, Precinct also welcomed its first wave of fashion store clients, bringing together a carefully curated mix of established local favourites and first-to-market global brands. Furla, Superette, Hershel Supply Co, and a Rodd & Gunn bespoke Lodge Bar and fashion concept will all be landmark stores at Commercial Bay in 2019.

We expect to announce more leading local and international fashion retailers in the coming months who remain confidential at this stage.

H&M remains on schedule to be the first Commercial Bay flagship store to open on 30 August 2018 encompassing 3,800 sqm over four levels. Located on the corner of Customs and Queen Streets the four-level shop will be the biggest H&M to date and feature women's, men's, kid's and the homeware collection.

Office commitments has also increased progressing to 78% (June 2017: 66%). Securing commitments from a number of occupiers outside of the existing portfolio is a great outcome. New clients to the office tower include Marsh and expanded offer to IWG under their Spaces brand.

During the period the Commercial Bay project recorded a significant uplift of \$70 million, increasing the value on completion to just over \$1.0 billion following the 30 June 2018 valuation update (June 2017: \$941 million). Based on current project metrics there remains a further \$100 million of unrecognised development profit expected to materialise on completion.

Construction is progressing with the construction of the City Rail Link tunnels approximately 75% complete. The primary steel for the office tower is now erected to level 28 with a further jump sequence to level 31 commencing. Floor slabs have been fully poured through to level 16 and part poured on levels 17 to 19.

The retail centre podia is now rapidly forming across the site with the basement substantially complete and the retail buildings now reaching level 1 on parts of the site.

Works are well advanced on the lower levels of 1 Queen Street with demolition of the lower floors complete and construction of the floor slab extensions advancing well.



DEVELOPMENT PORTFOLIO (CONTINUED)

BOWEN CAMPUS

Construction works have continued to progress well over the last 12 months. We have now completed the facade installation at Charles Fergusson Tower with tenancy fitout works continuing. All works are targeted for completion late December 2018.

At Bowen State Building we have completed the majority of the structural works for the building including the north and south shear walls. The facade is now 90% complete for the building, installed from Level 1 to 10. Tenancy works are well underway to all levels. Occupation of Bowen State Building by New Zealand Defence Force is expected in Q3 2019.

We continue to work closely with our contractor, LT McGuinness. We are pleased with work completed to date.

Preliminary designs for the remaining development land at Bowen Campus are being progressed and marketing for leasing precommitment has been launched. With potential to accommodate up to 20,000 sqm of commercial office space, it is considered suitable for both Crown and corporate occupiers. The Annex Building which was previously on the site has now been demolished.

100%

Leased across office space

16.9 YEARS

Weighted average lease term



BOWEN CAMPUS, WELLINGTON

WYNYARD QUARTER

With the first stage of Wynyard Quarter now complete, design has advanced for stages two, three and four. Precinct is able to develop a further 30,000 sqm of office space on the site and will draw on the land when it wishes to proceed with each stage.

Precinct has continued to engage with potential occupiers for the type of space within the Innovation Precinct and is encouraged by the extent of ongoing interest.

Precinct anticipate commencing the second stage of the development in the next six months.



ARTIST'S IMPRESSION OF WYNYARD QUARTER STAGE TWO, AUCKLAND

OUR BUSINESS AND STRATEGY

WHO WE ARE

WITH A PORTFOLIO VALUE OF OVER \$2.5 BILLION, PRECINCT IS THE LARGEST OWNER OF PREMIUM INNER-CITY BUSINESS SPACE IN AUCKLAND AND WELLINGTON. WE FOCUS ON QUALITY SPACE AND QUALITY SERVICE.

Last year marked 20 years as a listed company on the New Zealand Stock Exchange for Precinct. When we first listed back in 1997, we were a unit trust and owned just 6 properties. Today, Precinct owns 14 properties and is ranked in the NZX top 25.

We adopted our new name in 2012 to reflect our evolution as a business, and have since grown to become a city centre specialist real estate investment company.

Precinct invests predominately in high quality strategically located city centre office, retail and leisure real estate which thrive through co-location.

While office real estate is at the heart of Precinct's portfolio structure, we believe in order to be a specialist in a city centre context considering a broader mix of real estate offers greater opportunity for Precinct to create value for shareholders. This includes, from time to time, investment in other city centre real estate including hotels, land, car park buildings, and lower quality properties where value can be created through active management and development.

PRECINCT AT 30 JUNE 2018

\$2.5 B

Portfolio value

99%

Portfolio occupancy

200 +

Clients

50 +

In-house Precinct team

OUR APPROACH

Precinct understands that the operational aspects of its business, as an owner, a developer and a manager of property, are responsible for having an external impact on a number of environmental, social and economic issues. By recognising this, and that we operate in a changing global environment, Precinct aims to conduct its business as a responsible corporate citizen and therefore places great importance on operating in the most sustainable way it can.

We want to create precincts that our clients thrive working within, and that city centre residents, visitors and wider communities enjoy being in. We want our office buildings to be the preferred places to work in the Auckland and Wellington city centres.

Our strategy is reviewed annually and continually refined. It has evolved materially since 1997 when the company was first established. Our current strategy provides clear direction for the Precinct team and shareholders.

Moving to a more active management approach has resulted in Precinct preferring to now create its own real estate which we are seeing through its extensive development activities.

During 2017 management developed further its strategic perspective and refined its focus into three distinct areas. Precinct's strategy provides a clear and targeted approach to our markets. We are now realising the benefits of its strategic design.

We are able to measure our progress relative to both our strategy and to our three areas of focus, our people, our portfolio and our developments.

THREE ESSENTIAL ELEMENTS

OUR PEOPLE

Working together in a great team culture, providing excellent client service, valuing our occupiers, supporting our community and focusing on their well-being are all core principles to what makes Precinct successful.

OPERATIONAL EXCELLENCE

Operational excellence involves superior performance of both our people and assets. Our people strive to perform. By investing in high quality assets we get the best operational performance from them, whilst proactive maintenance helps provide sustainable returns.

DEVELOPING THE FUTURE

Through our projects we are helping to regenerate Auckland's and Wellington's city centres. We are driving growth through partnerships and joint ventures. Whether it is creating new environments, or transforming existing places, our people are inspired every day by realising the possibilities our cities hold.

STRATEGY PROGRESS TO DATE

Our People

- Sourcing retail management team for Commercial Bay
- Diversity and Inclusion policy disclosed
- Intern program completed

Operational Excellence

- 99% portfolio occupancy
- Conditional sale of a 50% interest of ANZ Centre
- \$250 million non bank funding secured
- \$760 million of bank debt facilities refinanced
- Third location secured for Generator
- Portfolio WALT maintained at 8.7 years

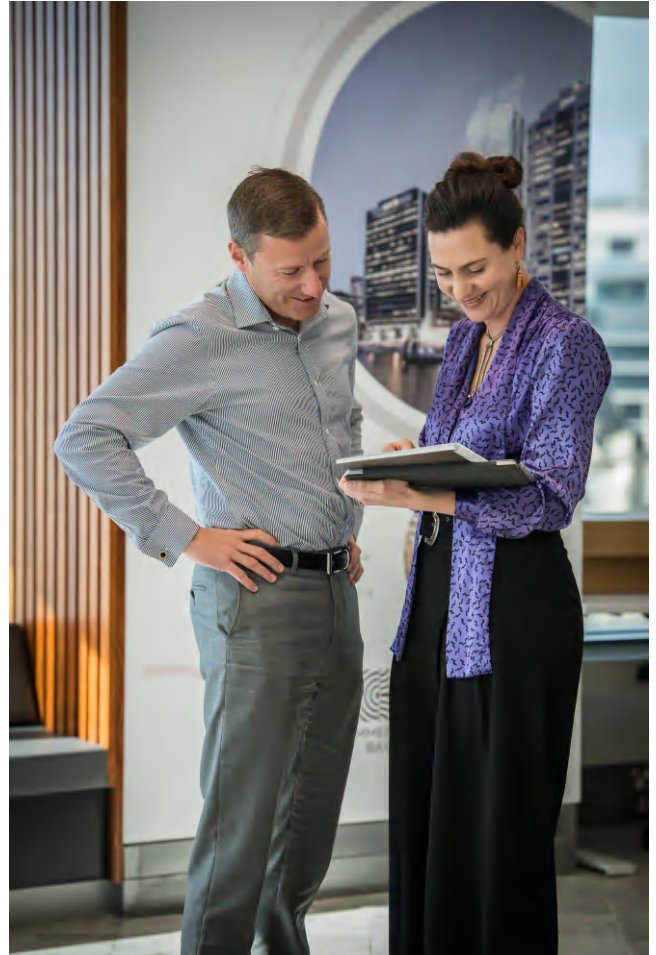
Developing the Future

- Commercial Bay: 76% retail commitments
- Commercial Bay: 78% office commitments
- Bowen Campus: 100% office leased
- Development commitment of One Queen Street

SUPPORTING OUR COMMUNITY

As a city centre specialist and one of the largest real estate investors in Auckland and Wellington city centres, we understand it's about people and supporting the communities in which we operate in. We recognise the importance of conducting Precinct's business as a responsible corporate citizen. Helping to strengthen the communities in which we operate in is therefore a key focus for Precinct.

You can read more about how Precinct works in partnership with certain community organisations in the sustainability section of this report under partnerships and community on page 30.



GEORGE CRAWFORD, COO AND LAUREN JOYCE, HR MANAGER

“PRECINCT ARE CITY CENTRE SPECIALISTS. WE UNDERSTAND IT'S ABOUT PEOPLE AND WE RECOGNISE SUCCESS CAN ONLY BE SUSTAINED BY A CONTINUED FOCUS ON OUR CLIENTS' NEEDS AND SUPPORTING THE COMMUNITIES IN WHICH WE OPERATE.”

>> **Scott Pritchard**, CEO.

SUSTAINABILITY AT PRECINCT

OUR APPROACH

We have defined *sustainability* at Precinct as enabling sustainable and successful business, improving our operational performance and incorporating sustainable design across our portfolio of properties.

At the heart of Precinct is a business model that is designed to generate, and regenerate sustainable value. We are city centre specialists dedicated to enabling sustainable and successful businesses. This means we want to create value through designing and delivering exceptional spaces for our clients and communities, in which they can thrive.

In line with our long-term view we are seeking to deepen our understanding of sustainability and future-proof our business. We have undertaken a number of initiatives in the last year to strengthen how we define sustainability and clarify the related material risks and opportunities. As part of this year's annual report, we are presenting shareholders with Precinct's material sustainability issues and how we are responding to them. We have made some notable achievements and also identified areas where we can further improve.

Our focus on material issues extends beyond reporting on them. We are developing plans of action with targets to achieve our goal of creating sustainable value through city centre real estate. Our sustainability committee leads this work and includes staff from key roles across the business.

We are learning what the core drivers of sustainability are as we progress. Three key themes that have emerged are industry leadership in sustainable design, interdependence between the functions of Precinct's assets (e.g. commercial office space, leisure, retail, community and tourism) and strengthening the communities and businesses of the cities in which Precinct operates.

Our 2018 annual report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards (core option). The GRI Standards are the world's most widely used sustainability reporting standard.

"AT THE HEART OF PRECINCT IS A BUSINESS MODEL THAT IS DESIGNED TO GENERATE, AND REGENERATE SUSTAINABLE VALUE."

>> **Scott Pritchard, CEO.**

OUR SUSTAINABILITY FRAMEWORK



OUR OPERATING CONTEXT

As an owner, a developer and a manager of property, Precinct generates environmental, social and economic value, including external impacts. Like many other industries, the architecture, building and real estate sectors are exploring ways to create a sustainable future.

Globally the built environment accounts for 30-40% of greenhouse gas emissions, consumes 40% of the world's raw materials and potable water and generates 35-40% of global energy demand³.

At a national level, buildings in New Zealand are now considered to be a significantly higher proportion of the country's carbon footprint than was previously thought - up to 20% according to a recent report⁴.

Fundamentally, and at a very local and personal level, we spend the majority of our lives in the built environment. The spaces we live, work, shop and recreate in shape the way we think, interact and ultimately, they influence the quality of our lives.

³ Journal of Earth Science and Climate Change, 2015

⁴ New Zealand Green Building Council, 2018

SUSTAINABILITY PERFORMANCE BENCHMARKS

Over the past few years a number of local and international sustainability certifications and standards have been introduced for the built environment which can be applied to Precinct's activities.

Precinct is a member of the New Zealand Green Building Council (NZGBC). Precinct works in partnership with the NZGBC on a wide range of our business activities with the aim to adopt market-based green building practices.

A key tool Precinct uses for rating the energy efficiency of its office buildings is NABERSNZ. It is an independent tool, backed by the New Zealand Government. NABERSNZ allows buildings to be rated and then re-rated, resulting in improvements in their energy efficiency from year to year. Precinct also uses the New Zealand Green Building Council's Green Star building rating tool for assessing the sustainability of buildings.

The overarching measure we currently use to benchmark our sustainability performance is the Global Real Estate Sustainability Benchmark (GRESB). Being able to measure Precinct's sustainability operational performance and having measurable long-term targets is a key priority. Precinct became a member of GRESB in March 2018.

The assessments are guided by what investors and the industry consider to be material issues in the sustainability performance of real estate investments. GRESB is considered the global standard for ESG benchmarking and reporting for real estate.

With the growth in GRESB coverage, Precinct believe that GRESB is the most appropriate external assessment tool for our business to report against annually. Precinct was one of the 850 property companies and real estate funds in 62 countries to complete the GRESB Real Estate Assessment in 2017, representing a combined total of 77,000 assets and over USD 3.7 trillion in value.

Precinct achieved a GRESB score in 2017 that was in line with the average score for first time submitters, but below the GRESB average and peer average. Improving on this score in 2018 and beyond is a key objective for Precinct. Submission for our 2018 GRESB score is currently underway and results will be disclosed in our 2019 annual report.



SUSTAINABILITY AT PRECINCT (CONTINUED)

OUR MATERIAL ISSUES

We engaged an independent consultant to undertake an analysis of material sustainability issues facing our business. The analysis considered our local operating context, industry standards, publicly available reporting of our peers in New Zealand and Australia, media coverage and the opinions of sustainability experts.

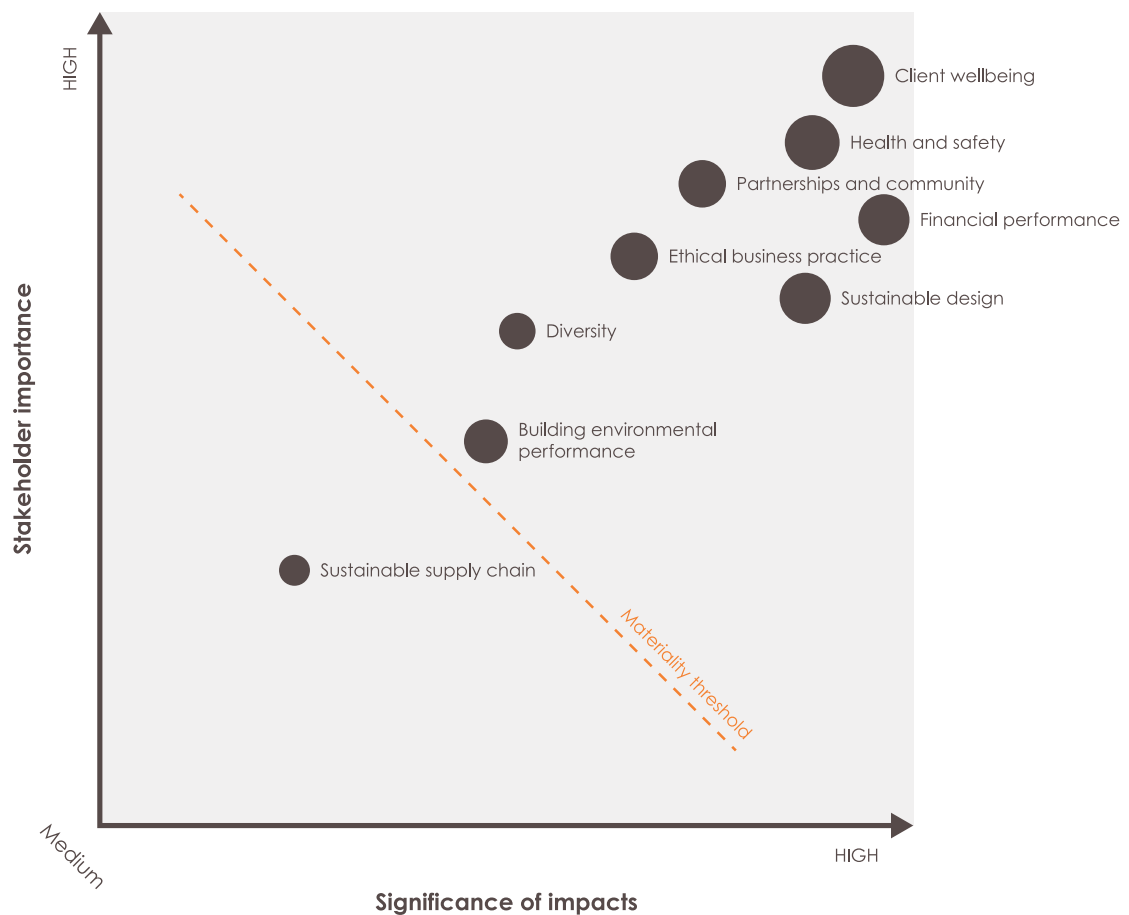
The analysis identified a long-list of topics which were validated and aggregated through engagement with key internal stakeholders and against the feedback received from external stakeholders.

The method of determining material topics for reporting followed the GRI 101 Standard, including the principles of materiality and stakeholder inclusivity. Precinct's key stakeholders include our people and partners, clients and people using our spaces, contractors and service providers, funding providers, shareholders, industry bodies and Government (Central and Local).

THE FOLLOWING TOPICS WERE DETERMINED TO BE MATERIAL TO PRECINCT, IN ORDER OF PRIORITY:

Material Topic	Topic Component
Client wellbeing	<ul style="list-style-type: none"> Client wellbeing and productivity Quality space Client satisfaction
Health and safety	<ul style="list-style-type: none"> Health and safety
Financial performance	<ul style="list-style-type: none"> Occupancy rates/weighted average lease term Earnings outlook Commercial and investment returns Flexible financing for Green Building Investment due diligence
Partnerships and community	<ul style="list-style-type: none"> Partnerships with Mana Whenua, local and central government, and council-controlled organisations Sponsorships, financial and in-kind donations Strengthening communities
Sustainable design	<ul style="list-style-type: none"> Efficient design Contributing to urban vibrancy/prosperity
Ethical business practice	<ul style="list-style-type: none"> Code of ethical conduct Whistle-blower policy
Diversity	<ul style="list-style-type: none"> Diversity
Building environmental performance	<ul style="list-style-type: none"> Carbon emissions Waste reduction Water use Greenstar/NABERSNZ ratings

PRECINCT'S MATERIALITY MATRIX:



"OUR STRATEGY INCLUDES THE INTEGRATION OF SUSTAINABILITY ACROSS ALL AREAS OF OUR BUSINESS. ONE OBJECTIVE IS TO CREATE OUTPERFORMING SUSTAINABLE VALUE FROM CITY CENTRE REAL ESTATE."

>> **Richard Hilder**, CFO and Chair of Sustainability Committee.

SUSTAINABILITY AT PRECINCT (CONTINUED)

OUR MATERIAL ISSUES IN DETAIL

CLIENT WELLBEING

Client wellbeing is critical to the long-term success of our business. It's our goal to create environments in which our clients can thrive. As a key goal, client wellbeing drives our lease renewal rates, the ability to attract and retain clients and the longevity of leases, making it a highly material issue.

Precinct treats its occupiers as valued clients. We consider their wellbeing to include economic success, positive social outcomes and benefiting from a healthy occupational environment. Our client focused approach applies through the full range of client interactions. This is from parking and concierge services, presentation of lobbies through to dealings in lease negotiations. Implementing our inhouse concierge team in February 2017 enabled us to be more responsive to our clients' needs.

Independently-run client satisfaction surveys are typically undertaken every 2 years, the last being completed in 2017. We actively seek and record feedback from our clients about their wellbeing and levels of satisfaction within our properties. We pride ourselves in knowing and understanding our client's needs.

A key initiative for this financial year was increasing the number of bike racks and showers across the portfolio. Feedback from clients has helped us to understand that there is a clear correlation between high quality end of trip facilities and overall client wellbeing. We have taken a number of steps to improve indoor fresh air quality and a range of initiatives to promote a healthier indoor environment.

Feedback received through the satisfaction survey also informed a decision to focus capital expenditure toward initiatives and redevelopments which create warmer and more enjoyable lobby environments, particularly in Wellington where high winds are experienced frequently. In the colder months the cleaning contractors undertake additional sanitising to prevent the spread of cold, flu germs and viruses. This includes applying anti-bacterial solutions on lift buttons, escalator rails and door handles twice daily.

PERFORMANCE MEASURES

Our key measures of client wellbeing include the things we work to deliver to enhance client satisfaction, such as amenities, service levels and location, and the things that our clients tell us are important to their wellbeing. Based on client feedback we continue to develop our understanding of things our clients value.

We are developing and refining measures and systems for monitoring and reporting on client wellbeing. These will be included in our 2019 Annual Report.



"WITH OVER 200 CLIENTS IN OUR PORTFOLIO, WE VALUE ALL OUR OCCUPIERS AND ARE COMMITTED TO PROVIDING EXCELLENT CLIENT SERVICE. IT IS PART OF OUR BUSINESS MODEL."

>> Scott Pritchard, CEO.



SUSTAINABILITY AT PRECINCT (CONTINUED)

HEALTH AND SAFETY

OUR APPROACH

Health and safety is one of our core corporate values and is principally about looking after people and ensuring all workers go home healthy and safe. We believe in health and safety being embedded into all parts of our business and it being everybody's responsibility to improve practices throughout the industry.

We are striving to entrench this into the culture of Precinct and all workers under our direct and indirect control. We recognise our influence on the wider industry and public, who work and visit our portfolio and active developments. The construction industry remains one of the four industry sectors with the worst injury rates in New Zealand. The sector therefore remains a key area of focus for Precinct with current development activity increasing the numbers of workers on sites. Precinct works alongside its main contractors on development sites to champion the importance of health and safety. As a corporate value and legislative requirement, health and safety is a material topic which we and our key stakeholders are committed to addressing.

A key development during the year is our increased categorisation of incidents to enable advanced trend identification and ensure appropriate focus and resources are directed at those areas that are the highest risk and impact, which is reflected in our performance measures on the next page.

REPORTING STRUCTURE



On-line reporting - Precinct uses MangoLive, an online live reporting and incident management system to report all incidents and observations on Precinct controlled workplaces. This includes client fit out and development sites under the direct control of a Precinct appointed contractor. The system allocates all incidents to the appropriate party for close out and has an escalation process in place with all priority incidents reported directly to the CEO. The MangoLive system also has the following further capabilities:

- repository for all health and safety documentation
- management system for all health and safety related training
- risk assessment data base
- staff emergency contact register
- audit and monitoring register and results

Audit and monitoring - Precinct actively audits and monitors live sites both through management staff and third party consultants Workplace Safety Limited and Construct Health Limited. Any issues are allocated to the appropriate party for close out with priority items escalated directly to the CEO.

Internal review - Precinct's Health and Safety (H&S) Committee meets monthly and provides oversight on all H&S matters. The H&S Committee has representation from all parts of the business including the senior executive team and management employee representatives from both the property and development portfolios. Workplace Safety Limited, an independent third party consultant, also sits on the H&S Committee to provide external input and advice. The H&S Committee review all incidents, observations, audit and monitoring reports. They also monitor annual H&S compliance by ensuring that H&S policies and processes are delivered, reviewed and improved where relevant.

Management and oversight - The H&S Committee reports directly to Precinct's Audit and Risk Committee and the Precinct Board.

External review - In addition to external audit and monitoring by Workplace Safety Limited and Construct Health Limited, Precinct also instigates annual third party reviews of its processes by Aon and ICSafety Solutions. Aon undertook this external review in 2018 with no health and safety issues identified. Precinct also holds ACC Workplace Safety Management Practices tertiary status (the highest level of accreditation) commending the strong health and safety policies in place and recognising Precinct's commitment to continued improvement.

HEALTH AND SAFETY POLICIES

Our Health and Safety policy guides our management approach and includes the following requirements:

- **Training** - All Precinct management staff receive regular training including external accreditation where relevant to their role.
- **KPI's** - All Precinct management staff have health and safety objectives included in their performance reviews.
- **Contractor pre-qualification** - Each contractor engaged by Precinct is required to be pre-qualified by Workplace Safety Limited or Construct Health Limited.
- **Hazard and asbestos registers** - Registers identify the observed hazards at each site. These are live registers subject to constant internal review and are reviewed annually by independent experts.
- **Audit and monitoring** - Precinct actively monitors live sites to ensure oversight of health and safety matters.

PERFORMANCE MEASURES

Incidents - We recorded 246 health and safety incidents in the year compared to 242 reported in FY17. Precinct recorded incidents include observations, near misses, first aid injuries, medical treatment injuries and lost time injuries. There were no significant injuries during the period with approximately 75% of recorded incidents being classified as minor (for example, rolled ankles, minor cuts and grazes). 62 recorded incidents occurred on our stabilised property portfolio representing an approximate 22% decrease in incidents compared to FY17.

75% of our recorded incidents occurred on our development sites which are under the direct control of a Precinct appointed main contractor. Precinct actively incentivises health and safety observations to enable them to be reviewed and improvements made where relevant. Observations have significantly risen during FY18 as a result of this policy (34 compared to 10). This is in addition to the main contractors own internal observation policies.

Audit and Monitoring - Over 225 additional principal audit and monitoring inspections were undertaken during FY18. This is in addition to regular internal contractor health and safety practices and includes internal and external principal audits and inspections, pre Project Control Group H&S meetings and specific H&S workshops. 184 of these were in relation to our development sites given the weighting of both number and severity of incidents to our development portfolio and the number of workers on site. This included 36 external audits by Construct Health Limited, with audit scores averaging 91% for Commercial Bay and 95% for Bowen Campus during the year.

"THE BOARD RECOGNISES PRECINCT'S INFLUENCE ON HEALTH AND SAFETY ACROSS THE BUSINESS AND WIDER INDUSTRY. IT IS SOMETHING WE ARE VERY FOCUSED ON."

>> **Craig Stobo**, Chairman.

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MEMBERS OF THE BOARD OF PRECINCT ON SITE AT BOWEN CAMPUS IN WELLINGTON

SUSTAINABILITY AT PRECINCT (CONTINUED)

FINANCIAL PERFORMANCE

Disclosure of our financial performance can be found in the results overview section on page 08 and in Precinct's financial statements on pages 70 to 89.

PARTNERSHIPS AND COMMUNITY

Precinct is a city centre specialist and one of the largest commercial real estate investors in Auckland and Wellington. The way we invest and develop, and the partnerships we foster are vital to the development of strong relationships within the communities where we operate. We see our business activity as a platform for strengthening communities and for creating environments in which people can thrive. The quality of our relationships with key partners and our communities are critical to our own success and the sustainable development outcomes we aspire to. This makes the topic of Partnerships and Community a material one for Precinct.

We are building strong and enduring relationships with Iwi, local government, council-controlled entities and community-based organisations. The strength of these partnerships enables us to create positive social, economic and environmental value and they are integral to our business model. We view the granting of our social licence to operate as a key business asset and one that we value and carefully maintain to ensure our ongoing ability to operate and achieve our business outcomes. Alignment of our business outcomes with value creation that benefits both Precinct and our partners and communities is critical to our long-term sustainable success.

During 2018, Precinct continued to support both Auckland City Mission and Wellington City Mission. In addition to financial support, Precinct actively works together with both Missions on fundraising initiatives throughout the year. This includes the One Can - Two Can annual appeal which collects non-perishable food items and funds for the Mission's emergency food parcels. Last year Precinct was one of the 158 organisations who participated, collecting around 30,000 cans for the Mission in Auckland.

During Christmas, gifts and non-perishable food items are also collected by Precinct to help both Mission's in Auckland and Wellington distribute thousands of food parcels and christmas presents.

More recently, Precinct have accepted an invitation from Auckland City Mission to increase its financial contribution per annum over the next five years, working in partnership with the Mission to deliver on their project, HomeGround, the multi-million dollar project which will see 80 new studio and one-bedroom units built on the Auckland City Mission's current site.

Our partnership with community organisations such as City Mission is based on our belief that we have a role to play in strengthening communities in the areas where we operate. Our support of City Mission is aligned with our overarching focus on partnerships and community initiatives that create positive social value.



OLIVIA HEIGHTON, PRECINCT INTERN, ASSISTING WITH THE AUCKLAND CITY MISSION'S ONE CAN - TWO CAN ANNUAL APPEAL



DAVID JOHNSON, COMMERCIAL BAY PROJECT DIRECTOR, TALKING TO THE KEYSTONE TRUST STUDENTS ABOUT THE COMMERCIAL BAY PROJECT IN AUCKLAND

SUSTAINABLE DESIGN

Developing and delivering sustainable designs for our built spaces is a learning journey for Precinct. Our ambition is to create spaces which generate environmental, social and economic benefits for a sustainable future. We define sustainable design in our operational context as the process for creating built spaces which deliver net positive environmental, social and economic value. It encompasses building and interior design, master planning and systems thinking about the inter-dependencies of our built assets and the ecology of their location. For Precinct, this thinking is underpinned with a fundamental consideration of the people that will inhabit the spaces we create. Our clients and the communities in which we operate are increasingly looking to us to shape the sustainability conversation and lead the development of sustainable and enriching built spaces. Our analysis of current building trends and feedback from our key stakeholders indicates that sustainable design is a highly material issue for the future-proofing of our business.

We have taken the first steps on our sustainability journey by increasing our understanding of what sustainability means within the context of the built environment. We are assessing the sustainability performance of our current designs and establishing our vision and target-setting for future designs. It is not a static process. The evolution of technologies and practices in sustainable design and construction sectors are evolving at an accelerating pace. Our focus on sustainable design extends to demonstrating its value to building occupiers and ensuring our buildings can perform within the ranges of current and predicted future climatic extremes.

Our Mason Bros. building completed in 2017 provides a case study on page 34 of our approach to sustainable design and the outcomes achieved.

PERFORMANCE MEASURES

In our current portfolio Mason Bros. building and Zurich House in Auckland have Green Star design ratings. Both Zurich House and Mason Bros. building are rated of five out of six stars, considered as New Zealand excellence. Precinct is currently reviewing opportunities to achieve a six star as-built rating, considered to be World leadership in sustainable design. 12 Madden Street at Wynyard Quarter is also targeting five-star design and as-built ratings which Precinct expects to achieve in the 2019 financial year.



12 MADDEN STREET, WYNYARD QUARTER, AUCKLAND

SUSTAINABILITY AT PRECINCT (CONTINUED)

ETHICAL BUSINESS PRACTICES

Disclosure on our ethical business practices, including our Code of Ethics and Financial Product Dealing Policy is reported on in the corporate governance section of this report on page 46. Our Code of Ethics includes a whistle-blowing clause for reporting unethical or unlawful behaviour and the full code can be found on our website at www.precinct.co.nz, along with our Financial Product Dealing Policy and other key governance documents.

DIVERSITY

Precinct understands the business and cultural benefits of achieving a diverse and highly inclusive workforce. We are committed to promoting and improving diversity and inclusion at all levels across our business.

Diversity includes, but is not limited to gender, age, disability, ethnicity, marital or family status, socio-economic background, religious or cultural background, sexual orientation and gender identity. Our core values, stakeholder expectations and NZX reporting requirements make diversity a material topic.

Our approach to managing diversity is guided by our Diversity and Inclusion Policy (available on our website www.precinct.co.nz). We use a number of internal management policies to support diversity including our Equal Opportunities Policy, Health and Wellbeing Policy, Recruitment and Selection Policy and Remuneration Policy. We are also guided by our Culture Charter, adopted in 2016.

Precinct's human resources manager takes a proactive approach toward promoting Diversity and Inclusion within the business and has recently been appointed to the newly established Diversity Committee formed by the NZ Property Council. The committee was created with a focus to increase the number of women in leadership roles and to build a diverse and inclusive property industry.

Precinct provides a generous parental leave entitlement over and above the Government legislative requirements for both primary and secondary caregivers. We also encourage flexible working in the form of offering flexible working hours and the ability to work remotely, providing assistance to employees of all genders to meet domestic responsibilities.

Kindercare Learning Centres Limited have been a client of Precinct's since 2002, occupying ground floor space in the AMP Centre and providing early childhood care and education for over 100 children. Increases in the city centre residential population, combined with the upcoming completion of the new PwC Tower and wider Commercial Bay retail development, has resulted in the expansion of our early childhood care and education offering. We have recently agreed a new 10 year lease over ground and part of level 2 of the AMP Centre, allowing us to accommodate 200 children once the fitout is completed. Precinct and Kindercare are currently underway with planning and expect to open in early 2019.

Alongside our internal values and targets, we enable environments in which diversity can thrive for our clients. Measures to advocate and enable greater diversity include:

- Providing ease of access and comfort for those with physical disabilities including hearing and vision impaired wayfinding, particularly in relation to using lifts
- All Precinct staff, including Concierge understand the importance of being welcoming, inclusive and treating all people with respect
- Precinct values are strongly aligned with LGBTQIA, this is explicit within several internal policies, but also expressed publicly through social media channels. During times of awareness and individuality celebration such as Rainbow week, Precinct partner with clients and create lift screens and other collateral to raise this awareness across the portfolio.

We are proud to be a member of Diversity Works New Zealand and proud to support The Women's Empowerment Principles, a joint initiative of the UN Global Compact and UN Women.

Precinct also supports TupuToa, a program launched in 2016 by the Maori and Pasifika corporate pathways project in conjunction with support from Global Women. Since its inception, Precinct has recruited interns through this programme which has been very successful.



PERFORMANCE MEASURES

We are committed to reviewing and reporting the performance of Precinct against its diversity and inclusion policy in conjunction with human resources and Board members on an annual basis. Precinct has made progress in improving gender diversity during the year and has an ongoing focus on inclusion and making further progress across wider diversity metrics.

We have made positive progress in improving gender diversity across both our senior management and all management employees. There has been no change in Precinct Board gender diversity, however the 2020 targets remain unchanged.

Our management approach and diversity performance are reported in the corporate governance section of this report on page 46. You can also read more about our measurable objectives in our Diversity and Inclusion Policy on our website.

BUILDING ENVIRONMENTAL PERFORMANCE

Growing awareness of buildings' environmental impacts and clients' increased expectations, make the environmental performance of our buildings a material issue. The environmental performance of our buildings includes the energy they consume, the waste they generate and their operational carbon footprints. To manage our buildings' environmental performance we've taken a disciplined approach to meeting our clients' expectations around optimal operating conditions while maintaining a focus on energy efficiency.

Our Facilities Management (FM) team maintain and upgrade our buildings' plant and building management systems (BMS) on an ongoing basis. Monthly monitoring and tuning meetings are held by our FM team in collaboration with engineers and contractors to ensure our buildings are constantly being tested and fine-tuned to achieve their optimum environmental performance levels. Effective software is critical for the successful implementation of our building management strategy. In 2017 we deployed a new analytical software package across our Auckland portfolio to integrate functions of their BMS while providing real-time fault finding capability. The new software system has delivered significant operational improvements, enhancing our ability to identify potential or actual faults and respond to them in much shorter timeframes. We've named the new software DC Analytics and it proved its worth in the smooth and seamless commissioning of our new Wynyard Quarter development, 12 Madden Street.

Currently three buildings in our portfolio have a NABERSNZ building energy efficiency rating, ranging from three to five out of six stars. Ratings across the balance of the portfolio are underway. The recently completed Mason Bros. building has also achieved a 5 stars NABERSNZ Energy Base Building rating, demonstrating market leading performance in energy efficiency.

PERFORMANCE MEASURES

Energy use intensity	kWh/m ²			Variance	
	Base year (2016)	2017	2018	to base year	to 2017
Auckland portfolio average	135.5	139.4	123.3	-8.9%	-11.5%
Wellington portfolio average	132.2	120.8	114.6	-13.3%	-5.1%
Total portfolio average	133.7	130.1	119.0	-11.0%	-8.5%

Carbon emission intensity	kgCO ₂ e /m ²			Variance	
	Base year (2016)	2017	2018	to base year	to 2017
Auckland portfolio average	21.3	22.1	19.5	-8.9%	-12.1%
Wellington portfolio average	22.0	20.3	19.1	-13.3%	-5.8%
Total portfolio average	21.7	21.2	19.3	-11.2%	-9.1%

SUSTAINABILITY AT PRECINCT (CONTINUED)

MASON BROS. BUILDING CASE STUDY

Originally built as a warehouse in the 1920s for the Mason Bros. Engineering company, Precinct redeveloped the building into a contemporary three level workplace with 4,910 sqm of net lettable commercial office space located in the Wynyard Quarter Innovation Precinct of Auckland. The redevelopment has created a stunning character building, ready for its second lifetime as a collaboration and innovation hub for Auckland.

The building boasts a 5 Green Star Design rating representing New Zealand Excellence for sustainable building design and is now targeting a 6 star Green Star As-Built rating which would reflect the building's world leading sustainability credentials. The building has also achieved a 5 stars NABERSNZ Energy Base Building rating, demonstrating market leading performance in energy efficiency.

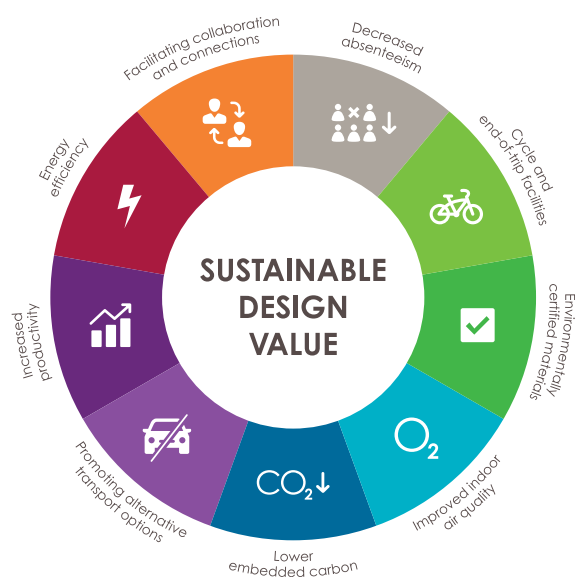
Precinct implemented a comprehensive sustainable design and development strategy with long-term operational efficiency, durability, flexibility, occupier comfort and amenity as key objectives. Collaborating with land owner Panuku Development Auckland as well as consultants, the sustainable design approach has added value while celebrating the building's heritage and innovation.

A good example of adding value through sustainable design comes from our knowledge that building facades and services typically contribute around 40% of up front capital costs and directly influence the major share of operational costs for a building. By engaging with our engineers, Mott MacDonald NZ Limited, early in the process we were able to undertake advanced energy and daylight analysis to achieve an optimal energy efficient design. Attention to detail and constant refinement was applied during the design of all of the building's systems. Upon completion of design we had modeled a 30% decrease in energy consumption when compared to a standard office building. Now in operation, we are experiencing energy reductions even greater than estimates.

We focused on creating a building with increased amenity and comfort to enable higher productivity for its occupants. Our post-occupancy survey indicates that on average occupants perceive Mason Bros. to increase their personal productivity by 8.5%. In comparison, occupiers surveyed within the New Zealand sample set for the same survey perceived that their buildings reduced their productivity by 0.7% on average. One business confirmed a 25% reduction in absenteeism since relocating to the Mason Bros. building.

Sustainable solutions that enable productivity increases were prioritised over short-term cost implications and included cyclist facilities, showers and change rooms; no on-site carparking to promote public transport, walking or cycling; improved indoor air quality through the use of high efficiency air filters.

Studies estimate it can take 20 to 30 years for energy and emissions from a building to exceed the embodied energy contained within the building's materials. This provides the Mason Bros. re-development with a significant lifecycle benefit when compared to an equivalent new building. An assessment of the building using a tool developed by BRANZ has shown the Mason Bros. building has 50% less lifecycle impacts than a new building.

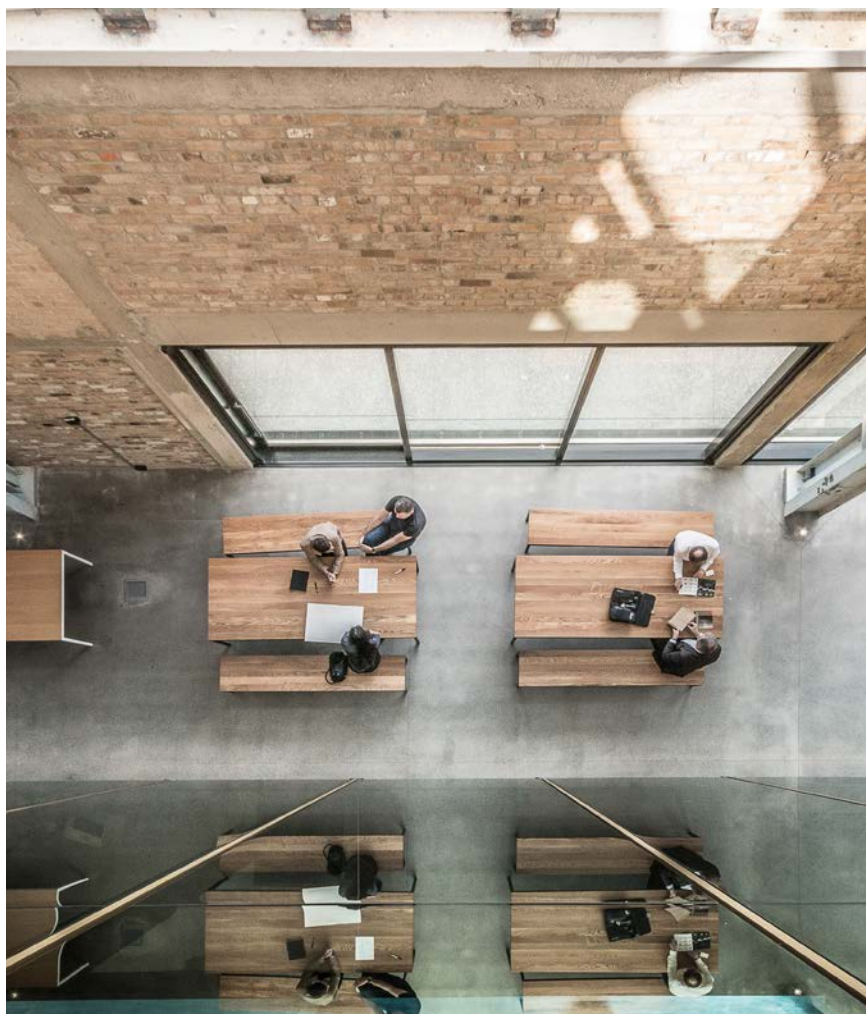
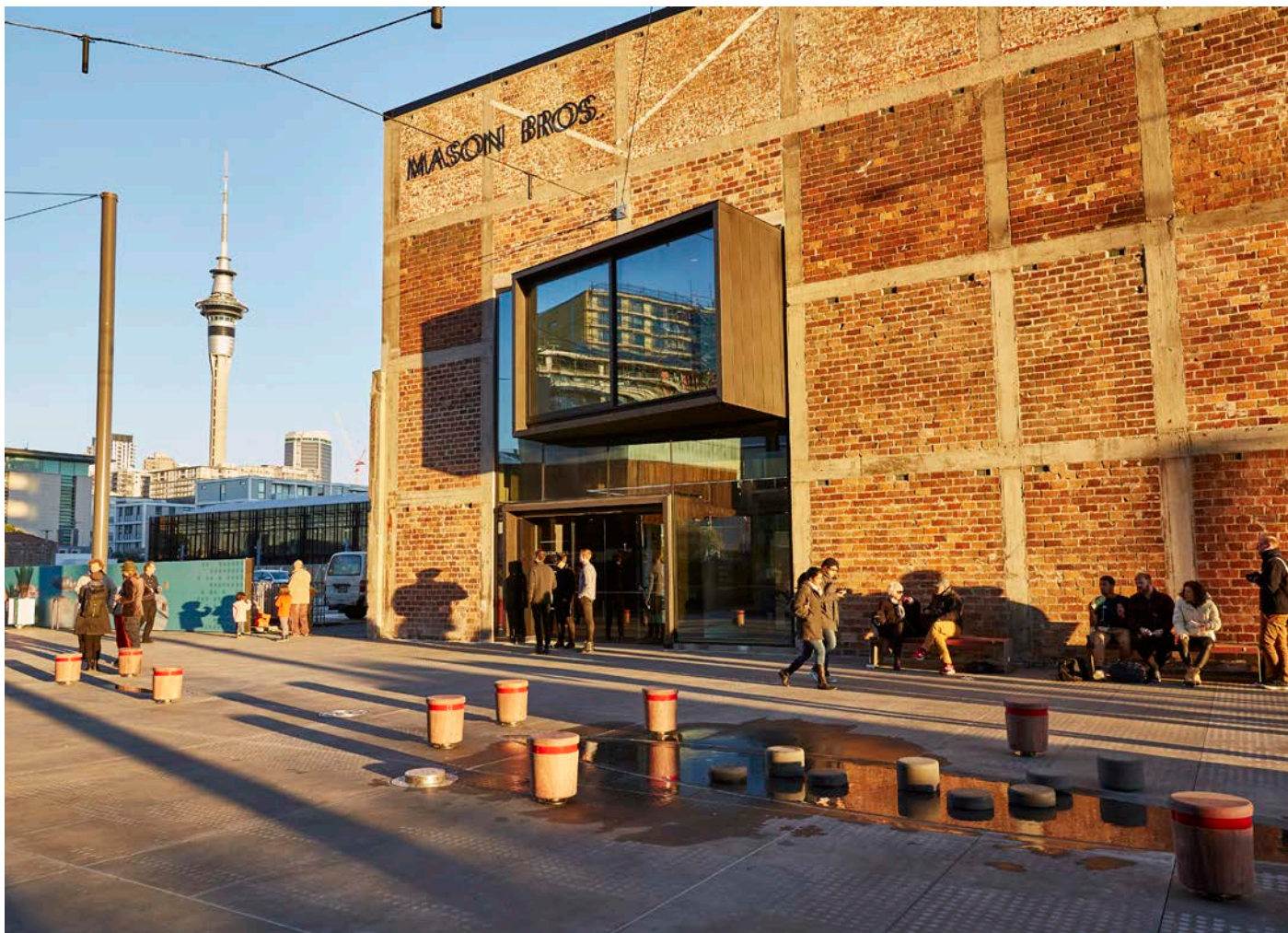


NABERSNZ

NABERSNZ is a ratings scheme to measure and rate the energy performance of office buildings in New Zealand. The scheme is based on National Australian Building Environmental Rating System (NABERS) and takes into consideration the climatic conditions in which the building operates, the building size and occupancy, hours of use, the level of services it provides and the energy sources (e.g. electricity and gas) it uses. By comparing a building's energy performance data against NABERSNZ benchmark data, a star rating is calculated that reflects the building's performance and enables robust comparison with other buildings.

GREEN STAR

Green Star is an internationally-recognised rating system for the sustainable design, construction and operation of buildings, fitout and communities. Green Star supports stakeholders in the property and construction sectors to design, construct and operate projects in a more sustainable, efficient and productive way. It provides occupiers with a trusted mark of independent verification to support decision-making.



GRI INDEX

As worldwide focus on integrated annual reporting grows Precinct has chosen to prepare its 2018 Annual Report in accordance with the Global Reporting Initiative (GRI) Standards (core option). The GRI Standards are the world's most widely used sustainability reporting standard.

We have transitioned our reporting from following the GRI G4 Guidelines to meeting the GRI Standards providing greater clarity and accountability around our material sustainability issues including how we are responding to them.

The GRI reference table below shows where in this report information can be found about the indicators that are relevant to our business operations.

GENERAL DISCLOSURES

Disclosure Title	GRI	Location or Reference
Name of the organisation	102 - 1	Precinct Properties New Zealand Limited
Activities, brands, products and services	102 - 2	Page 20 https://www.precinct.co.nz/about-us/
Location of headquarters	102 - 3	Page 93
Location of operations	102 - 4	Page 93
Ownership and legal form	102 - 5	Page 74, Limited Liability Company registered in New Zealand
Markets served	102 - 6	Page 12
Scale of the organisation	102 - 7	Page 20
Information on employees and other workers	102 - 8	Page 47
Supply chain	102 - 9	Pages 06, 14, 18, 20 and 34
Significant changes to the organisation and its supply chain	102 - 10	None
Precautionary principle approach	102 - 11	Precinct employs the precautionary principle through its compliance with consents obtained under the Resource Management Act (RMA), in which the principle is embedded
External initiatives	102 - 12	Page 32
Membership of associations	102 - 13	NZGBC, GRESB
Statements from senior decision-maker	102 - 14	Page 05, 22 and 25
Values, principles, standards, and norms of behaviour	102 - 16	https://www.precinct.co.nz/assets/PCT-CORPORATE-GOVERNANCE-MANUAL.pdf
Governance and structure	102 - 18	Pages 46 - 48
List of stakeholder groups	102 - 40	Page 24
Collective bargaining agreements	102 - 41	None
Identifying and selecting stakeholders	102 - 42	Page 24
Approach to stakeholder engagement	102 - 43	Page 24
Key topics and concerns raised	102 - 44	Page 24
Entities included in the consolidated financial statements	102 - 45	Page 74
Defining content and topic Boundaries	102 - 46	Page 24
List of material topics	102 - 47	Page 24
Restatements of information	102 - 48	None
Changes in reporting	102 - 49	None
Reporting period	102 - 50	July 1, 2017 – June 30, 2018
Date of most recent report	102 - 51	2017 Annual Report (August 2017)
Reporting cycle	102 - 52	Annual
Contact point for questions regarding the report	102 - 53	hello@precinct.co.nz
Claims of reporting in accordance with the GRI standards	102 - 54	GRI Standards (Core option)
GRI content index	102 - 55	Pages 36 and 37
External assurance	102 - 56	None

TOPIC SPECIFIC DISCLOSURES

Disclosure Title	GRI	Location or Reference
Energy		
Disclosure on management approach	103	Pages 31, 33 and 34
Energy intensity	302-3	Page 33
Emissions		
Disclosure on management approach	103	Pages 31, 33 and 34
GHG emissions intensity	305-4	Page 33
Occupational health & safety		
Disclosure on management approach	103	Page 28
Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	403-2	Page 29
Diversity and equal opportunity		
Disclosure on management approach	103	Page 32, 46 and 47
Diversity of governance bodies and employees	405-1	Page 47
Client wellbeing – non GRI		
Disclosure on management approach	103	Page 26
Partnerships and community – non GRI		
Disclosure on management approach	103	Page 30
Sustainable design – non GRI		
Disclosure on management approach	103	Page 31 and 34
Building environmental performance – non GRI		
Disclosure on management approach	103	Page 33 and 34

FLEXIBLE SPACE

CATERING TO THE DEMAND FOR FLEXIBLE SPACE

The traditional concept of heading to work to sit in an isolated office from nine to five is a thing of the past. Businesses today are demanding flexibility, social interaction, work-life balance and digital connectivity. They are also attracted to being able to access a level of service, quality of building and fit-out which has traditionally been the reserve of large-sale businesses.

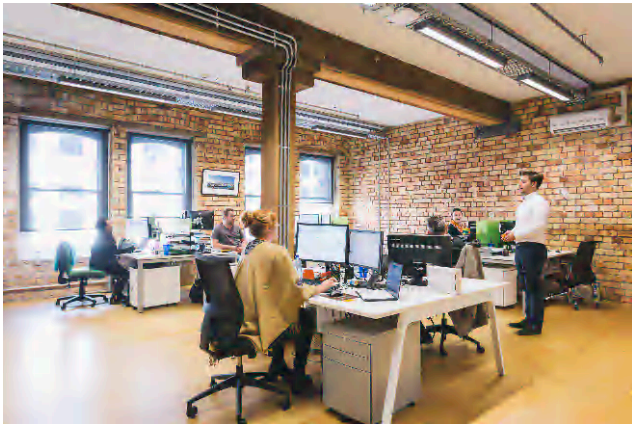
According to Bayleys Co-working Research (2018), over the past two years co-working space in Auckland has doubled, now totalling around 30,000 sqm with an additional 15,000 sqm in the pipeline. Of the total stock, around half is in the CBD and Wynyard precincts with the remaining located around the suburbs.

Recognising the need to meet this growing demand in Auckland, Precinct is committed to creating workspaces that meet the requirements of today's businesses with its acquisition of a 50% interest in Generator New Zealand Limited in 2017.

Precinct through its share in Generator currently have a significant presence in the CBD and Wynyard precincts, making up around 50% of the flexible/co-working market.

It's no surprise that the work place is radically changing - it reflects the revolution in how we work. People are expecting more than just financial reward from their workplace. Today, people want their workplace to align with their own outlook and values. Whether they work for themselves, in a growing local business or for a global multi-national, what's important to them is having a workplace that offers flexibility, work-life balance, and an inspiring and positive work environment – an ethos that co-working perfectly caters to. Precinct is proud to be part of that revolution.

FUTURE OF WORK



“OUR ACQUISITION OF A 50% SHARE OF GENERATOR IN 2017 WAS A FURTHER STEP IN HELPING TRANSFORM AUCKLAND INTO A MODERN BUSINESS ENVIRONMENT, COMPARABLE TO LEADING INTERNATIONAL CORPORATE HUBS. WE UNDERSTAND THE DESIRE FOR NEW WORKING COMMUNITIES.”

>> **Scott Pritchard**, CEO.

CO-WORKING... WHAT IS IT?

Co-working is a style of work that involves multiple people, often from different organisations, working together in a shared office space. Co-workers are encouraged to share resources, ideas and thought-starters, creating a highly interactive space with a shared sense of community. The extent of shared space can range from shared meeting rooms and amenities with private offices, through to shared open plan hot desks.

The co-working trend started to emerge around 1996 and co-working spaces began opening as an affordable office space solution for start-ups and freelancers. Co-working is a cost-effective solution for the limited budgets of these groups, and early adopters quickly learnt that the spaces provided an innovative environment for businesses to collaborate and network together.

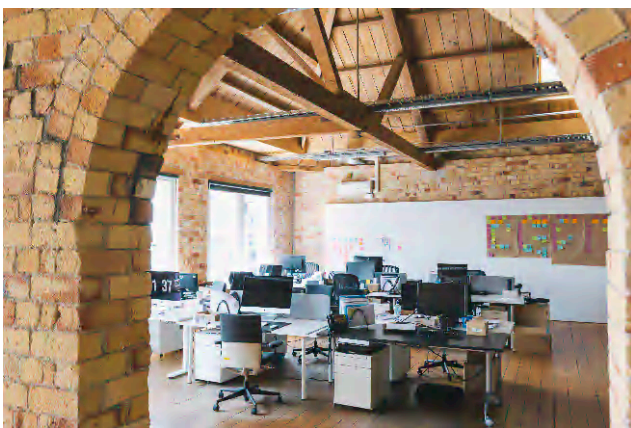
More recently, Precinct has seen a shift in the type of businesses interested in co-working spaces. Increasingly, small and medium sized businesses and even new to market large corporates are attracted to the ability for smaller occupiers to access premium levels of service and amenity. Recognising the value in co-working, a range of corporate business users are now turning to co-working as an optimal office space option.



DEDICATION TO BUILDING COLLABORATIVE COMMUNITIES

Established in 2011, Generator was one of the first co-working spaces in New Zealand and the first to provide fully serviced offices to its membership base. It has since expanded from one floor in Stanbeth House to now operate over 12,000 sqm of co-working space. This is over three locations in Auckland's city centre, with GRID AKL at Wynyard Innovation Precinct opening September 2017 and the recent opening at Britomart Place in June 2018.

Up until the acquisition in early 2017, Precinct had no occupiers less than 200 sqm - 300 sqm, which meant Precinct's portfolio of assets did not provide work spaces for the largest employment base in New Zealand – small and medium sized businesses. Generator gives Precinct exposure to this market, allowing it to expand its traditional client base and to grow with this market segment.



"RECOGNISING THE TREND TOWARD CO-WORKING OVERSEAS AND THE CHANGES IN WORKPLACE CULTURE HERE IN NEW ZEALAND, WE BELIEVE PRECINCT IS THE PERFECT PARTNER FOR GENERATOR FOR THE NEXT STAGE IN ITS EVOLUTION. GENERATOR PROVIDES A UNIQUE OFFERING WITH SOMETHING FOR EVERYONE AND WE ARE EXCITED TO EXPAND AUCKLAND'S CO-WORKING SPACE OFFERINGS WITH PRECINCT."

>> Ryan Wilson, Generator CEO and co-founder.



BOARD OF DIRECTORS



FROM LEFT TO RIGHT: DON HUSE, CHRIS JUDD, CRAIG STOBO (CHAIRMAN), LAUNA INMAN, GRAEME WONG, ROB CAMPBELL, ANTHONY BERTOLDI AND MOHAMMED AL NUAIMI DURING A SITE VISIT TO BOWEN CAMPUS, WELLINGTON.

CRAIG HAMILTON STOBO

CHAIRMAN, DIRECTOR, INDEPENDENT BA (HONS) FIRST CLASS ECONOMICS

Educated at the University of Otago and Wharton Business School, Craig Stobo has worked as a diplomat, economist, investment banker, and as CEO. He has authored reports for the Government on "The Taxation of Investment Income", chaired the Government's International Financial Services Development group in 2010, and chaired the Establishment Board of the Local Government Funding Agency in 2011.

Craig is a professional director and entrepreneur. In addition to chairing Precinct, he is chairman of the New Zealand Local Government Funding Agency (LGFA) and director of AIG Insurance New Zealand Limited and a number of private companies including Saturn Portfolio Management, Elevation Capital Management, Bureau Limited, and Biomarine Limited.

DONALD WILLIAM HUSE

DIRECTOR, INDEPENDENT BCA, FCA

Don Huse is a professional director. He is chair of OTPP New Zealand Forest Investments Limited and deputy chair of the Civil Aviation Authority of New Zealand.

His previous roles include chief executive officer of Auckland International Airport Limited, chief financial officer of Sydney Airport Corporation Limited, chief executive officer of Wellington International Airport Limited, chair of Crown Irrigation Investments Limited, deputy chair of Transpower New Zealand Limited and a director of Cavalier Corporation Limited and TransAlta New Zealand Limited.

A chartered accountant, Don holds a degree in economics from Victoria University of Wellington, and is also a member of the Institute of Directors in New Zealand and of the Australian Institute of Company Directors.

LAUNA INMAN

DIRECTOR, INDEPENDENT

Launa Inman has broad experience in retailing, multi-brand wholesaling, e-commerce, strategic planning, marketing and corporate restructuring. Launa was managing director of Australia's largest retailer of apparel, Target Australia, for 7 years and has also served as managing director/CEO of Officeworks and Billabong International. She was the recipient of the Telstra Australian Businesswoman of the Year award in 2003. In 2015 the Australian Marketing Institute awarded her the prestigious Sir Charles McGrath Award for her significant contribution to the field of marketing and wider industry achievements in Australia.

Launa has completed an Advanced Executive Program at Wharton Business School and holds a Bachelor of Commerce Hons and a Master of Commerce. She is currently a director of Super Retail Group and two Not for Profit organisations being the Alannah and Madeline Foundation and the Virgin Australia Melbourne Fashion Festival.

GRAEME HENRY WONG

DIRECTOR, INDEPENDENT BCA (HONS) BUS ADMIN, INFNZ (FELLOW)

Graeme Wong has a background in stock broking, capital markets and investment. He was founder and executive chairman of Southern Capital Limited which listed on the NZX Main Board and evolved into Hirequip New Zealand Limited. The business was sold to private equity interests in 2006.

Previous directorships include New Zealand Farming Systems Uruguay Limited, Sealord Group Limited, Tasman Agriculture Limited, Magnum Corporation Limited and At Work Insurance Limited and alternate director of Air New Zealand Limited.

Graeme is currently chairman of Harbour Asset Management Limited, director of CMT Industries Limited, Areograph Limited, Tourism Holdings Limited, Southern Capital Partners (NZ) Limited together with a number of other private companies. He is also a member of the Trust Board of Samuel Marsden Collegiate School and member of the Management Board of The Bible Society Development (New Zealand) Incorporated.

CHRISTOPHER JAMES JUDD

DIRECTOR, MANAGER APPOINTEE

Chris Judd has over 28 years' experience in the property industry including a 14 year association with property and property funds in New Zealand. Chris is the Head of Property Funds Management for AMP Capital Australia with executive and governance responsibilities in Australia, New Zealand and Singapore. He is director and chairman of AMP Haumi Management Limited and director of AMP Capital (New Zealand) Limited and AMP Capital Property Portfolio Limited. He is a registered valuer being an Associate of the Australian Property Institute. Chris was the inaugural chairman of the Property Council of Australia's Unlisted Property Roundtable and is a member of the International and Capital Markets Division Committee.

ROBERT JAMES CAMPBELL

DIRECTOR, SHAREHOLDER APPOINTEE

Rob Campbell is an appointee of Haumi Company Limited. He has over 30 years' experience in investment management and corporate governance.

Rob is currently chairman and director of SKYCITY Entertainment Group Limited, Summerset Group Holdings Limited, Tourism Holdings Limited, WEL Networks Limited and UltraFast Fibre Limited. He is also a director of, or advisor to, a number of hedge and private equity funds in a number of countries. Rob trained as an economist and has worked in a variety of capital market advisory and governance roles over a long period.

MOHAMMED AL NUAIMI ⁵

DIRECTOR, MANAGER APPOINTEE, CFA

Mohammed is an Investment Manager in the Real Estate and Infrastructure Department at Abu Dhabi Investment Authority (ADIA). He joined ADIA in January 2008 and moved to the Real Estate department in early 2012. He is in the AsiaPacific investment team covering Australia, New Zealand and specific investments in China. He is a director of Haumi Company Limited, Haumi Development Auckland Limited, HIP Company Limited and AMP Haumi Management Limited.

Mohammed has a Bachelor of IT Security from the United Arab Emirates University and he is a CFA charter holder since September 2011.

⁵ ANTHONY BERTOLDI IS THE ALTERNATE DIRECTOR FOR MOHAMMED AL NUAIMI. ANTHONY IS THE PORTFOLIO MANAGER – ASIA PACIFIC AT ADIA.

EXECUTIVE TEAM



FROM LEFT TO RIGHT: NICOLA MCARTHUR, RICHARD HILDER, SCOTT PRITCHARD, ANDREW BUCKINGHAM, DAVIDA DUNPHY, GEORGE CRAWFORD, AND KYM BUNTING OUTSIDE THE MASON BROS. BUILDING IN WYNYARD QUARTER, AUCKLAND.

SCOTT PRITCHARD

CHIEF EXECUTIVE OFFICER

Scott has led the team since 2010 being responsible for the overall strategy and operations of Precinct.

Scott has extensive experience in property funds management, development and asset management.

His previous experience includes various property roles with NZX-listed entities Goodman Property Trust, Auckland International Airport Limited and Urbus Properties Limited.

Scott holds a Masters degree in Management from Massey University. He is a member of the Property Council's national council and a trustee of the Keystone Property Trust and the Tania Dalton Foundation.

GEORGE CRAWFORD

CHIEF OPERATING OFFICER

George joined Precinct in late 2010 as Chief Financial Officer and in 2015 was appointed as Precinct's Chief Operating Officer. George leads the property team with responsibility for the performance of the investment portfolio, as well as taking a leading role in strategy, development and major projects. He also retains responsibility for risk and compliance, human resources and provides input to financial and capital management strategy.

After gaining experience with a large accountancy firm in the United Kingdom, George moved to New Zealand and worked for Fonterra and PwC before joining Goodman Property Trust, where he was Chief Financial Officer.

George has a Bachelor of Science Honours degree from Edinburgh University and qualified as a Chartered Accountant in the United Kingdom.

RICHARD HILDER**CHIEF FINANCIAL OFFICER**

Richard was appointed Chief Financial Officer in 2017, prior to this he held the role of General Manager of Finance. He is responsible for investor relations, financial planning and analysis, the execution of capital management initiatives and treasury management alongside leadership of the finance and analyst teams. He has been instrumental in developing and implementing Precinct's long-term strategy.

Prior to joining Precinct in 2010 Richard worked in the United Kingdom for Goodman Group's European Funds Management business where he gained experience in capital structuring, fund management and developments in both continental Europe and the United Kingdom.

Richard has worked for Goodman Property Trust and Trust Investment Management Limited in New Zealand. Richard holds a Bachelor of Commerce (Hons) (Finance and Economics) degree from University of Auckland.

KYM BUNTING**GENERAL MANAGER - TRANSACTIONS**

Prior to joining Precinct in 2014, Kym worked for Brookfield Office Properties, a global owner, developer and manager of premier real estate. Kym was responsible for management of all aspects of the company's New Zealand operating platform.

With 30 years of institutional property knowledge Kym is highly experienced in portfolio strategy, and all aspects of asset/property management, facilities management, and development. In particular, over the past 10 years Kym has developed a strong transactional background through leading a large number of asset sales and acquisitions and large scale leasing projects.

DAVIDA DUNPHY**GENERAL COUNSEL AND COMPANY SECRETARY**

Davida joined Precinct in 2014 and has more than 17 years legal experience in all aspects of commercial property both in New Zealand and the United Kingdom. Davida is responsible for the provision of legal and compliance support to the business.

Prior to joining Precinct, Davida worked for Bell Gully (Auckland) and international firm Squire Patton Boggs (in its European offices). Davida is a New Zealand and England & Wales qualified solicitor holding a Bachelor of Laws (Hons) and a Legal Practice (Post Dip). She is also a Chartered Company Secretary (ACIS) and a member of the Institute of Directors.

ANDREW BUCKINGHAM**GENERAL MANAGER - DEVELOPMENT**

Andrew has worked in the commercial property industry for the past 33 years both in Australia and New Zealand. He joined Precinct in 2014 and is responsible for leading Precinct's development projects. Andrew has held previous senior roles at Kiwi Income Property Trust, Westfield, St Lukes Group, CB Richard Ellis and Legal & General.

He was responsible for the development and delivery of the highly successful \$400 million Sylvia Park shopping centre project and more recently Andrew led the development of the award winning \$134 million ASB North Wharf project on the Auckland waterfront. Andrew is an Associate of the Australian Property Institute and a member of the Royal Institution of Chartered Surveyors.

NICOLA MCARTHUR**GENERAL MANAGER - MARKETING AND COMMUNICATIONS**

Nicola joined Precinct in 2012 returning to New Zealand after 10 years working in a variety of marketing roles in the United Kingdom and Australia.

Her role at Precinct is to lead the business's marketing strategy, overseeing marketing activities for both our existing assets as well as the development work. Another priority is to ensure we maintain optimum levels of communication with our clients, key stakeholders and consumers.

Nicola has a Master of Marketing from Melbourne Business School, a Graduate Certificate of Corporate Management from Deakin University and a Bachelor of Arts from Auckland University.

5 YEAR SUMMARY

(Amounts in \$ millions unless otherwise stated)	2014	2015	2016	2017	2018
Financial performance					
Gross rental revenue	165.4	170.5	146.0	126.2	130.7
Less direct operating expenses	(47.1)	(48.9)	(41.5)	(35.8)	(35.4)
Operating profit before indirect expenses	118.3	121.6	104.5	90.4	95.3
Net interest expense	(33.2)	(31.4)	(11.0)	(3.4)	(2.2)
Other expenses	(12.6)	(10.4)	(10.1)	(9.8)	(10.2)
Operating income before income tax	72.5	79.8	83.4	77.2	82.9
Non operating income / (expense)					
Unrealised net gain in value of investment and development properties	47.5	64.8	81.2	77.5	208.7
Other non operating income	10.9	(13.5)	(19.1)	11.8	(11.1)
Net profit before taxation	130.9	131.1	145.5	166.5	280.5
Current tax expense	(8.7)	(11.5)	(10.6)	(2.5)	(6.3)
Depreciation recovered on sale expense	0.0	(3.8)	(10.0)	0.0	0.0
Deferred tax benefit / (expense)	(5.0)	6.6	13.3	(1.9)	(17.0)
Total taxation (expense) / benefit	(13.7)	(8.7)	(7.3)	(4.4)	(23.3)
Share of profit or (loss) of joint ventures	-	-	-	-	(2.3)
Net profit after taxation	117.2	122.4	138.2	162.1	254.9
Dividends					
Net dividend (cents)	5.40	5.40	5.40	5.60	5.80
Net operating income					
Operating income before income tax	72.5	79.8	83.4	77.2	82.9
Less: Current tax expense	(8.7)	(11.5)	(10.6)	(2.5)	(6.3)
Net operating income after tax	63.8	68.3	72.8	74.7	76.6
Net operating income after tax per share (cents)	6.10	6.19	6.01	6.17	6.32
Dividend payout ratio to net operating income after tax (%)	88.5	87.2	89.9	90.8	91.8
Funds from operations (FFO)					
Net operating income after tax	63.8	68.3	72.8	74.7	76.6
Adjusted for:					
Amortisations	6.2	7.3	6.4	6.4	7.2
Straightline rents	(0.5)	(1.1)	(0.5)	(0.2)	(0.4)
Funds from operations	69.5	74.5	78.7	80.9	83.4
Funds from operations (cents)	6.64	6.75	6.50	6.68	6.89
Dividend payout ratio based on FFO (%)	81.3	80.0	83.1	83.8	84.2
Adjusted funds from operations (AFFO)					
Less: Maintenance capex	(6.3)	(6.6)	(11.1)	(5.8)	(4.9)
Less: Incentives and leasing costs	(8.7)	(7.1)	(3.0)	(9.3)	(8.3)
Swap close outs	-	1.6	-	-	-
Adjusted funds from operations	54.5	62.4	64.6	65.8	70.2
Adjusted funds from operations (cents)	5.21	5.66	5.33	5.43	5.80
Dividend payout ratio based on AFFO (%)	103.6	95.4	101.3	103.1	100.0

(Amounts in \$ millions unless otherwise stated)	2014	2015	2016	2017	2018
Financial position					
Total investment assets	1,728.1	1,687.8	1,513.7	1,535.4	1,678.8
Total development assets	-	-	190.4	509.2	838.1
Other assets	19.4	65.4	34.5	34.6	44.8
Total assets	1,747.5	1,753.2	1,738.6	2,079.2	2,561.7
Interest bearing liabilities	572.0	340.0	234.1	456.9	761.7
Other liabilities	68.7	74.9	93.6	116.7	109.3
Total liabilities	640.7	414.9	327.7	573.6	871.0
Total equity	1,106.8	1,338.3	1,410.9	1,505.6	1,690.7
Number of shares (m)	1059.7	1211.1	1211.1	1211.1	1211.1
Weighted average number of shares (m)	1046.6	1103.1	1211.1	1211.1	1211.1
Net tangible assets per share (cps)	1.04	1.11	1.17	1.24	1.40
Share price at 30 June (\$)	1.07	1.14	1.25	1.24	1.35
Covenants					
Loan to value ratio (%)	33.8	20.1	14.4	25.1	25.0
Interest coverage ratio	3.2 x	3.5 x	6.9 x	3.9 x	2.4 x
Key portfolio metrics					
Average portfolio cap rate (%)	7.3	7.0	6.5	6.2	5.8
Weighted average lease term (years)	5.4	5.0	6.3	8.7 ¹	8.7 ¹
Occupancy (% by NLA)	98	98	98	100	99
Net lettable area (sqm)	322,115	304,485	225,613	224,430	221,513
Number of investment properties	17.0	15.0	13.0	12.0	12.0

¹ Includes developments.

Definition - Funds from operations (FFO) and Adjusted funds from operations (AFFO)

FFO and AFFO are a non-IFRS earnings measure developed for real estate entities.

Funds from operations (FFO)

FFO is the organisation's underlying and recurring earnings from its operations. This is determined by adjusting statutory net profit (under IFRS) for certain non-cash and other items. FFO has been determined based on guidelines established by the Property Council of Australia and is intended as a supplementary measure of operating performance.

Adjusted funds from operations (AFFO)

AFFO is determined by adjusting FFO for other non-cash and other items which have not been adjusted in determining FFO. A dividend payout ratio of 100% indicates a company is neither over or under paying dividend.

AFFO is considered a measure of operating cash flow generated from the business, after providing for all operating capital requirements including maintenance capital expenditure, tenant improvement works, incentives and leasing costs.

While AFFO overcomes the limitations of FFO by considering the impact of capital requirements for operations, it can vary dramatically year over year, depending on the lease expiry profile and level of activity in any one period.

Our dividend policy

Precinct's dividend policy is to pay out approximately 90% of net operating income after tax as dividends, with the retained earnings being used to fund the capital expenditure required to maintain the quality of Precinct's property portfolio.

The payment of dividends is not guaranteed by Precinct and Precinct's dividend policy may change from time to time.

CORPORATE GOVERNANCE

INTRODUCTION

The board of directors is responsible for the governance of Precinct and is committed to ensuring Precinct maintains best practice corporate governance structures with the highest ethical standards and integrity.

Precinct's Corporate Governance Manual guides both the directors and the manager of Precinct. It includes a Code of Ethics, Board and Committee Charters and Policies on Securities Trading, Audit Independence, Diversity and Inclusion, Continuous Disclosure, Takeover and Shareholder Communications.

This section of the Annual Report reflects the company's compliance with the requirements of NZX Corporate Governance Code 2017. Precinct's Corporate Governance Manual is available on Precinct's website (www.precinct.co.nz) in the News and Investor Information section together with a statement of how Precinct's corporate governance policies, practices and processes alter from the NZX Corporate Governance Code 2017 as at 16 August 2018. If any investor would like a copy sent to them, please contact Precinct investor relations.

PRINCIPLE 1 – ETHICAL STANDARDS

Directors set high standards of ethical behaviour, model this behaviour, and hold management accountable for these standards being followed throughout the organisation.

Ensuring that Precinct is governed transparently and to the highest of ethical standards and integrity is one of the key priorities for the board. Precinct's Code of Ethics and Financial Products Dealing Policy are set out in the Corporate Governance Manual and are compliant in all respects with the NZX Corporate Governance Code recommendations.

Code of Ethics - The purpose and intent of Precinct's Code of Ethics is to guide directors, the manager, representatives and subsidiaries of Precinct so that their business conduct is consistent with high business standards. The Code is not intended to be an exhaustive list of acceptable and non-acceptable behaviour, rather it is intended to facilitate decisions that are consistent with Precinct's business standards, objectives and legal and policy obligations.

Financial Product Dealing Policy - The Financial Product Dealing Policy applies to all directors and officers of Precinct and management employees. No director, officer or employee may use their position of knowledge of Precinct or its business to engage in dealing with any Precinct listed financial products for personal benefit or to provide benefit to any third party.

PRINCIPLE 2 - BOARD COMPOSITION AND PERFORMANCE

There is a balance of independence, skills, knowledge, experience and perspectives among directors to ensure an effective board.

Precinct has seven directors, the majority of whom are independent (as defined by the NZX Listing Rules). Details of each director's experience are set out in the Board of Directors Section of this report. All Precinct directors are non-executive and the board composition and performance is compliant in all respects with the NZX Corporate Governance Code recommendations.

Independent Directors - Craig Stobo, Don Huse, Graeme Wong and Launa Inman were appointed by Precinct shareholders and are required to retire by rotation. At this year's annual general meeting in November 2018, shareholders will again have the opportunity to elect/re-elect two independent directors, as well as vote on various other matters.

Non-Independent Directors - Rob Campbell, Mohammed Al Nuiami and Chris Judd are non-independent. Rob was appointed by Haumi Company Limited in 2012 pursuant to a provision in the constitution which grants any security holder, holding more than 15% of our shares, the right to appoint one director. Mohammed and Chris were both appointed in 2013 as directors by AMP Haumi Management Limited pursuant to a provision in the constitution which grants the manager the right to appoint up to two directors. Anthony Bertoldi acts as alternate director for Mohammed. The non-independent directors are not required by Precinct's constitution (or by rule 3.3.11 of the NZX Listing Rules) to retire by rotation.

Subsidiary Company Directors - A third subsidiary was incorporated during the year being Precinct Properties 1 Queen Street Limited. The directors for each of Precinct's three subsidiary companies are all executive appointments and as at 30 June 2018 are Scott Pritchard, George Crawford, Davida Dunphy and Richard Hilder.

Board Charter - Precinct's Corporate Governance Manual includes the Board's Charter which sets out the roles and responsibilities of the board and management.

Board Appointment - The Remuneration and Nomination Committee assists the board in planning its composition and is responsible for nominating and appointing directors to the board. All directors enter into a written agreement setting out the terms of their appointment.

Diversity and Inclusion Policy - Precinct's Diversity and Inclusion Policy is included in Precinct's Corporate Governance Manual and includes measurable objectives which are assessed annually. The board has developed this policy with management to encourage a diverse and inclusive working environment at all levels of the organisation to recruit and retain the best talent from the widest pool of candidates and build a culture where diversity of gender, age, ethnicity, background, experience, skills, thought, ideas, styles and perspective are leveraged and valued.

The gender composition of directors, officers and management employees is as follows:

	30 June 2018		30 June 2017	
	Female	Male	Female	Male
Directors	1 (16.7%)	6 (83.3%)	1 (16.7%)	6 (83.3%)
Independent directors	1 (25%)	3 (75%)	1 (25%)	3 (75%)
Senior management	4 (40%)	6 (60%)	3 (33.3%)	6 (66.7%)
Officers	1 (25%)	3 (75%)	1 (33.3%)	2 (66.7%)
Management employees	24 (43%)	32 (57%)	21 (38%)	34 (62%)

For the purposes of measuring and reporting gender diversity, the term 'officers' is defined by those that report directly to the Precinct Board. The term 'senior management' relates to those in the business that sit on the executive management team, and/or have a strong influence over the organisation and are involved in key business decisions. To be considered as a senior management role the person must have a direct reporting line to the CEO, COO or CFO.

Supporting the efforts to increase diversity across the management team are secondary policies and practices

including the Equal Opportunities, Recruitment and Selection, Study Assistance and Remuneration Policies together with a Culture Charter and biennial anonymous staff surveys. To ensure workplace diversity continues to evolve and be built upon a matrix of key objectives and monitoring is undertaken on an on-going basis.

Measurable objectives	30 June 2018	30 Jun 2017	30 June 2015
Ethnicity % non NZ born European	34% (19)	25% (14)	16% (6)
Gender % of female staff	43% (24)	38% (21)	41% (15)
Age range	21 - 62	22 - 61	24 - 59

Board Performance - The Board regularly reviews its performance including its collective skills, knowledge, experience and perspectives to identify any shortcomings and ensure that it effectively governs the company and monitors performance in the interests of shareholders. This includes reviewing director tenure to ensure the independence majority is maintained.

Meetings - A schedule of directors and their board meeting attendance record for the year to 30 June 2018 is set out below.

BOARD OF DIRECTORS AND ATTENDANCE

Director	Independent director	Status	Date of appointment	Board meetings	Audit and Risk Com. meetings	Rem and Nom Com. meeting
Number of meetings				5	4	2
Craig Stobo	Yes	Board Chairman	4 May 2010	5	4	2
Mohammed Al Nuaimi		Director	30 October 2013	4	n/a	n/a
Anthony Bertoldi		Alternate Director for Mohammed Al Nuaimi	12 August 2014	5	n/a	n/a
Rob Campbell		Director	2 April 2012	5	4	2
Don Huse	Yes	Audit and Risk Committee Chairman	1 November 2010	5	4	n/a
Launa Inman	Yes	Director	18 November 2015	5	4	n/a
Chris Judd		Director	29 April 2013	5	n/a	1
Graeme Wong	Yes	Rem & Nom Committee Chairman	1 November 2010	5	n/a	2

CORPORATE GOVERNANCE (CONTINUED)

PRINCIPLE 3 – BOARD COMMITTEES

The board uses committees where this enhances effectiveness in key areas while still retaining board responsibility.

For the year to 30 June 2018 there were two standing committees of the board, being the Audit and Risk Committee and the Remuneration and Nominations Committee. Our board committees are compliant in all respects with the NZX Corporate Governance Code recommendations. The charters that exist for each committee can be found in the Precinct Governance Manual together with Precinct's Takeover Policy.

The Audit and Risk Committee comprises Don Huse as Chairman, Launa Inman, Craig Stobo and Rob Campbell. The committee was established to assist the board in discharging its duties with respect to financial reporting, compliance and risk management.

The Remuneration and Nominations Committee comprises Graeme Wong as Chairman, Craig Stobo and Rob Campbell. Chris Judd was appointed during the year. The committee's purpose is to:

- provide guidance to the board when approving directors' remuneration; and
- assist the board in planning the board's composition, evaluating competencies required of prospective directors and to make relevant recommendations to the board.

The Due Diligence Committee is an ad hoc committee that is established by the board from time to time to provide guidance and recommendations to the Board on the due diligence for any transaction of a significant size and/or complexity. A Due Diligence Process Memorandum is agreed each time the Committee is established setting out its duties, responsibilities and scope. The Due Diligence Committee was established three times during the year and comprised Don Huse as Chairman, Craig Stobo, Rob Campbell and Graeme Wong.

PRINCIPLE 4 – REPORTING AND DISCLOSURES

The Board demands integrity in financial and non financial reporting and in the timeliness and balance of corporate disclosures.

The Board is committed to ensuring the highest standards are maintained in financial and non financial reporting and disclosure of all relevant information and is compliant in all respects with the NZX Corporate Governance Code recommendations. A copy of Precinct's Continuous Disclosure Policy can be found in the Precinct Governance Manual.

The Audit and Risk Committee oversees the quality and timeliness of all financial reports, including all disclosure documents issued by the company or any of its subsidiaries.

Precinct has moved toward integrated reporting and the annual report includes information on Precinct's;

- Business model
- Strategy and key performance indicators
- Risk management, and
- Sustainability framework.

Precinct now reports against the Global Reporting Initiative (GRI) Standards, shown in the Sustainability Section.

PRINCIPLE 5 – REMUNERATION

The remuneration of directors and executives is transparent, fair and reasonable.

The board policy is for directors' remuneration to increase annually in line with inflation and to be reviewed every two years to ensure that it remains at market levels to attract and retain high quality independent directors.

Our remuneration practices are compliant with the NZX Corporate Governance Code recommendations with the exception of having a written policy outlining the relative weightings of remuneration components and relevant performance criteria (recommendation 5.2) and disclosing the same in relation to the CEO (recommendation 5.3). This is because CEO remuneration, together with all management remuneration, is an external management expense.

While management remuneration is not an expense of Precinct, the board of Precinct believes that it is important for shareholders to understand the structure of management remuneration as it is an important determinant of management retention, motivation and alignment between management and shareholders.

Under the Management Services Agreement, the board of Precinct must be consulted on management remuneration.

More information on remuneration of directors, executives and the management company can be found within the Management Fee Structure and Remuneration Report.

It is proposed that the director remuneration review process is updated during FY19 to provide further transparency to shareholders by setting aside the existing director pool fee cap and instead putting director remuneration to shareholders for annual approval. Such annual approval would apply to both directors base fees and additional committee fees and allow the board to recruit new directors during the year if appropriate for succession planning. Shareholders will be given the opportunity to vote on this change at the AGM in November and further information on this proposal will be included in the notice of meeting.

PRINCIPLE 6 – RISK MANAGEMENT

The board has a sound understanding of the material risks faced by the business and how to manage them. The board regularly verifies that the company has appropriate processes that identify and manage potential and material risks.

The Board has a risk management and reporting framework in place that identifies and manages risk that may impact the business and complies with the NZX Governance Code recommendations in all respects.

Risk Register - A Risk Register is maintained which identifies key risks to the business, records the likelihood and impact of each risk and steps to mitigate the same. The Audit and Risk Committee oversees the risk register and reviews it regularly with management to track existing risks and the emergence of new risks. The results of each review are reported to and reviewed by the Board. The Risk Register is further reviewed when required in the event the Due Diligence Committee is formed.

Financial Risk Management Policy - Our Financial Risk Management Policy details our approach to managing financial risks and the policies and controls that are required to mitigate the likelihood of financial risks resulting in an adverse outcome. This policy is reviewed by the Board annually.

Insurance - Insurance cover is in place for insurable liability and general business risk. The primary objective of our annual insurance programme is to protect shareholders from material loss in the value of assets as a result of events such as fire, natural disaster or accidental damage. This approach protects creditors and bondholders as well.

Audit - Ernst & Young are engaged during the year to audit and review our financial statements.

Health and Safety - Health and safety policies are embedded throughout the business and overseen by the Health and Safety Committee. Reporting and escalation processes are in place to the Audit and Risk Committee and the Board.

More detail on how Precinct manages its key business risks can be found under Risk Management in this section.

CORPORATE GOVERNANCE (CONTINUED)

PRINCIPLE 7 – AUDITORS

The board ensures the quality and independence of the external audit process.

Oversight of Precinct's external audit arrangements is the responsibility of the Audit and Risk Committee. We do not have an internal audit function. Ensuring that external audit independence is maintained is one of the key aspects in discharging this responsibility. The Policy on Audit Independence, detailed in the Corporate Governance Manual, has been adopted by the committee. This policy is compliant with the NZX Corporate Governance Code and covers the following areas:

- Provision of related assurance services by Precinct's external auditors;
- Auditor rotation; and
- Relationships between the auditor and Precinct.

The Audit and Risk Committee shall only approve a firm to be auditor if that firm would be regarded by a reasonable investor with full knowledge of all relevant facts and circumstances as capable of exercising objective and impartial judgement on all issues encompassed within the auditor's engagement.

The external auditors shall annually confirm their compliance with professional standards and ethical guidelines of Chartered Accountants Australia and New Zealand (CA ANZ) to evidence their competence.

PRINCIPLE 8 – SHAREHOLDER RIGHTS AND RELATIONS

The board respects the rights of shareholders and fosters constructive relationships with shareholders that encourage them to engage with the company.

The Board is committed to achieving best practice investor relations. Financial and operational information and key corporate governance information (including Precinct's Shareholder Communications Policy) can be accessed at www.precinct.co.nz.

An annual investor relations plan has been established and is reviewed annually. This plan details the investor relations approach to e-communications, roadshows, investor briefings, site visits, blackout periods, financial reporting and other items. Enquiries from shareholders can be voiced at the Annual General Meeting, or emailed through using the contact details on our website. A key objective of the plan is to ensure accurate continuous disclosure to the NZX.

We have previously conducted our AGM voting by poll in advance and by show of hands (of those shareholder who attend the AGM on the day). This allowed minority shareholders the opportunity to register their vote in front of the directors and management. In doing so we retained the right to demand a final poll in the event that the show of hands vote went against those votes cast in advance (which to date has never occurred). In accordance with NZX Corporate Governance recommendation 8.4 however, voting at the upcoming AGM in November will instead be conducted by poll only.

RISK MANAGEMENT

OUR APPROACH

Precinct has carried out a robust risk assessment process and is committed to providing a clear risk management and reporting framework for the business to operate under to achieve its objectives, whilst ensuring all risks are understood and managed.

REPORTING FRAMEWORK

Responsible group			Description of responsibility
Precinct board			<ul style="list-style-type: none"> Determine the nature and extent of the risks it is willing to take to achieve the business strategy Establish the parameters for each risk
Audit and risk committee			<ul style="list-style-type: none"> Delegated authority in assessing effectiveness of internal controls and risk management processes Delegated authority to regularly oversee and review the Risk Register
Executive			<ul style="list-style-type: none"> Input into Board's process for setting risk parameters Lead management's approach to risk Oversee reporting and identification of emerging risks
Development control group	Operational management	Health and safety committee	<ul style="list-style-type: none"> Implement and maintain risk management policies Create an environment that embraces risk management Actively audit and monitor all live sites
Contractors	Employees	Other	<ul style="list-style-type: none"> Day-to-day responsibility of managing risk Report and maintain internal risk and hazard registers

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KEY BUSINESS RISKS

EXTERNAL

Risks and impacts	How we manage the risk	Movement in the period
Economy and property market Market risk arises from adverse changes in the New Zealand economic environment, regulatory environment and the broader investment market. Changes may result in an impact in property value and amount of income generated from them.	Maintain a proactive and strategic approach to manage property risks it can influence. Providing quality premises matched by high service levels and building strong relationships.	Contributing factors in the New Zealand economy and property market remains strong and positive for Precinct with expectation they will continue for the near term.
Occupier market and client default A weakening occupier market through lack of business activity and investment, as well as unanticipated client default, can directly impact the income and value of each individual asset.	Undertake annual business planning process to review the portfolio and help mitigate these risks.	
Insurance risk The risk of being unable to continue to obtain insurance cover, or following an event, not having sufficient cover in place to repay creditors. This could result in significant business interruption.	Engage directly with a wide range of local and international insurers. Ensure the insurance market has a good understanding of the portfolio and its risks.	The impact from the Kaikoura earthquake and fire service levies has largely been accounted for within recent insurance renewals.

CORPORATE GOVERNANCE (CONTINUED)

INTERNAL

Risks and impacts	How we manage the risk	Change	Movement in the period
Development			
Development risk Development projects are inherently subject to uncertainties. They are entered into on the basis of assumed future costs, values and income levels. An increased level of development risk has the potential to make meeting covenant obligations and overall solvency challenging.	Ensure expected returns from developments adequately compensate Precinct for the level of risk undertaken before each project is approved. Through due diligence, we understand the project risks before commitment. Before commitment, ensure sufficient funding is in place and committed gearing is maintained within acceptable levels. Establishing a procurement plan and engaging contractors early to mitigate cost escalation or contractor default. Undertake substantial pre-leasing prior to commencement of development.	▼	The risk profile of the remaining developments continues to decrease as pre-commit leasing progresses through the period. Remaining commitments also reduce as projects near completion. Exposure to the construction market escalation remains minimal with fixed construction contracts agreed.
Financial			
Interest rate management Interest rate risk arises through changes in interest rate market conditions leading to earnings volatility or breach of interest cover covenant levels.	Manage by aligning the interest rate re-pricing profile with the re-pricing profile of Precinct's gross rental income. Establish interest rate swaps to manage exposure within a band reviewed by the Board annually and monitored by the audit and risk committee and board quarterly.	►	Floating interest rates have remained low during the year. Market expect rates to remain low in the short to medium term.
Refinancing risk (liquidity) Having insufficient funds to refinance debt when it falls due and sustain the ongoing operations of the business.	Implemented a Financial Risk Management Policy in 2011 which is reviewed annually providing a clear framework in which to operate under whilst ensuring risks are managed and understood. Diversified funding away from sole reliance on bank funding through alternative sources. Staggering the maturity profile of facilities providing adequate time to pursue alternatives to refinancing.	▼	New bank debt facility secured in July 2018 reduces refinancing risk providing sufficient funding capacity to deliver our committed developments.

Risks and impacts	How we manage the risk	Change	Movement in the period
Gearing levels An increase in gearing levels outside suitable industry standards could increase the risk of breaching financing covenants and may increase borrowing costs.	Implemented a Financial Risk Management Policy in 2011 which is reviewed annually. Ensure no capital commitment is entered into without sufficient funding in place. Maintain adequate headroom in relation to gearing covenants to withstand portfolio devaluations which may be anticipated through the property cycle.	▲	Gearing levels continue to increase as existing developments progress throughout the year. Funding strategy in place to ensure current levels remain within internal policy parameters.
People			
Staff Staff are critical to ongoing success and execution of strategy. Failure to maintain a high level of experience and skill could impact business performance.	Ensure a strong focus on team engagement and enhancement. Maintain ongoing succession planning and retention structures within the company. Regularly review performance appraisals of employees and directors and benchmark remuneration packages with the wider market.	▲	Human resource remains a key focus for the business as the company continues to grow and execute on its long term strategy.
Health and safety Unsafe work environments may lead to accidents (employees, clients, contractors and visitors) resulting in financial loss and/or business continuity.	Provide ongoing individual, group and industry training. Maintain a hazard register that identifies hazards where contractors are required to take precaution. Registers are subject to annual review. Actively monitor any live sites to ensure oversight of Health and Safety matters. Ensure contractor pre-qualification. Recognise training and KPI's for all Precinct staff.	▲	As developments progress and near completion, health and safety is increasing and remains a strong focus for the business. Appropriate monitoring and reporting policies are in place to mitigate any potential risk. Further information on Health and Safety is included in the Sustainability section.

CORPORATE GOVERNANCE (CONTINUED)

MANAGEMENT FEE STRUCTURE

MANAGEMENT SERVICES AGREEMENT

The management services agreement with AMP Haumi Management Limited was entered into on corporatisation in 2010 (*the Management Agreement*). The Management Agreement details the material services that are to be performed, and fees charged, by AMP Haumi Management Limited in its capacity as manager of Precinct. The Management Agreement was amended in 2011 and 2016.

A copy of the Management Services Agreement as amended is available on the Precinct website.

MANAGEMENT SERVICES FEE

The manager is entitled to three fees under the Management Agreement:

- a base management services fee;
- a performance fee; and
- additional services fees.

BASE MANAGEMENT SERVICES FEE

The base management services fee is payable in three tiers and calculated by reference to the Value of Investment Property. Value of Investment Property ("VIP") means, the total value of all real property assets owned or leased by Precinct as determined in accordance with GAAP. Adjustments for revaluations, capital expenditure, acquisitions and disposals are made on a pro rata basis each month.

Development properties, including land, are excluded from the VIP. A property is classified as a development property if it is under construction or is vacant and undergoing (or likely to undergo) refurbishment work during the year. This classification is for the purposes of calculating AMP Haumi Management's limited base management services fee only and does not in any way classify the tenantability or otherwise of a property. Refurbishment work includes all design and other pre-contract investigation and consultant work.

The base management services fee is payable in respect of these properties upon receipt of a certificate of practical completion for each property.

The three tiers of payment are as follows:

- 0.55% per annum of the VIP to the extent that the VIP is less than or equal to \$1 billion; plus
- 0.45% per annum of the VIP to the extent that the VIP is between \$1,000,000,001 and \$1.5 billion; plus
- 0.35% per annum of the VIP to the extent that the VIP exceeds \$1.5 billion;

plus GST (if any).

The base management services fee is paid to the manager monthly in arrears in cash.

PERFORMANCE FEE

The performance fee is based on Precinct's relative outperformance over other NZX listed property entities. Key features of the performance fee are:

- The performance fee is payable quarterly in arrears and in cash.
- Precinct's quarterly performance (expressed as a percentage return) is determined, based on the 5 day volume weighted average Precinct share price movement on NZSX at the open and close of that quarter plus gross distributions paid in the quarter ("Shareholder Return").
- Precinct's quarterly performance is then benchmarked against an NZX Property Index (excluding Precinct) return (calculated including the value of imputation credits of constituent members of that index), also expressed as a percentage return ("Benchmark Return").
- "Outperformance" (or "underperformance") is determined, being the difference between the Shareholder Return and the Benchmark Return.

An "Initial Amount" (or "Deficit") is then determined, being 10% of that Outperformance (or underperformance) multiplied by an amount reflecting Precinct's market capitalisation for that quarter. The Initial Amount (or Deficit) is then credited to the "Carrying Account".

- The performance fee for any quarter is then equal to the credit balance (if any) in the Carrying Account at that time, subject to two limitations:
 - the performance fee in any quarter is limited to the "Performance Cap", which is, effectively, 0.125% of an amount reflecting Precinct's market capitalisation for that quarter. The extent to which the performance fee would otherwise have exceeded the Performance Cap will remain in the Carrying Account and be carried forward to the following quarter; and
 - no performance fee is payable in respect of a quarter if Precinct's absolute Shareholder Return in that quarter is negative, even if it is above the Benchmark Return. Rather, the Initial Amount (calculated by reference to the Outperformance in that quarter) will be credited to the Carrying Account and carried forward to the following quarter. Any Initial Amount credited to the Carrying Account which is not used up in paying performance fees or in off-setting subsequent Deficits will effectively expire two 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 two years after it is debited against the Carrying Account.

MANAGEMENT SERVICES

BASE MANAGEMENT SERVICES

The base management services to be provided by the manager include:

- Corporate and fund management services, being, in general, those services which are necessary as part of the day-to-day management of a major corporate enterprise including the provision of support to the board, company secretarial matters, reporting, engaging and dealing with advisers, managing payments and accounts, financial management and reporting, record keeping, Listing Rules and regulatory compliance, capital management and research and monitoring.
- Portfolio and asset management services, being, in general, those services which are necessary as part of managing a major property portfolio including identifying opportunities, submitting proposals to the board, managing the implementation of board approved proposals, performance monitoring, budgeting, reporting, relationship management, development and implementation of annual asset management plans and documentation management.

The manager is permitted to sub-contract some or all of the base management services, but only with the board's consent (not to be unreasonably withheld). The manager will continue to be responsible for delivery of any sub-contracted services.

ADDITIONAL SERVICES

In addition to the base management services, the manager is also responsible for providing additional services to Precinct, relating to property and facilities management, leasing, development management, project management and delivery and property acquisition and divestment services (additional services).

The additional services may be provided by the manager or any person approved by the manager, provided such party has sufficient expertise and resources available to it to perform the service. No person may be engaged to perform additional services without board approval or authorisation under delegated authorities approved by the board.

The additional services are not included within the base management services fee payable under the Management Agreement and are subject to a market review every two years. The next market review is due in September 2018. The fees for these services are payable by Precinct and are detailed within the Remuneration Report.

REIMBURSEMENT OF COSTS

The manager is also entitled to be reimbursed for specified items of expenditure incurred on Precinct's behalf (these costs are not included within the fees payable under the Management Agreement).

RESOURCING

Precinct does not employ any staff, including senior executives. All personnel, including Precinct's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, are provided by the manager – which is responsible for providing access to, or otherwise employing, all staff necessary to perform its obligations.

Although Precinct does not employ its own staff, the manager must consult with the board regarding the appointment, removal and remuneration of the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Furthermore, the manager must:

- Ensure that certain key personnel are dedicated to, and work exclusively in providing services to, Precinct, unless agreed otherwise by the board.
- Ensure that the employment or secondment arrangements relating to certain key personnel require them to act in the best interests of, and for the benefit of, Precinct and its subsidiaries.

TERM AND TERMINATION

The Management Agreement has no fixed term and may be terminated in the following ways:

By either party if the other party commits or is or becomes subject to a default event. The default events are insolvency type situations and circumstances which lead to a party's unremedied material breach of the Management Agreement. In the case of the manager, a material breach:

- is a breach or series of related breaches which in aggregate have a material and adverse effect on Precinct's financial performance, business or assets and which is unremedied or not compensated for within 30 business days following delivery of a detailed notice to the manager by Precinct;
- is deemed to include fraud by the manager which has a material adverse effect on Precinct which is incapable of compensation; and
- is deemed to include a change of control which results in a party (other than AMP Capital Investors (New Zealand) Limited or Haumi Development Limited Partnership, or any of their related parties) acquiring the power to exercise or control the exercise of 75% or more of the voting securities of the manager, without Precinct's written consent. Provided that in each case Precinct may only exercise this right of termination if the termination has been approved by a special resolution of Precinct's shareholders (not including the manager or its "Associated Persons").
- by the manager on six months' written notice to Precinct.

Precinct does not have a unilateral right to terminate the Management Agreement at its discretion.

If requested by Precinct, the manager will provide disengagement services to Precinct following termination in certain circumstances to assist in the transition to a new manager or self-management.

CORPORATE GOVERNANCE (CONTINUED)

If the Management Agreement is terminated then the manager will not be paid any fees upon termination (other than any accrued and unpaid fees and costs up to the termination date).

CALL OPTION

(Transfer of manager's interests in the Management Agreement)

Any person who acquires (or acquires the right or power to exercise or control the votes attached to) 50% or more of the voting securities of Precinct, has a six-week period to exercise an option to purchase the manager's interests in the Management Agreement (subject to certain terms and conditions as set out in the Management Agreement). If the consideration for the assignment of the Management Agreement cannot be agreed, it will be set by expert determination.

BOARD APPOINTMENT RIGHTS

The manager is entitled to appoint up to two directors to the board and to substitute or remove such directors by notice in writing.

This director appointment right has been exercised and is subject to the Listing Rules (and the requirements of any ruling granted by the NZX from time to time). Further information on the manager appointed directors is set out in the Corporate Governance Section of this report (see Principle 2 - Board Composition and Performance).

TAKEOVER CODE EXEMPTIONS

INTRODUCTION

This section contains information required by the Takeovers Code (AMP NZ Office Limited) Exemption Notice 2010 which was obtained when Precinct corporatised from a unit trust in 2010. Unless otherwise stated, the information provided in this section of the report is as at 30 June 2018.

Any term capitalised in this section but undefined has the meaning given to it in the above 2010 Exemption Notice.

PRE-EMPTIVE ACQUISITIONS

AMP Capital Investors International Holdings Limited (AMPCI) and Haumi Company Limited (as general partner of the Haumi (NZ) Limited Partnership (HNZLP)) are the current parties to a deed dated 27 September 2010, which records certain pre-emptive rights arrangements in respect of Precinct voting securities held by HNZLP and AMPCI (in its own right – not in its capacity as manager of a fund) (the *Pre-emptive Arrangements*). The Pre-emptive Arrangements are as follows:

- If HNZLP wishes to sell, transfer or dispose of all or any of its Precinct voting securities (or any interest (whether legal or beneficial) in them) to any third person, or AMPCI wishes to sell, transfer or dispose of all or any of its Precinct voting securities held by it in its own right, and not in its capacity as a manager of a fund, (or any interest (whether legal or beneficial) in them) to any third person, then HNZLP or AMPCI must first offer to sell those Precinct voting securities to the other party at a price specified by the offeror. The offeree has 15 working days to decide whether to accept the offer.
- If the other party does not accept the offer or give notice within the 15 working day period, then the party wishing to sell, transfer or otherwise dispose of its Precinct voting securities can sell the relevant Precinct voting securities to a third party within 90 working days, provided that such sale must be for a price and on terms no more favourable than those offered to AMPCI or HNZLP (as the case may be).
- In addition, in the event of a "change of control", or if a "relevant event" occurs in respect of either HNZLP or AMPCI, then that party is deemed to have offered to sell its Precinct shares to the other at either an agreed price, or, if no such agreement can be reached, such amount, per Precinct voting security, as is equal to the volume weighted average price of Precinct voting securities traded on the NZSX during the period of five trading days immediately preceding the date on which the relevant sale notice is given. In the case of AMPCI, it will only be deemed to have offered to sell its Precinct shares held by it in its own right, and not in its capacity as manager of a fund.
- These Pre-emptive Arrangements cease to apply if AMP Haumi Management Limited ceases to be manager of Precinct.

Information on the number of voting securities that have been acquired by the Combined AMPCI Parties under the Pre-emptive Acquisitions, the percentage of all voting securities on issue that

are held or controlled by the AMPCI Parties, and the maximum number and percentages of voting securities after the Pre-emptive Acquisitions is set out below. Further information on the maximum number and percentages of voting securities that may be held by the AMPCI Parties (and their Associates) after the acquisition of voting securities under the Combined Transactions is set out on the following page.

FUNDS MANAGEMENT ACQUISITIONS

A reference in this section of the report to a Funds Management Acquisition is any acquisition of Precinct voting securities by a Managed Fund. A Managed Fund is any investment fund, entity or scheme managed by AMPCI or any subsidiary of AMPCI in the ordinary course of the funds management business of AMPCI (or a subsidiary), and includes any manager, trustee, or custodian of any such fund.

The persons whose increase in voting control results or may result from any Fund Management Acquisition are:

- the AMPCI Parties;
- any trustee or custodian of a Managed Fund; and
- in certain circumstances, where a Managed Fund is operated for the benefit of a single client, that client (as a result of having the ability, under the investment management arrangements with the relevant AMPCI Party, to direct the exercise of voting rights controlled by the relevant AMPCI Party in respect of that Managed Fund).

The percentage of Precinct voting securities at any time held or controlled by the AMPCI Parties as a result of the Funds Management Acquisitions has not exceeded 4.9% of the total Precinct voting securities on issue.

Information on the maximum numbers and percentage of all voting securities on issue that may be held or controlled by the AMPCI Parties (and their Associates) after any Fund Management Acquisition or after the acquisition of voting securities under the Combined Transactions is set out on the following page.

EMPLOYEE SHARE SCHEME ACQUISITIONS

The manager has established the AMP Haumi LTI Bonus Scheme (*LTI Scheme*) as a long term incentive scheme for selected employees of the manager (*Eligible Employees*) who are engaged in operating Precinct's business. The key terms of the LTI Scheme are:

- Eligible Employees are invited to borrow an interest free amount (Loan) from the manager. The Loan amount is determined based on the agreed performance criteria for the LTI Scheme (which is based on the performance of Precinct and the manager).
- The Loan is advanced to AMP Haumi LTI Trustee Limited (the Employee Share Scheme Administrator), who uses the Loan to purchase Precinct shares on-market (the Employee Share Scheme Acquisitions), and then holds those Precinct shares on trust for the Eligible Employees in accordance with the rules of the LTI Scheme.

- Participants who remain employed by the manager for the duration of the Loan period receive a bonus equal to the amount of the Loan, which may be used to repay the Loan. The rules of the LTI Scheme contain a mechanism which protects participants from changes in market value of the Precinct shares.
- Participants are entitled to Precinct shares held for them by the Employee Share Scheme Administrator only once they have satisfied the vesting requirements of the LTI Scheme.
- Participants who cease to be employed by the manager before satisfying the vesting requirements of the LTI Scheme are not entitled to the Precinct shares held for them by the Employee Share Scheme Administrator. Those participants are required to repay their Loan when their employment terminates, but the Employee Share Scheme Administrator will sell the Precinct shares held for that participant and use the sale proceeds towards repayment of the Loan.

Employee Share Scheme Acquisitions will or may result in the Employee Share Scheme Administrator, the manager or the Eligible Employees increasing their voting control of Precinct.

The percentage of voting securities at any time held or controlled by the Employee Share Scheme Administrator and the manager as a result of the Employee Share Scheme has not exceeded 1% of the total voting securities on issue.

Information on the maximum percentages of voting securities that may be held or controlled by the Employee Share Scheme Administrator or the manager (and their Associates) after any Employee Share Scheme Acquisition is set out on the following page. Further information on the maximum percentage of voting securities that may be held by the Employee Share Scheme Administrator or the manager (and their Associates) after the Combined Transactions is set out on the following page.

CORPORATE GOVERNANCE (CONTINUED)

DISCLOSURE OF NUMBERS AND PERCENTAGES OF VOTING SECURITIES

Pre-emptive arrangements

The number of voting securities that have been acquired by the AMPCI Parties under the Pre-emptive Arrangements as at 29 June 2018, the percentage of voting securities on issue that are held or controlled by the AMPCI Parties as at 29 June 2018, and the potential maximum numbers and percentages of voting securities that could be held or controlled by the AMPCI Parties after the Pre-emptive Acquisitions are as follows:

Exempted person	Number of voting securities that have been acquired under the Pre-emptive Acquisitions	% of voting securities on issue that are held or controlled	% of all voting securities on issue that are held or controlled with Associates	Maximum % of all voting securities on issue that could be held or controlled after the Pre-emptive Acquisitions	Maximum % of all voting securities on issue that could be held or controlled with Associates after the Pre-emptive Acquisitions
AMPCI Parties	Zero ¹	2.24 ²	21.23 ²	21.35	21.41

These figures are calculated on the basis that only the Corporatisation Transfer and the Pre-emptive Acquisitions occur, and that there is no change in the number of voting securities on issue after 29 June 2018.

- The figure is calculated on the basis that no voting securities in Precinct have been acquired under the Pre-emptive arrangements.
- These figures are calculated on the basis of the total holdings of voting securities in Precinct by the AMPCI Parties (and their Associates, as applicable) as at 29 June 2018 and that there is no change in the number of voting securities on issue after 29 June 2018.

Fund management acquisitions

The potential maximum numbers and percentages of voting securities that could be held or controlled by the AMPCI Parties after the Funds Management Acquisitions are as follows:

Exempted person	Maximum % of all voting securities on issue that could be held or controlled as a result of Funds Management Acquisitions	Maximum % of all voting securities on issue that could be held or controlled with Associates as a result of Funds Management Acquisitions
AMPCI Parties	4.9000	24.961

The figures in this table are calculated on the basis that only the Corporatisation Transfer and the Fund Management Acquisitions occur, and that there is no change in the number of voting securities on issue after 29 June 2018.

Employee share scheme acquisitions

The potential maximum numbers and percentages of voting securities that could be held or controlled by the manager and the Employee Share Scheme Administrator as a result of the Employee Share Scheme Acquisitions are as follows:

Exempted person	Maximum % of all voting securities on issue that could be held or controlled as a result of the Employee Share Scheme Acquisitions	Maximum % of all voting securities on issue that could be held or controlled with Associates as a result of the Employee Share Scheme Acquisitions
Employee Share Scheme Administrator	1.0000	22.35*
The manager	1.0000	22.35*
Total	1.0000	22.35

The figures in this table are calculated on the basis that only the Corporatisation Transfer and the Employee Share Scheme Acquisitions occur, and that there is no change in the number of voting securities on issue after 16 August 2017. The figures marked * are made on the basis that the Employee Share Scheme Administrator and the manager are not Associates of each other.

Combined transactions

The potential maximum numbers and percentages of voting securities that could be held or controlled by the AMPCI Parties, the Employee Share Scheme Administrator, the manager and the Employee Share Scheme and the manager combined are as follows:

Exempted person	Maximum % of all voting securities on issue that could be held or controlled as a result of all transactions	Maximum % of all voting securities on issue that could be held or controlled with Associates as a result of all transactions
AMPCI Parties	24.9000	25.9000
Employee Share Scheme Administrator	1.0000	25.9000*
The manager	1.0000	25.9000*
Employee Share Scheme Administrator and the manager (combined)	1.0000	25.9000

The figures marked * are made on the basis that the Employee Share Scheme Administrator and the manager are not Associates of each other.

The maximum % shown in the above tables are calculated on the basis of the Takeovers Code exemption including that there is no change to the total number of voting securities on issue after 16 August 2018. Details of which can be found in Precinct's Corporation Proposal Information Pack dated 5 October 2010.

NZX RULINGS AND WAIVERS

This section contains information required by NZX Markets Supervision Waiver Decisions.

2010 CORPORATISATION

This section contains information required by NZX Markets Supervision Waiver Decisions.

NZX granted, subject to a number of conditions, waivers from, and made rulings in respect of, the following Listing Rules in respect of Precinct:

A waiver from Listing Rule 9.2, for any requirement for any acquisition of the manager's interest in the Management Agreement pursuant to the right of any person (under the Management Agreement) who acquires more than 50% of Precinct shares, to be approved by an ordinary resolution of shareholders under Listing Rule 9.2.1. This waiver is conditional on:

- the terms and conditions of the Management Services Agreement not being materially altered as part of the transaction, (unless such alterations are approved by an ordinary resolution of shareholders under Listing Rule 9.2 or otherwise made in accordance with any waiver granted by NZX) and;
- the effects and conditions of the waiver, being set out in each annual report, offer document or prospectus of Precinct. It was also conditional on those details being set out in the offer document for the proposal to corporatise ANZO, and on the new management agreement being approved by unit holders of ANZO.

A waiver from Listing Rule 3.3, to the extent required, to permit:

- the manager to appoint up to two directors, and those directors to be excluded from the obligation to retire pursuant to Listing Rule 3.3.11;
- to permit any shareholder holding more than 15% of Precinct shares (15%+ Shareholder) to appoint one director, even if that shareholder is an associate of the manager, and any such director to be excluded from the obligation to retire pursuant to Listing Rule 3.3.11;
- any director appointed by the manager to be excluded from the number of directors upon which is based the calculation of the number of directors required to retire under Listing Rule 3.3.11.

This waiver is conditional on the following:

- the ability of the manager to appoint two directors being approved by unit holders of ANZO (at the meeting to approve the trust converting to a corporate structure);
- Precinct's constitution containing certain provisions, and these remaining in effect and materially unaltered. These included provisions to the effect that:
 - a. a majority of the directors must be independent of the manager and persons who control the manager;
 - b. if a 15%+ Shareholder appoints a director, the board must have a minimum of seven directors;

c. no 15%+ Shareholder who has exercised a right to appoint a director shall have the right to vote on the election of other directors (which was itself a separate condition);

d. any director appointed by a 15%+ Shareholder must be included in the number of directors upon which is based the calculation of the number of directors required to retire under Listing Rule 3.3.11.

- the waiver, its effects and conditions are set out in each annual report and offer document of Precinct;
- each director appointed by the manager is identified in Precinct's annual report as having been so appointed, and as not being subject to retirement by rotation;
- if the manager elects not to appoint two directors (and removes, or procures the resignation of, any directors appointed by it), the conditions as to election of directors independent of the manager shall not apply.

NON-STANDARD DESIGNATION

Pursuant to these waivers, Precinct's constitution contains certain provisions which are not ordinarily contained in the constitution of a company listed on the NZX, including provisions allowing for the appointment of directors by the manager and by any shareholder holding more than 15% of Precinct shares. Precinct has been given a non-standard designation by NZX due to the inclusion of these provisions in its constitution.

AS AT 30 JUNE 2018

INVESTOR INFORMATION

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

Rank	Shareholder	Number of shares	% of shares
1.	HSBC NOMINEES (NEW ZEALAND) LIMITED	295,922,750	24.43
2.	ANZ WHOLESALE TRANS-TASMAN PROPERTY SECURITIES FUND	80,800,247	6.67
3.	ACCIDENT COMPENSATION CORPORATION	67,215,690	5.55
4.	FORSYTH BARR CUSTODIANS LIMITED	60,817,590	5.02
5.	CITIBANK NOMINEES (NEW ZEALAND) LIMITED	50,366,244	4.16
6.	FNZ CUSTODIANS LIMITED	50,336,696	4.16
7.	HSBC NOMINEES (NEW ZEALAND) LIMITED A/C STATE STREET	42,247,897	3.49
8.	ANZ CUSTODIAL SERVICES NEW ZEALAND LIMITED	38,888,384	3.21
9.	INVESTMENT CUSTODIAL SERVICES LIMITED	38,405,957	3.17
10.	BNP PARIBAS NOMINEES (NZ) LIMITED	35,552,036	2.94
11.	ANZ WHOLESALE PROPERTY SECURITIES	23,866,369	1.97
12.	CUSTODIAL SERVICES LIMITED	23,131,222	1.91
13.	MFL MUTUAL FUND LIMITED	19,361,629	1.60
14.	JPMORGAN CHASE BANK NA NZ BRANCH-SEGREGATED CLIENTS ACCT	18,150,688	1.50
15.	BNP PARIBAS NOMINEES (NZ) LIMITED	16,647,781	1.37
16.	CUSTODIAL SERVICES LIMITED	12,222,129	1.01
17.	CUSTODIAL SERVICES LIMITED	11,698,904	0.97
18.	TEA CUSTODIANS LIMITED CLIENT PROPERTY TRUST ACCOUNT	8,711,453	0.72
19.	NEW ZEALAND DEPOSITORY NOMINEE LIMITED	8,527,732	0.70
20.	PT (BOOSTER INVESTMENTS) NOMINEES LIMITED	6,731,762	0.56
Totals: Top 20 holders of Ordinary Shares		909,603,160	75.11

Source: Computershare

SHAREHOLDER DISTRIBUTION

Range	Total holders	Shares	% of issued capital
1 - 99	3	132	0.00
100 - 199	4	435	0.00
200 - 499	43	12,942	0.00
500 - 999	87	58,885	0.00
1,000 - 1,999	198	267,157	0.02
2,000 - 4,999	697	2,381,909	0.20
5,000 - 9,999	1,303	9,356,058	0.77
10,000 - 49,999	3,981	90,572,782	7.48
50,000 - 99,999	689	45,969,559	3.80
100,000 - 499,999	351	62,473,800	5.16
500,000 - 999,999	23	15,161,064	1.25
1,000,000 and over	27	984,865,942	81.32
Total	7,406	1,211,120,665	100.00

Source: Computershare

SUBSTANTIAL FINANCIAL PRODUCT HOLDERS

Quoted financial product holder	Number of shares held at date of notice	%	Date of notice
AMP Capital Investors International Holdings Limited (ACIHL) ¹	198,943,261	18.773	01.12.2014
ANZ New Zealand Investments Limited	131,331,049	10.844	04.04.2018
ANZ Bank New Zealand Limited	38,323,025	3.164	04.04.2018
Accident Compensation Corporation	60,647,201	5.008	16.04.2018

Source: NZX Substantial shareholder notices

¹ AMP Capital Investors International Holdings Limited substantial security holder notice includes the Precinct shares of Haumi Company Limited.

Quoted financial product holder	\$ amount of convertible notes held at date of notice	%	Date of notice
Forsyth Barr Investment Management Limited	24,553,902	16.369	29.09.17

Source: NZX Substantial shareholder notices

The total number of ordinary shares on issue as at 30 June 2018 was 1,211,120,665. The total principal amount of convertible notes on issue as at 30 June 2018 was \$150,000,000. Precinct's website (www.precinct.co.nz) contains a summary of all NZX waivers granted and published by NZX within or relied on by Precinct within the 12 month period preceeding 30 June 2018.

The Group made donations of \$20,000 during the year to 30 June 2018 to Auckland City Mission and Wellington City Mission.

BONDHOLDER INFORMATION

BONDHOLDER DISTRIBUTION - PCT010

Range	Total holders	Units	% of issued capital
5,000 - 9,999	37	204,000	0.27
10,000 - 49,999	257	5,198,000	6.93
50,000 - 99,999	67	3,964,000	5.29
100,000 - 499,999	63	11,311,000	15.08
500,000 - 999,999	1	500,000	0.67
1,000,000 and over	11	53,823,000	71.76
Total	436	75,000,000	100.00

Source: Computershare

BONDHOLDER DISTRIBUTION - PCT020

Range	Total holders	Units	% of issued capital
5,000 - 9,999	40	227,000	0.23
10,000 - 49,999	415	8,839,000	8.84
50,000 - 99,999	83	4,812,000	4.81
100,000 - 499,999	45	7,055,000	7.06
500,000 - 999,999	5	2,877,000	2.88
1,000,000 and over	8	76,190,000	76.19
Total	596	100,000,000	100.00

Source: Computershare

INVESTOR INFORMATION (CONTINUED)

CONVERTIBLE NOTEHOLDER INFORMATION

TWENTY LARGEST NOTEHOLDERS

Rank	Shareholder	Number of notes	% of notes
1.	FORSYTH BARR CUSTODIANS LIMITED	34,169,827	22.78
2.	CITIBANK NOMINEES (NEW ZEALAND) LIMITED	11,174,000	7.45
3.	NATIONAL NOMINEES NEW ZEALAND LIMITED	10,766,000	7.18
4.	NEW ZEALAND PERMANENT TRUSTEES LIMITED	9,625,000	6.42
5.	FNZ CUSTODIANS LIMITED	8,016,000	5.34
6.	ACCIDENT COMPENSATION CORPORATION	6,381,500	4.25
7.	BNP PARIBAS NOMINEES (NZ) LIMITED	3,781,901	2.52
8.	CUSTODIAL SERVICES LIMITED	3,403,000	2.27
9.	FORSYTH BARR CUSTODIANS LIMITED	3,108,000	2.07
10.	CUSTODIAL SERVICES LIMITED	3,081,425	2.05
11.	CUSTODIAL SERVICES LIMITED	2,973,112	1.98
12.	BNP PARIBAS NOMINEES (NZ) LIMITED	2,755,000	1.84
13.	INVESTMENT CUSTODIAL SERVICES LIMITED	1,997,000	1.33
14.	ARDEN CAPITAL LIMITED	1,702,000	1.14
15.	MINT NOMINEES LIMITED	1,500,000	1.00
16.	CUSTODIAL SERVICES LIMITED	1,439,000	0.96
17.	JPMORGAN CHASE BANK NA NZ BRANCH-SEGREGATED CLIENTS ACCT	1,350,000	0.90
18.	JML CAPITAL LIMITED	1,200,000	0.80
19.	LEVERAGED EQUITIES FINANCE LIMITED	1,010,000	0.67
20.	HUGH MCCracken ENSOR	890,000	0.59
Totals: Top 20 holders of Notes		110,322,765	73.55

Source: Computershare

NOTEHOLDER DISTRIBUTION - PCTHA

Range	Total holders	notes	% of issued capital
1,000 - 1,999	5	6,000	0.00
2,000 - 4,999	15	47,300	0.03
5,000 - 9,999	137	774,100	0.52
10,000 - 49,999	677	14,256,500	9.50
50,000 - 99,999	140	7,935,000	5.29
100,000 - 499,999	67	9,900,760	6.60
500,000 - 999,999	10	6,592,575	4.40
1,000,000 and over	12	110,487,765	73.66
Total	1,063	150,000,000	100.00

Source: Computershare

DIRECTOR INTERESTS

DETAILS OF DIRECTOR INTERESTS IN PRECINCT SHARES (AS AT 30 JUNE)

	2018	2017
Director	No. of shares	No. of shares
Robert Campbell	957,002	941,602
Don Huse	571,428	571,428
Launa Inman	39,100	-
Graeme Wong	67,427	67,427

The following director interests were recorded in the interests register for the year to 30 June 2018.

Rob Campbell

Purchased 15,400 ordinary Precinct shares

Appointed chairman of SKYCITY Entertainment Group Limited

Appointed director and chair of WEL Networks Limited and Ultrafast Fibre Limited.

Graeme Wong

Purchased 40,000 of PCTHA convertible notes

Chris Judd

Appointed as chairman of AMP Haumi Management Limited

Launa Inman

Purchased 39,100 ordinary Precinct shares

Retired as director of Commonwealth Bank of Australia

Don Huse

Appointed deputy chair of the Civil Aviation Authority of New Zealand

Retired as director of Transpower New Zealand Limited

Craig Stobo

Retired as director and chairman of Fliway Group Limited

Anthony Bertoldi

Ceased as chairman of AMP Haumi Management Limited

REMUNERATION REPORT

REMUNERATION OF PRECINCT DIRECTORS

The remuneration of Precinct directors was established by the Remuneration Committee having reference to remuneration paid to directors of comparable New Zealand listed entities. There is a cap on director remuneration of \$580,000 per annum beginning 1 November. The actual fees paid for the year ending 31 October 2017 were \$461,020 which is below this cap. The fees paid vary according to the responsibilities and committee participation of each independent director.

The board policy is for directors' remuneration to increase annually in line with inflation and to be reviewed every two years to ensure that it remains at market levels to attract and retain high quality independent directors.

Only independent directors have received board remuneration from the company for their services as directors. Rob Campbell was paid \$3,698 for his services on sub committees during the year.

Role		30 June 2018 ¹		30 June 2017	
		Sub committee	Board	Sub committee	Board
Craig Stobo	Board Chair	3,698	162,080	125	161,387
Don Huse	Audit and Risk Committee Chair	4,208	101,300	(505)	100,867
Graeme Wong	Independent Director	3,698	91,170	125	90,780
Launa Inman	Independent Director	-	91,170	8,125	90,780
Robert Campbell	Director	3,698	-	125	-
Total		15,300	445,720	7,995	443,813

¹ The annual fee cap applies to the 12 month period to the anniversary of corporatisation, rather than the financial year.

From time to time the board may establish further subcommittees to consider specific issues or transactions. Membership of these committees may result in additional fees being payable at a rate ranging from \$290 – \$330 per hour. During the year ended 30 June 2018, \$15,300 in committee fees were paid to the due diligence committee (30 June 2017: \$7,995).

No other remuneration or benefit was provided by the group during the period to any director or former director of any group member.

REMUNERATION OF THE MANAGER

The roles, responsibilities and remuneration of the manager are determined by the Management Services Agreement between Precinct and the manager as outlined in the Additional Services section of this report. All additional services fees are approved by independent directors on a fair and reasonable basis. The table below sets out these various services provided by the manager and details the fees paid for those services in the period. A copy of the Management Services Agreement is available on the Precinct website (www.precinct.co.nz).

Fee	Fee basis	Service provided	June 2018 (\$m)	June 2017 (\$m)
Base management services fee	In accordance with clause 9.2 of the MSA: 0.55% on the Value of Investment Property to \$1 billion. 0.45% on the Value of Investment Property between \$1 billion and \$1.5 billion. 0.35% on the Value of Investment Property above \$1.5 billion. Development properties, including land, are excluded from the Value of Investment Property.	Overall management of Precinct to deliver on the Board approved business plans, budgets and strategies.	7.97	7.74

Fee	Fee basis	Service provided	June 2018 (\$m)	June 2017 (\$m)
Performance fee	In accordance with clause 9.4c of the MSA: 10% of quarterly outperformance of Precinct against the NZX/S&P Property Index (excluding Precinct). Limited to a cap of 0.125% of Precinct's opening market capitalisation.	Investment outperformance. The performance fee provides strong alignment between the interests of Precinct shareholders and the manager by rewarding superior performance and linking the returns of the manager and Precinct shareholders.	Nil	Nil
Surrender fees	In accordance with Clause 4 of Schedule 3 of the MSA: A fee of up to 10% of the surrender payments.	Surrender payments made during the period totalling \$0.01 million (2017: \$0.01m).	0.01	0.01
Development management fees	In accordance with Clause 6 of Schedule 3 of the MSA. A fee of 3% of the total development cost excluding land cost, incentives, marketing, and finance costs. A maximum fee (balance fee) of 1% of the total development cost excluding land cost, incentives, marketing and finance costs for successful delivery of a project.	Development management fees paid in the period relate to the development of Commercial Bay, Bowen Campus (Stages One and Two), No 1 The Terrace and No 1 Queen Street. As detailed in Part C of Schedule 3 of the MSA, overall management of the development includes making recommendations covering the development and redevelopment of property, consultant management, co-ordination of design, procurement of consents, development financing, co-ordination and cost management, construction contract tendering, management of risks and ongoing monitoring and reporting of the project.	3.36	3.34
Acquisition and sale of properties	In accordance with Clause 5 of Schedule 3 of the MSA. Where no external agent has been engaged, a fee of up to 1% of the purchase price or other consideration to be provided by the purchaser. Where an external agent has been engaged, the amount of the fee will be reflective of the manager's contribution and the external agent's scale of fees provided that the total fee payable will not exceed 1% of the purchase price or other consideration.	During the year Precinct committed to sell a 50% share of ANZ Centre, Auckland for \$181.0m. Managing the sale or purchase including negotiation of the commercial terms with the vendor or purchaser, instruction of agents, valuers and lawyers, financing and coordination and conduct of due diligence.	0.54	0.04
Property management fees	In accordance with Property and Facilities Management Services Agreement.	The manager provided property and facilities management services on a cost recovery basis.	3.04	2.74

REMUNERATION REPORT (CONTINUED)

Fee	Fee basis	Service provided	June 2018 (\$m)	June 2017 (\$m)
Leasing fees – new leases	In accordance with Clause 1 of Schedule 3 of the MSA: a) A minimum fee of \$2,500 per lease. b) For leases with a term of less than 3 years, 11% of the annual rental. c) For leases with a 3 year term, 12% of the rental. d) For leases with a term exceeding three years, 12% of the annual rental plus 1% for each year or part thereof, up to a maximum of 20% of annual rental.	Leasing of vacant space comprising annual rental of \$24.9 million (2017: \$58.7 million) for a weighted average term of 12.3 years (2017: 11.1 years). Precinct engages the manager and external agents to lease vacant space. The scale of leasing fees paid to the manager is below the scale of leasing fees paid to external agents. Fees paid by Precinct to external agents during the year totalled \$1.9 million (2017: \$2.7 million). Where both the manager and an external agent are involved, the manager's contribution is paid according to the manager's agreed scale of fees and the total fee paid by Precinct is no greater than the external agent's scale of fees. If the fee payable to an external agent is equal to or exceeds the manager scale of fees, no fee is payable to the Manager.	2.04	8.71
Leasing fees – renewals	In accordance with Clause 2 of Schedule 3 of the MSA. A fee of 25% to 75% of the leasing fee for new leases on the following basis: a) 25%: where the lessee exercises a renewal with no material engagement from the manager. b) 50%: where a lessee exercises a right of renewal and the rental outcome is negotiated between the parties. c) 75%: where a lessee seeks market responses and the manager secures the lessee to renew.	Lease renewals were secured over space comprising annual rental of \$8.7 million (2017: \$10.7 million) for a weighted average term of 1.9 years (2017: 2.8 years).	0.44	1.09
Rent review fees	In accordance with Clause 3 of Schedule 3 of the MSA. a) For structured (non-market) reviews and for any market review which does not result in a rental increase an administration fee of \$1,000 will be payable. b) Open market reviews: 10% of the rental increase achieved in Year 1 of the review, subject to a minimum fee of \$1,000.	The manager managed the rent review process for reviews totalling annual rental of \$4.8 million (2017: \$12.7 million). The balance of rent reviews were managed by external agents.	0.13	0.14
Total fees paid to manager			17.53	23.81

INSURANCE AND INDEMNITY

As permitted by the constitution and the Companies Act 1993, Precinct has indemnified its directors and officers, and the directors of its subsidiaries against potential liabilities and costs they may incur for acts or omissions in their capacity as directors. During the financial year, Precinct paid insurance premiums in respect of directors' and officers' liability insurance which covers risks normally covered by such policies arising out of acts or omissions of directors and officers in their capacity as such. Insurance is not provided for criminal liability or liability or costs in respect of which an indemnity is prohibited by law.

MANAGEMENT EXPENSE RATIO

Amounts in \$ millions (unless otherwise stated)	2018	2017
Base management fee	8.0	7.7
Performance fee	-	-
Audit and Directors	0.7	0.7
Other expenses	1.5	1.4
Total management expenses	10.2	9.8
Average total property value	2,280.8	1,874.4
Management expense ratio - excluding performance fee	45 bps	52 bps
Management expense ratio	45 bps	52 bps

Management expenses comprise the costs of managing Precinct as a corporate entity and exclude direct property expenses and capital expenditure.

MANAGEMENT REMUNERATION

Management remuneration is not an expense of Precinct as management are engaged by the manager and paid out of the fees paid by Precinct described above. However, the board of Precinct believes that it is important for shareholders to understand the structure of management remuneration as it is an important determinant of management retention, motivation and alignment between management and shareholders. The disclosures set out below have therefore been made by the manager on a voluntary basis in the interests of providing maximum transparency for Precinct shareholders.

Under the MSA, the board of Precinct must be consulted on management remuneration.

Remuneration of the CEO, COO and CFO comprises base salary, short term incentive payments ("STI") and long term incentive payments ("LTI").

CEO REMUNERATION

Scott Pritchard was appointed Chief Executive Officer in September 2010. His remuneration for the year ended 30 June 2018 comprises:

- A fixed base salary which is benchmarked annually;
- A discretionary short-term incentive payment which was made in accordance with the description below under the heading short term remuneration; and
- A long-term incentive payment (where vested) which is outlined in further detail on the following page.

The CEO's remuneration is approved by the Management Company Board and is paid in line with The Employee Remuneration Policy.

PwC was appointed by the Management Company Board in 2016 as a recognised independent party in order to undertake remuneration benchmarking in respect to the CEO and other senior executive roles.

Although all remuneration is paid by AMP Haumi Management Limited (the Manager "AHML"), not Precinct. The CEO and AHML have agreed to disclose the CEO's remuneration to shareholders in the interest of best practice. Details of the nature and amount of each element of the remuneration of the CEO is set out below. All amounts are in New Zealand dollars.

Remuneration		Short term remuneration 30 June 2018				Long term remuneration 30 June 2018	
		Base salary	STI	Super	Total paid	Maximum achievable	
Scott Pritchard	CEO	510,000	375,000	97,350	982,350	1,132,200	680,000 306,000

SHORT TERM REMUNERATION

Short term remuneration comprises base salary, STI and contributions to superannuation.

STI payments are payable at the discretion of the board of the manager and are based on management achieving certain operational objectives including, but not limited to: Precinct shareholder returns, Precinct earnings targets; portfolio objectives of

REMUNERATION REPORT (CONTINUED)

occupancy and WALT; treasury and capital management; major leasing initiatives; client satisfaction; manager earnings targets, major development management and staff management objectives.

During the year ended 30 June 2018, the number of employees of the manager (including the CEO, COO and CFO) who received short term remuneration with a combined total value exceeding \$100,000 is set out below. The amounts in this table do not include the value of shares granted under the LTI scheme.

The CEO's remuneration compared with the average pay for team members for the year ending 30 June 2018 was a ratio of 1 CEO : 5.75 team members.

Remuneration range	# employees
\$900,001 - \$1,000,000	1
\$750,001 - \$800,000	1
\$450,001 - \$500,000	1
\$400,001 - \$450,000	1
\$350,001 - \$400,000	1
\$300,001 - \$350,000	2
\$250,001 - \$300,000	5
\$200,001 - \$250,000	3
\$150,001 - \$200,000	5
\$100,001 - \$150,000	12
Total	32

LTI SCHEME

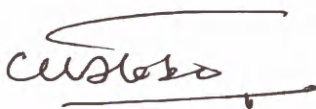
The manager operates an LTI scheme under which the CEO, COO, CFO and other senior executives are granted shares in Precinct, which are held in trust and vest on the third anniversary of the grant subject to their continuing employment. The value of the grants made under the LTI scheme are determined at the discretion of the board of the manager and are generally based on the performance fee earned by the manager.

The board of Precinct considers that the LTI scheme strongly aligns management with the interests of shareholders through the performance fee mechanism and through the LTI scheme grants being of shares in Precinct.

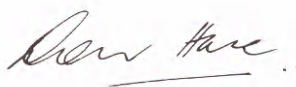
			Allocation \$	Allocation shares
Scott Pritchard	CEO	30 June 2018	680,000	TBD ¹
		30 June 2017	630,000	486,823
		30 June 2016	510,000	393,125
George Crawford	COO	30 June 2018	430,000	TBD ¹
		30 June 2017	420,000	324,549
		30 June 2016	340,000	262,083
Richard Hilder	CFO	30 June 2018	180,000	TBD ¹
		30 June 2017	150,000	115,910
		30 June 2016	120,000	92,500

¹ For 30 June 2018 the value of the LTI allocation has been determined by the AHML board however the shares have not yet been acquired due to restrictions under Precinct's Securities Trading Policy.

This annual report of Precinct Properties New Zealand Limited is dated 15 August 2018 and is signed on behalf of the board by:



CRAIG STOBO
CHAIRMAN AND INDEPENDENT
DIRECTOR



DON HUSE
CHAIRMAN AUDIT AND RISK
COMMITTEE AND INDEPENDENT
DIRECTOR



THE NUMBERS

PRECINCT PROPERTIES NEW ZEALAND LIMITED
FINANCIAL STATEMENTS 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

Amounts in \$ millions	Notes	30 June 2018	30 June 2017
Revenue			
Gross rental income		130.7	126.2
Less direct operating expenses		(35.4)	(35.8)
Operating income before indirect expenses		95.3	90.4
Indirect expenses / (revenue)			
Interest expense		2.5	3.5
Interest income		(0.3)	(0.1)
Other expenses	10	10.2	9.8
Total indirect expenses / (revenue)		12.4	13.2
Operating income before income tax		82.9	77.2
Non operating income / (expenses)			
Unrealised net gain / (loss) in value of investment and development properties	9	208.7	77.5
Unrealised net gain / (loss) on financial instruments		(11.1)	11.8
Total non operating income / (expenses)		197.6	89.3
Net profit before taxation		280.5	166.5
Income tax expense / (benefit)			
Current tax expense	11	6.3	2.5
Deferred tax expense / (benefit) - financial instruments	11	(3.0)	3.3
Deferred tax expense / (benefit) - depreciation	11	20.0	(1.4)
Total taxation expense / (benefit)		23.3	4.4
Share of profit or (loss) of joint ventures		(2.3)	-
Net profit and total comprehensive income after taxation attributable to equity holders	12, 14	254.9	162.1
Earnings per share (cents per share)			
Basic and diluted earnings per share	13	21.05	13.38
Other amounts (cents per share)			
Operating income before income tax per share		6.84	6.37
Net operating income per share	12	6.32	6.17

The accompanying notes on pages 74 to 89 form part of these Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

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 year				162.1	162.1
Distributions					
Q4 final distribution (paid 29 Sep 2016)	1.35			(16.4)	(16.4)
Q1 interim distribution (paid 8 Dec 2016)	1.40			(17.0)	(17.0)
Q2 interim distribution (paid 16 Mar 2017)	1.40			(17.0)	(17.0)
Q3 interim distribution (paid 8 Jun 2017)	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 year				254.9	254.9
Distributions					
Q4 final distribution (paid 28 Sep 2017)	1.40			(17.0)	(17.0)
Q1 interim distribution (paid 1 Dec 2017)	1.45			(17.6)	(17.6)
Q2 interim distribution (paid 23 Mar 2018)	1.45			(17.6)	(17.6)
Q3 interim distribution (paid 8 Jun 2018)	1.45			(17.6)	(17.6)
At 30 June 2018		1,211.1	1,046.7	644.0	1,690.7

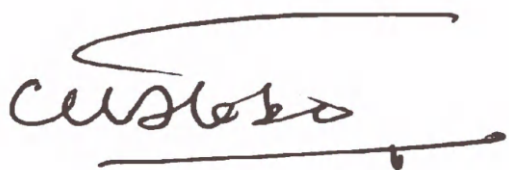
All shares have been fully paid, carry full voting rights, have no redemption rights, have no par value and are subject to the terms of the constitution.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

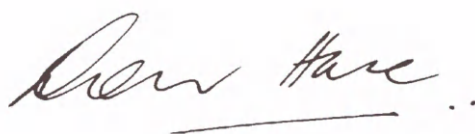
As at 30 June 2018

Amounts in \$ millions	Notes	30 June 2018	30 June 2017
Current assets			
Cash		2.9	4.3
Debtors and other current assets		7.4	8.9
Provision for tax		-	1.9
Total current assets		10.3	15.1
Investment properties held for sale	9	191.2	-
Non-current assets			
Fair value of derivative financial instruments	16	18.2	12.8
Other assets		5.1	2.1
Investment in joint ventures		11.2	4.6
Development properties	9	838.1	509.2
Investment properties	9	1,487.6	1,535.4
Total non-current assets		2,360.2	2,064.1
Total assets		2,561.7	2,079.2
Current liabilities			
Fair value of derivative financial instruments	16	0.9	2.9
Provision for tax		1.1	-
Accrued development capital expenditure		20.7	34.5
Acquisition settlement obligation		-	26.7
Other current liabilities		13.4	8.4
Total current liabilities		36.1	72.5
Non-current liabilities			
Interest bearing liabilities	15	761.7	456.9
Fair value of derivative financial instruments	16	32.9	20.9
Deferred tax liability	11	40.3	23.3
Total non-current liabilities		834.9	501.1
Total liabilities		871.0	573.6
Total equity		1,690.7	1,505.6
Total liabilities and equity		2,561.7	2,079.2

Signed on behalf of the Board of Precinct Properties New Zealand Limited, who authorised the issue of these financial statements on 15 August 2018.



CRAIG STOBO
CHAIRMAN



DON HUSE
CHAIRMAN AUDIT & RISK COMMITTEE

The accompanying notes on pages 74 to 89 form part of these Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

Amounts in \$ millions	Notes	30 June 2018	30 June 2017
Cash flows from operating activities			
Gross rental income per statement of comprehensive income		130.7	126.2
Less: Current year incentives		(3.8)	(2.2)
Add: Amortisation of incentives		4.3	3.6
Add: Working capital movements		(1.2)	(1.4)
Cash flow from gross rental income		130.0	126.2
Interest income		0.3	0.1
Property expenses		(37.4)	(43.8)
Other expenses		(10.1)	(9.9)
Interest expense		(4.4)	(2.4)
Income tax		(3.5)	(17.5)
Net cash inflow / (outflow) from operating activities	14	74.9	52.7
Cash flows from investing activities			
Capital expenditure on investment properties		(17.5)	(18.2)
Capital expenditure on development properties		(245.7)	(172.8)
Capital expenditure on other assets		(3.0)	(1.5)
Investment in and advances to joint ventures		(8.5)	(4.6)
Capitalised interest on development properties		(31.2)	(17.5)
Net cash inflow / (outflow) from investing activities		(305.9)	(214.6)
Cash flows from financing activities			
Loan facility drawings to fund capital expenditure		266.2	192.5
Other loan facility drawings / (repayments) ¹		(117.0)	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		(69.6)	(67.2)
Net cash inflow / (outflow) from financing activities		229.6	163.6
Net increase / (decrease) in cash held		(1.4)	1.7
Cash at the beginning of the year		4.3	2.6
Cash at the end of the year		2.9	4.3

¹ Loan facility drawings are net of repayments made throughout year.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

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 audited financial statements are those of Precinct, its three 100% owned subsidiaries and its joint venture (the Group). Precinct's 50% investment in the joint venture, 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 financial statements have been prepared in accordance with NZ GAAP. For the purposes of complying with NZ GAAP the Group is a for-profit entity. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'). The financial statements also comply with International Financial Reporting Standards ('IFRS').

The financial statements have been prepared:

- On a historical basis except for financial instruments, 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.

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise Precinct, its subsidiary companies and its joint venture.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit or losses resulting from intra-group transactions have been eliminated in full.

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

Precinct has chosen not to early adopt the following standards that have been issued but are not yet effective:

- NZ IFRS 9 - Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018). This standard replaces the current guidance in NZ IAS 39 Financial Instruments - Recognition and Measurement. NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. Precinct has assessed the impact of this standard on the group and no significant changes to the recognition and reporting of financial instruments compared with existing accounting policies will occur.
- NZ IFRS 15 - Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). This standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Precinct has assessed the impact of this standard on the group and no significant changes to the recognition of revenue compared with existing accounting policies will occur.
- NZ IFRS 16 - Leases (effective for annual periods beginning on or after 1 January 2019). This standard replaces the current guidance in NZ IAS 17. NZ IFRS 16 requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use' asset for virtually all lease contracts.

Lessor reporting

Precinct has assessed the impact of this standard on the group and no significant changes for reporting as a lessor (i.e. the owner of buildings) compared with existing accounting policies will occur.

Lessee reporting

Whilst the majority of Precinct's buildings are freehold, there are two Wellington properties where Precinct is a lessee under occupational ground leases. NZ IFRS 16 requires lessee's to recognise a 'right-of-use asset' representing the fair value of the occupational ground leases and a lease liability reflecting the present value of future lease payments for the occupational ground leases. Precinct is currently assessing the financial impact of this change. There will be no change to the cash flows recognised as a result of the adoption of the new standard. Other financial impacts are not expected to be material.

5. CHANGES TO ACCOUNTING POLICIES AND DISCLOSURE OF SIGNIFICANT ACCOUNTING POLICIES

No changes to accounting policy have been made during the year and policies have been consistently applied to all years presented.

Significant accounting policies have been included throughout the notes to the financial statements.

6. 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).

7. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing Precinct's financial statements, management continually makes 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 financial statements are in relation to:

i. Investment and development properties - refer note 9

ii. Deferred tax assets and deferred tax liabilities - refer note 11

8. SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE YEAR

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

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 15 for details.

ii. Senior secured bonds

On 27 November 2017, Precinct raised \$100 million through a New Zealand public bond issue. Refer to Note 15 for details.

iii. Sale of 10 Brandon Street, Wellington

On 23 April 2018, Precinct entered into a conditional agreement for the sale of 10 Brandon Street, Wellington for \$10.2 million. The sale is subject to ground lessor approvals and is due to settle in August 2018.

iv. Sale of 50% interest in ANZ Centre, Auckland

On 29 June 2018, Precinct entered into a binding agreement for the sale of a 50% interest in ANZ Centre, Auckland for \$181.0 million. The sale transaction remains subject to Overseas Investment Office approval.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

9. INVESTMENT AND DEVELOPMENT PROPERTIES

30 June 2018

Amounts in \$ millions	Valuer	Net lettable area sqm	Initial yield % ¹	Capitalisation rate % ¹
Investment properties⁴				
Auckland				
AMP Centre	Colliers	25,265	5.9%	5.9%
ANZ Centre (50%) ⁵	JLL	33,574	5.3%	5.3%
HSBC House	JLL	18,199	6.8%	6.1%
PwC Tower	CBRE	31,296	5.3%	5.1%
Zurich House	JLL	13,692	5.3%	5.6%
Mason Bros.	CBRE	4,911	5.9%	5.5%
12 Madden Street	CBRE	8,004	5.7%	5.5%
Wellington				
Dimension Data House	Colliers	16,756	7.2%	6.8%
Mayfair House	Colliers	12,332	7.6%	6.5%
No.1 and 3 The Terrace	Bayleys	18,462	3.3%	6.8%
No.3 The Terrace ⁶	Bayleys	N/A	N/A	N/A
Pastoral House	Colliers	15,522	10.0%	6.5%
Aon Centre ⁷	Bayleys	26,641	5.8%	6.9%
Market value (fair value) of investment properties			5.8%	5.8%
Investment properties held for sale⁴				
ANZ Centre (50%) ⁵	JLL	33,574	5.3%	5.3%
10 Brandon Street ⁸	N/A	12,972	N/A	N/A
Market value (fair value) of investment properties held for sale				
Development properties⁴				
Commercial Bay	JLL	N/A	N/A	4.9%
Bowen Campus Stage One	CBRE	N/A	N/A	6.0%
Bowen Campus Stage Two	CBRE	N/A	N/A	N/A
10 Brandon Street ⁸	N/A	12,972	N/A	N/A
Market value (fair value) of development properties				

¹ Total weighted average by market value. Capitalisation rate reflects long term lease commitments to those assets subject to the Government RFP.

² Total weighted average lease term is weighted by income.

³ Additions arise from subsequent expenditure recognised in the carrying amount. Disposals relate to completed sales, unconditional contracts for sale at year-end and transfers to other categories of property.

⁴ All properties are categorised as level 3 in the fair value hierarchy. All properties are CBD office properties with the exception of Commercial Bay and Bowen Campus which are under development.

⁵ On 29 June 2018, Precinct entered into a binding agreement for the sale of a 50% interest in ANZ Centre, Auckland for \$181 million. The sale transaction remains subject to Overseas Investment Office approval.

⁶ No.3 The Terrace relates to the freehold title in respect to Precinct's leasehold interest.

⁷ This property was previously known as State Insurance Tower.

⁸ Leasehold property on a perpetually renewable lease. This property was previously known as Deloitte House. On 23 April 2018, Precinct entered into a conditional agreement for the sale of 10 Brandon Street, Wellington for \$10.2 million. The sale is subject to ground lessor approvals and is due to settle in August 2018.

Occupancy %	WALT years ²	Valuation 30 June 2017	Capitalised incentives	Additions / disposals ³	Revaluation gain / (loss)	Carrying value
100%	5.0	163.4	0.3	3.7	11.6	179.0
100%	7.8	324.0	(0.4)	(178.4)	35.8	181.0
100%	1.7	93.8	(0.3)	4.3	(6.8)	91.0
100%	6.2	329.0	(0.1)	1.1	46.0	376.0
100%	3.9	95.5	(0.1)	0.8	9.8	106.0
100%	6.9	37.2	-	(0.6)	5.5	42.1
100%	10.7	67.8	0.5	2.0	6.4	76.7
100%	4.4	114.3	0.5	1.4	2.1	118.3
100%	16.6	40.8	0.1	0.2	3.3	44.4
100%	9.9	70.5	(0.2)	1.8	(5.1)	67.0
N/A	40.2	11.7	-	-	(0.1)	11.6
100%	15.0	42.9	-	3.2	(1.1)	45.0
93%	4.9	144.5	0.9	3.1	1.0	149.5
99%	6.9	1,535.4	1.2	(157.4)	108.4	1,487.6
100%	7.8	-	-	181.0	-	181.0
N/A	N/A	-	-	10.2	-	10.2
		-	-	191.2	-	191.2
N/A	N/A	370.0	0.1	163.9	114.0	648.0
N/A	N/A	108.5	-	67.9	2.2	178.6
N/A	N/A	10.5	-	4.0	(3.0)	11.5
N/A	N/A	20.2	-	(7.3)	(12.9)	-
		509.2	0.1	228.5	100.3	838.1

Accounting policies

Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Development properties

Investment properties that are being constructed or developed for future use are classified as development properties. All costs directly associated with the purchase and construction of a property and all subsequent capital expenditure is capitalised. Subsequent to initial recognition development properties are stated at fair value. Gains or losses arising from changes in the fair value of development properties are included in profit or loss in the year in which they arise.

Valuation of investment and development properties

External, independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, value Precinct's investment property portfolio at least every 12 months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

30 June 2017

Amounts in \$ millions	Valuer	Net lettable area sqm	Initial yield % ¹	Capitalisation rate % ¹
Investment properties⁴				
Auckland				
AMP Centre	CBRE	25,265	6.1%	6.3%
ANZ Centre - Auckland	JLL	33,574	5.8%	5.9%
HSBC House ⁵	JLL	18,199	6.9%	6.4%
PwC Tower	CBRE	31,296	5.9%	5.8%
Zurich House ⁵	JLL	13,692	5.9%	6.1%
Mason Bros. ⁶	Colliers	4,911	6.5%	6.0%
12 Madden Street ⁶	Colliers	8,004	6.4%	6.0%
Wellington				
Dimension Data House ⁷	Colliers	16,756	7.1%	6.9%
Bowen Campus	N/A	N/A	N/A	N/A
Deloitte House ⁸	N/A	N/A	N/A	N/A
Mayfair House	Colliers	12,332	8.3%	6.6%
No.1 and 3 The Terrace	Bayleys	18,462	7.9%	7.0%
No.3 The Terrace ⁹	CBRE	N/A	N/A	N/A
Pastoral House	Colliers	15,522	9.9%	6.6%
State Insurance Tower	Bayleys	26,641	7.4%	7.0%
Market value (fair value) of investment properties			6.5%	6.2%
Development properties⁴				
Wynyard Quarter Stage One	N/A	N/A	N/A	N/A
Commercial Bay ¹⁰	JLL	N/A	N/A	5.4%
Bowen Campus Stage One ¹¹	Colliers	N/A	N/A	6.5%
Bowen Campus Stage Two	Colliers	N/A	N/A	N/A
Deloitte House ⁸	CBRE	N/A	N/A	8.3%
Market value (fair value) of development properties			0.0%	0.0%

1 Total weighted average by market value. Capitalisation rate reflects new long term lease commitments to those assets subject to the Government RFP.

2 Total weighted average lease term is weighted by income.

3 Additions arise from subsequent expenditure recognised in the carrying amount. Disposals relate to completed sales, unconditional contracts for sale at year-end and transfers to other categories of property.

4 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 Deloitte House which are under development.

5 The valuation of HSBC House and Zurich House excludes the value transferred from the retail (and carpark) levels which are to be incorporated into the proposed Commercial Bay retail complex.

6 Subsequent to practical completion of the Mason Brothers building and 12 Madden Street building on 2 December 2016 and 15 June 2017 respectively the values were transferred from development properties to investment properties.

7 This property was previously known as 157 Lambton Quay.

8 Deloitte House has been transferred from an investment property to a development property as a result of the works required to seismically upgrade and refurbish the building. Leasehold property on a perpetually renewable lease.

9 No.3 The Terrace relates to the freehold title in respect to Precinct's leasehold interest.

10 The valuation of Commercial Bay includes the value transferred from retail (and carpark) levels within HSBC House and Zurich House which are to be incorporated into the proposed Commercial Bay retail complex. Additions include \$26.7m for the recognition of the present value of the unconditional agreement to purchase Queen Elizabeth Square from Auckland Council.

11 Additions include the transfer of Bowen Campus from investment properties and capitalised development costs relating to the redevelopment and refurbishment of Bowen State Building and Charles Fergusson House. Precinct has entered into a Development Agreement with the New Zealand Government for a new 15 year lease commitment as part of a full redevelopment of Bowen Campus.

Occupancy %	WALT years ²	Valuation 30 June 2016	Capitalised incentives	Additions / disposals ³	Revaluation gain / (loss)	Carrying value	
100%	3.9	148.0	0.3	3.9	11.2	163.4	
100%	8.6	305.0	0.2	0.5	18.3	324.0	
100%	2.7	121.5	(0.3)	1.7	(29.1)	93.8	
100%	6.1	313.0	(0.4)	1.8	14.6	329.0	
100%	3.7	110.5	(0.4)	(0.2)	(14.4)	95.5	
100%	7.9	-	1.7	34.3	1.2	37.2	
100%	12.0	-	0.1	64.7	3.0	67.8	
100%	5.6	109.0	1.5	3.7	0.1	114.3	
N/A	N/A	58.0	-	(58.0)	-	-	
N/A	N/A	45.0	-	(45.0)	-	-	
100%	17.0	38.5	0.9	0.5	0.9	40.8	
100%	8.7	72.3	1.0	0.4	(3.2)	70.5	
N/A	41.7	10.9	-	-	0.8	11.7	
100%	15.1	41.0	1.1	2.0	(1.2)	42.9	
99%	4.1	141.0	1.0	3.3	(0.8)	144.5	
100%	7.2	1,513.7	6.7	13.6	1.4	1,535.4	
N/A	N/A	43.4	-	(43.4)	-	-	
N/A	N/A	147.0	(0.5)	132.3	91.2	370.0	
N/A	N/A	-	-	96.9	11.6	108.5	
N/A	N/A	-	-	11.1	(0.6)	10.5	
N/A	N/A	-	-	46.3	(26.1)	20.2	
-	0.0%	-	190.4	(0.5)	243.2	76.1	509.2

Accounting policies (continued)

Investment property held for sale

Investment property is transferred to investment property held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. The property is held at the reliable value.

Derecognition of investment properties

Investment properties are derecognised when they have been either sold or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in profit or loss in the year of derecognition.

Recognition of revenue from investment properties

Rental income from investment properties is recognised in the Statement of Consolidated Income on a straight-line basis over the term of the lease.

Precinct capitalises leasing costs and lease incentives to the respective investment or development property in the Statement of Financial Position and amortises them on a straight-line basis over the term certain life of the lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

Fair value measurement, valuation techniques and inputs

Precinct's properties were valued as at 30 June 2018 by independent registered valuers Colliers International, Bayleys, JLL and CBRE.

During the year there were no transfers of investment or development properties between levels of the fair value hierarchy. The valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used are as follows:

Class of property	Valuation techniques used	Inputs used to measure fair value
CBD office and retail	Income capitalisation approach, discounted cash flow analysis and residual approach	<ul style="list-style-type: none"> - Office gross market rent per sqm - Retail gross market rent per sqm - Core capitalisation rate - Discount rate - Terminal capitalisation rate - Rental growth rate per annum - Profit and risk allowance

Significant inputs used together with the impact on fair value of a change in inputs:

Inputs used to measure fair value	Range of significant unobservable inputs:		Fair value measurement sensitivity:	
	30 June 2018	30 June 2017	to increase in input	to decrease in input
Office gross market rent per sqm	\$250 - \$738	\$180 - \$722	Increase	Decrease
Retail gross market rent per sqm	\$160 - \$1,850	\$225 - \$1,950	Increase	Decrease
Core capitalisation rate	4.9% - 6.9%	5.8% - 8.3%	Decrease	Increase
Discount rate	7.0% - 9.5%	7.4% - 9.5%	Decrease	Increase
Terminal capitalisation rate	5.5% - 7.3%	6.1% - 8.5%	Decrease	Increase
Rental growth rate per annum	2.1% - 2.8%	0.0% - 3.8%	Increase	Decrease
Profit and risk allowance	5% - 10%	5% - 17%	Decrease	Increase

Valuations reflect, where appropriate:

- The type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness;
- The allocation of maintenance and insurance responsibilities between Precinct and the lessee; and
- The remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases or decreases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

Valuation methodologies

Income capitalisation approach	Determines fair value by capitalising the net income at a capitalisation rate reflecting the nature, location and tenancy profile of the asset. Subsequent near term capital adjustments are then made which typically include letting-up allowances for vacancy and pending expiries, capital expenditure allowances and under/over renting reversions.
Discounted cash flow analysis	A financial modelling methodology assessing the long-term return that is likely to be derived from an asset. Explicit assumptions are required for rental income growth, leasing up metrics on expiries along with terminal value at the end of the cash flow period, typically a 10 year horizon. A market-derived discount rate is then applied to the assessed cash flows and discounted to a present value to determine fair value.
Sales comparison approach	Fair value is determined by applying positive and negative adjustments to recently transacted assets of a similar nature.
Residual approach	A methodology normally used for property which is undergoing, or is expected to undergo, redevelopment. Fair value is determined by firstly calculating a gross realisation which forecasts what a property is worth on completion and deducts all costs associated with the development of the property. These costs typically include letting and sale costs, a market required profit and risk margin, construction costs and finance costs.

Unobservable inputs within the income capitalisation approach

Gross market rent	The estimated rental amount which a tenancy within a property is expected to achieve under a new arm's length transaction including a share of the property operating expenses.
Core capitalisation rate	The income return produced by an investment expressed as a percentage of the capital value. The capitalisation rate which is applied to a property's net market income is determined through analysis of comparable sales transactions.

Unobservable inputs within the discounted cash flow analysis

Discount rate	The rate of return used to convert a property's future cash flows to present value. The discount rate is determined through analysis of comparable sales.
Terminal capitalisation rate	The rate used to convert income into an indication of the anticipated value of the property at the end of the cash flow period.
Rental growth rate	The growth rate applied to the market rental over the cash flow period.

Additional unobservable inputs within the residual approach

Profit and risk allowance	The market level of return for a typical developer to receive on their outlay in order to undertake the respective development having regard to the relative risks (e.g. leasing progress, fixed price contract, programme/staging) of the project at that point in time.
Forecast development costs	All costs associated with the development of the property. These costs typically include letting and sale costs, a market required profit and risk margin, construction costs and finance costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

10. OTHER EXPENSES

Amounts in \$ millions	30 June 2018	30 June 2017
Other expenses		
Audit fees ¹	0.2	0.2
Directors' fees and expenses	0.5	0.5
Manager's base fees	8.0	7.7
Manager's performance fees	-	-
Other ²	1.5	1.4
Total other expenses	10.2	9.8

¹ Fees paid to the Group's auditor comprise \$143,500 for audit and review of financial statements (2017: \$143,500) and \$43,400 for other assurance services (2017: \$89,190). Other assurance services include trustee reporting (\$4,000) and agreed upon procedures in respect of review of performance fee calculation (\$17,000) and operating expense statement review (\$22,400).

² Other includes valuation fees, share registry costs and annual report design and publication.

11. TAXATION

Amounts in \$ millions	30 June 2018	30 June 2017
Net profit before taxation	280.5	166.5
At the statutory income tax rate of 28.0%	78.5	46.6
Unrealised (gain) on value of investment and development properties	(58.4)	(21.7)
Disposal of depreciable assets	(0.8)	(4.0)
Capitalised interest	(9.2)	(4.9)
Other adjustments	1.8	(8.3)
Depreciation	(5.6)	(5.2)
Current tax expense / (benefit)	6.3	2.5
Fair value of financial instruments	(3.0)	3.3
Depreciation - current year	20.0	(1.4)
Total deferred tax expense / (benefit)	17.0	1.9
Total taxation expense	23.3	4.4
Effective tax rate	8%	3%

Precinct holds its properties on capital account for income tax purposes.

Precinct has no tax losses available to carry forward as at 30 June 2018 (2017: \$nil)

Amounts in \$ millions	30 June 2018	30 June 2017
Deferred tax asset - fair value of financial instruments	(8.5)	(5.5)
Deferred tax liability - depreciation	48.8	28.8
Net deferred tax liability	40.3	23.3

Deferred tax assets

Precinct has recognised deferred tax assets relating to the fair value of financial instruments.

Deferred tax liabilities

Precinct has recognised deferred tax liabilities relating to the depreciation claw-back which would arise on the sale of investment properties at carrying value.

In estimating this deferred tax liability, Precinct has relied on independent valuers' assessments of the market value of the land and improvements and an internal assessment of the market value of fixtures and fittings having regard to the useful lives of each category of fixtures and fittings. Recent sales have suggested that the previous estimation process for the market value of fixtures and fittings did not fully reflect the net selling price allocation process that occurs on sale of a property. During the year Precinct has revised the process which has resulted in an increase to the deferred tax liability of \$20.0 million.

Imputation credit account

Imputation credits available for use as at 30 June 2018 are \$2,995,126 (2017: \$1,943,448).

Accounting policy

Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

For deferred tax liabilities or assets arising on investment property measured at fair value, it is assumed that the carrying amounts of investment property will be recovered through sale.

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

Net operating income is net profit after tax, before revaluations on investment 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	30 June 2018	30 June 2017
Net profit after taxation	254.9	162.1
Unrealised net (gain) / loss in value of investment and development properties	(208.7)	(77.5)
Unrealised net (gain) / loss on financial instruments	11.1	(11.8)
Deferred tax (benefit) / expense	17.0	1.9
Share of (profit) / loss of joint venture	2.3	0.0
Net operating income	76.6	74.7
Weighted average number of shares for net operating income per share (millions)	1,211.1	1,211.1
Net operating income per share (cents)	6.32	6.17

This additional performance measure is provided to assist shareholders in assessing their returns for the year.

13. EARNINGS PER SHARE

Amounts in \$ millions	30 June 2018	30 June 2017
Net profit after tax for basic and diluted earnings per share (\$millions)	254.9	162.1
Weighted average number of shares for basic and diluted earnings per share (millions)	1,211.1	1,211.1
Basic and diluted earnings per share (cents)	21.05	13.38

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

14. RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

Amounts in \$ millions	30 June 2018	30 June 2017
Net profit after taxation	254.9	162.1
Add / (less) non-cash items and non operating items		
Unrealised net (gain) / loss in value of investment and development properties	(208.7)	(77.5)
Unrealised net (gain) / loss on financial instruments	11.1	(11.8)
Deferred tax (benefit) / expense	17.0	1.9
Amortisation of leasing costs and incentives	7.1	6.2
Share of (profit) or loss of joint ventures	2.3	-
Movement in working capital		
Increase / (decrease) in creditors	(11.5)	(12.4)
Income tax payable	2.8	(14.9)
(Increase) / decrease in debtors	(0.1)	(0.9)
Net cash inflow / (outflow) from operating activities	74.9	52.7

15. INTEREST BEARING LIABILITIES

Amounts in \$ millions	30 June 2018	30 June 2017
Interest bearing liabilities		
Bank loans	328.5	279.2
US private placement	97.9	97.9
NZ senior secured bond	175.0	75.0
Convertible note	150.0	-
Total drawn debt	751.4	452.1
US private placement - fair value adjustments	15.0	8.8
Convertible note - embedded financial derivative and amortisation adjustment	1.6	0.0
Capitalised borrowing costs	(6.3)	(4.0)
Net interest bearing liabilities	761.7	456.9

Breakdown of borrowings:

Amounts in \$ millions	Held at	Maturity ¹	Coupon ¹	30 June 2018	30 June 2017
Bank loans	Amortised cost	Nov-20	Floating ²	328.5	279.2
NZ senior secured bond (PCT010)	Amortised cost	Dec-21	5.54%	75.0	75.0
NZ senior secured bond (PCT020)	Amortised cost	Jan-22	4.42%	100.0	-
Convertible note (PCTHA)	Amortised cost	Feb-22	4.80%	150.0	-
US private placement	Fair value	Jan-25	4.13%	75.5	71.4
US private placement	Fair value	Jan-27	4.23%	37.4	35.3
Total				766.4	460.9

Weighted average term to maturity	3.3 years	4.0 years
Weighted average interest rate before swaps (including funding costs)	4.04%	3.58%

¹ As at 30 June 2018.

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

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

All lenders (excluding convertible noteholders) 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

Bank loans and the NZ retail bond are recognised initially at fair value less any attributable transaction costs. Subsequent to initial recognition, these liabilities are stated at amortised cost using the effective interest method.

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.

The convertible note embedded financial derivative is recognised at fair value with any gains or losses recognised in the profit or loss as they arise. This fair value is determined using the black-scholes model with observable inputs such as Precinct's share price and its historic standard deviation, the convertible note strike price and the risk free rate. This measurement falls into level 2 of the fair value hierarchy.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

16. DERIVATIVE FINANCIAL INSTRUMENTS

Amounts in \$ millions	30 June 2018	30 June 2017
Fair value of derivative financial instruments		
Current assets	-	-
Non-current assets ¹	18.2	12.8
Current liabilities	(0.9)	(2.9)
Non-current liabilities	(32.9)	(20.9)
Total	(15.6)	(11.0)
Notional contract cover (fixed payer)	1,085.0	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	84.5%	65.3%
Weighted average term to maturity (fixed payer)	3.77 years	3.98 years
Weighted average interest rate after swaps (including funding costs)	5.27%	5.59%

¹ This includes the cross currency interest rate swap valuation of \$11.8 million (June 2017: \$8.3 million) and a net credit value adjustment of \$0.6 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.

17. CAPITAL COMMITMENTS

Precinct has \$233.6m of capital commitments as at 30 June 2018 (2017: \$405.3m) relating to construction contracts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

18. OPERATING LEASE COMMITMENTS

Precinct has entered into investment property leases (as lessor) and ground leases (as lessee). Investment property leases have remaining non-cancellable lease terms of between one and 40 years. Ground leases have remaining non-cancellable lease terms of between one and 54 years.

Future minimum rentals receivable and payable under non-cancellable operating leases are as follows:

Amounts in \$ millions	Commitments as lessor (receivable)		Commitments as lessee (payable)	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Within one year	126.1	120.2	0.7	1.2
After one year but not more than five years	365.6	358.9	2.6	4.9
More than five years	411.6	439.4	13.5	34.7
Total	903.3	918.5	16.7	40.8

The commitments above are calculated based on contract rates using the term certain expiry dates of lease contracts. Actual rental amounts in future may differ due to rent review provisions within the lease agreements.

19. CONTINGENT LIABILITIES

There are no contingent liabilities as at 30 June 2018 (2017: \$nil).

20. RELATED PARTY TRANSACTIONS

Fees paid and owing to the manager:

Amounts in \$ millions	30 June 2018		30 June 2017	
	Fees paid	Owing at 30 June	Fees paid	Owing at 30 June
Base management services fee	8.0	0.7	7.7	0.6
Performance fee	-	-	-	-
Leasing fees	2.6	0.9	9.9	1.2
Development manager fees	3.4	0.9	3.3	0.8
Acquisition and disposal fees	0.5	0.5	-	-
Property and facilities management fee	3.0	-	2.7	(0.1)
Total	17.5	3.0	23.6	2.5

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. No performance fee is payable in quarters where equity total returns are negative. As at 30 June 2018 there is a notional performance fee deficit of \$918,083 to be carried forward to the calculation of performance fees in future quarters (2017: \$11,388,088 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 investment 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 of \$445,720 in 2018 (2017: \$443,813).

Precinct received rental income from AMP Haumi Management Limited, AMP Capital Investors (New Zealand) Limited and AMP Services (NZ) Limited, being the Manager or companies related to the Manager for premises leased in PwC Tower, AMP Centre and Dimension Data House. Total rent received by Precinct from these parties during the year was \$3,388,399 (2017: \$3,223,101). As at 30 June 2018 an amount of \$1,837 (2017: \$208) was owing to Precinct from AMP Services (NZ) Limited and AMP Haumi Management Limited.

h) Related party debts

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

21. CAPITAL MANAGEMENT

The Group's capital includes ordinary shares, retained earnings and interest bearing liabilities. When managing capital, management's objective is to ensure Precinct continues as a going concern as well as to maintain optimal returns to share holders and benefits for other creditors. Management also aims to maintain a capital structure that ensures the lowest cost of capital is available to Precinct.

Precinct meets its objectives for managing capital through its investment decisions on the acquisition and disposal of assets, dividend policy, share buy backs and issuance of new shares.

Precinct's banking covenants require total liabilities (excluding deferred tax, derivative financial instruments and sub-ordinated debt liability) to not exceed 50% of total assets. Precinct has complied with this requirement during this year and the previous year.

Precinct's policy in respect of capital management is reviewed regularly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

22. FINANCIAL RISK MANAGEMENT

In the normal course of business through the use of financial instruments, Precinct is exposed to interest rate risk, credit risk and liquidity risk. The Board agrees and reviews policies for managing each of these risks.

Financial instruments held:

Amounts in \$ millions	30 June 2018			30 June 2017		
	At amortised cost	Fair value through profit or loss	Total	At amortised cost	Fair value through profit or loss	Total
Financial assets						
Cash	2.9	-	2.9	4.3	-	4.3
Debtors	2.2	-	2.2	5.1	-	5.1
Derivative financial instruments	-	18.2	18.2	-	12.8	12.8
Total	5.1	18.2	23.3	9.4	12.8	22.2
Financial liabilities						
Other current liabilities	13.4	-	13.4	8.4	-	8.4
Interest bearing liabilities	653.5	112.9	766.4	354.2	97.9	452.1
Derivative financial instruments	-	33.8	33.8	-	23.8	23.8
Total	666.9	146.7	813.6	362.6	121.7	484.3

a) Interest rate risk

Interest rate risk is the risk that fluctuations in interest rates impact the Group's financial performance, future cash flows or the fair value of its financial instruments.

Precinct's policy is to manage its interest rates using a mix of fixed and variable rate debt. Precinct's policy is to keep at least 60% of its interest bearing liabilities at fixed rates of interest. To manage this mix Precinct enters into interest rate swaps, in which Precinct agrees to exchange, at specified intervals, the difference between fixed and variable rates for interest calculated by reference to an agreed-upon notional principal amount. These swaps are designed to economically hedge underlying debt obligations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on interest bearing liabilities, after the impact of hedging with all other variables held constant.

Amounts in \$ millions	30 June 2018	30 June 2017
	Effect on profit or equity	Effect on profit or equity
25 basis point increase	(0.3)	(0.4)
25 basis point decrease	0.3	0.4

b) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. Financial instruments which subject Precinct to credit risk principally consist of cash, debtors and derivative financial instruments in an asset position. Precinct's exposure to credit risk is equal to the carrying value of the financial instruments.

Precinct conducts credit assessments to determine credit worthiness prior to entering into lease agreements. In addition, debtor balances are monitored on an ongoing basis with the result that Precinct's exposure to bad debts is not significant.

There is no significant concentration of credit risk as financial assets are spread amongst a number of counterparties.

c) Liquidity risk

Liquidity risk is the risk that Precinct will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial liabilities.

Precinct monitors and evaluates liquidity requirements on an ongoing basis and generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has bank facilities available to cover potential shortfalls. The Group's approach to managing liquidity risk is to ensure it will always have sufficient liquidity to meet its obligations when they fall due under both normal and stress conditions. The Group manages liquidity by maintaining adequate committed credit facilities and spreading maturities in accordance with internal policy.

The tables below analyse Precinct's financial liabilities (principal and interest) and net cash flows of derivative financial instruments into relevant contracted maturity periods.

Amounts in \$ millions	Carrying amount	0 - 1 yr	1-2 yrs	2-5 yrs	>5 yrs	Total contractual cash flows
30 June 2018						
Interest bearing liabilities	766.4	19.4	19.4	588.7	214.0	841.5
Net derivative financial instruments	15.6	15.6	18.2	35.0	7.2	76.0
Other current liabilities	13.4	13.4	-	-	-	13.4
Total	795.4	48.4	37.6	623.7	221.2	930.9

30 June 2017						
Interest bearing liabilities	452.1	15.1	15.1	387.0	112.2	529.4
Net derivative financial instruments	11.0	2.4	2.5	7.4	2.4	14.7
Other current liabilities	8.4	8.4	-	-	-	8.4
Total	471.5	25.9	17.6	394.4	114.6	552.5

Accounting policy

Derecognition of financial instruments

Financial assets are derecognised when the right to receive cash flows from the financial asset has expired or when the entity transfers substantially all the risks and rewards of the financial asset. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the asset. Financial liabilities are derecognised when the obligation has expired or been transferred.

23. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. Precinct is internally reported as a single operating segment to the chief operating decision-maker hence no further segments have been reported.

24. EVENTS AFTER BALANCE DATE

On 10 July 2018 the board approved a refinance of Precinct's bank borrowings which extended the weighted average term to expiry of Precinct's bank facilities to over four years.

On 15 August 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 28 September 2018.

On 15 August 2018 Precinct committed to the \$298 million redevelopment at One Queen Street (currently HSBC House).

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PRECINCT PROPERTIES NEW ZEALAND LIMITED

Opinion

We have audited the financial statements of Precinct Properties New Zealand Limited ("the company") and its subsidiaries (together "the group") on pages 70 to 89, which comprise the consolidated statement of financial position of the group as at 30 June 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the group, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 70 to 89 present fairly, in all material respects, the financial position of the group as at 30 June 2018 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's 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 audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the group in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Ernst & Young provides other assurance and agreed upon procedures services to the group. 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. We have no other relationship with, or interest in, the group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

1. Valuation of investment and development properties

Information regarding the properties and their valuations is included in Note 9 to the consolidated financial statements. As at 30 June 2018, investment properties are carried at \$1,487.6 million, development properties are carried at \$838.1 million and investment properties held for sale are carried at \$191.2 million. The investment property portfolio is important to our audit as it represents a significant percentage of the total assets of the group.

The valuation of the group's investment property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income for each property. The valuations are highly dependent on forecasts and estimates. A small change in individual property valuation assumptions when aggregated could result in material misstatement of the financial statements. We therefore identified the valuation of the property portfolio as a significant audit risk.

Valuations are based on assumptions such as current and forecast rental revenues and estimated capitalisation or discount rates. These are used to determine a valuation range and from this a point estimate is derived. In the case of properties which the Group is developing or intends to develop significantly, and so classifies as development properties, forecast development cost and profit and risk allowance are further important assumptions. There is also a greater level of estimation required in respect of future rental amounts for these properties because there is a greater percentage of tenancy area not yet subject to rental agreements.

The group has adopted the assessed values determined by the valuers.

In obtaining sufficient audit evidence we:

- evaluated the objectivity, independence and expertise of the valuers.
- assessed the valuation conclusions. In doing so we considered the valuation inputs used, including schedules of forecast rental revenues and forecast development costs, and other key assumptions such as capitalisation rates, rental growth rates, discount rates and profit and risk allowances.
- involved our in-house property valuation experts to assist us in critiquing a risk-based sample of the property valuations. This included assessing whether key assumptions such as capitalisation rates, rental growth rates, leasing up periods, forecast development costs, profit and risk allowances and discount rates fell within a reasonable range.
- assessed the adequacy of the disclosures made in respect of the investment property portfolio valuation.

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

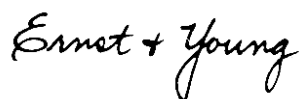
In preparing the consolidated financial statements, the directors are responsible for assessing, on behalf of the entity, the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located as External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>. This description forms part of our auditors report.

The engagement partner on the audit resulting in this independent auditor's report is Emma Winsloe.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

Chartered Accountants

Auckland

15 August 2018

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George Crawford, Chief Operating Officer
Richard Hilder, Chief Financial Officer
Davida Dunphy, General Counsel and Company Secretary

Bankers

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Bank of New Zealand
ASB Institutional Bank
Westpac New Zealand
The Hong Kong and Shanghai Banking Corporation

Bond Trustee

The New Zealand Guardian
Trust Company Limited
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Directors of Precinct

Craig Stobo – Chairman, Independent Director
Don Huse – Independent Director
Launa Inman – Independent Director
Graeme Wong – Independent Director
Chris Judd – Director
Mohammed Al Nuaimi – Director
Robert Campbell – Director

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Please contact our registrar;

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

