PROPERTIES NEW ZEALAND

# REALISING OPPORTUNITIES


ANNUAL REPORT **2014**


REALISING DEVELOPMENTS
TO THRIVE

# HIGHLIGHTS

## $117.2 MILLION
NET PROFIT AFTER TAX

## $47.5 MILLION
REVALUATION GAIN

## +5.1%
INCREASE IN NET TANGIBLE ASSETS PER SHARE

## +5.5%
INCREASE IN DIVIDEND PER SHARE

## 98%
OCCUPANCY

## +9.4%
INCREASE IN NET OPERATING INCOME

## KEY EVENTS

2013

SEPTEMBER AND OCTOBER

**$62.5** MILLION

EQUITY ISSUE

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2014

**57,000** $m^2$

OF LEASING TRANSACTIONS SECURED

WYNYARD CENTRAL SECURED

COMPLETED DOWNTOWN MASTERPLANNING

# CHAIRMAN'S REPORT

**STRONG PERFORMANCE AND VISION FOR GROWTH**

We were pleased to record continued strong gains over the last financial year. The net profit after tax of $117.2 million was lower than the $157.5 million recorded the previous year. However the 2013 figure reflected a $39.7 million deferred tax benefit.

Net operating income recorded a solid increase for the year to $63.8 million, reflecting a 9.4% increase on the previous year (2013: $58.3 million).

Reflecting the quality of our offering and market strength, occupancy reached 98%. A revaluation gain of $47.5 million saw our portfolio value increase to $1.73 billion.

Each of these gains was valuable in its own right. But as a board we were happy to see them achieved as part of delivering on a clear vision for quality improvement, focusing our resources squarely on where we see the best opportunity and careful balance of risk and reward.

**CONTINUING PORTFOLIO IMPROVEMENT**

Portfolio highlights for the year were the significant steps we took in advancing our vision. These included being short listed for Government at Bowen Campus in Wellington (post balance date), securing the development rights at Wynyard Central and the progress made on the Downtown Shopping Centre development.

Collectively, the Wynyard Central and Downtown Shopping Centre developments reflect a strategy of shifting more of our portfolio to Auckland. As Precinct begins to execute on its vision it is expected this weighting will increase, the average quality of our portfolio will lift from 'A grade' to 'premium' and the average age of the portfolio will materially reduce.

The development agreement we entered into with Waterfront Auckland will enable us to develop, on a staged basis, the commercial office property within the Wynyard Central precinct at Wynyard Quarter.

In March we were delighted to complete a substantial masterplanning process with Woods Bagot, an internationally respected architect, and Auckland architects Warren & Mahoney for the Downtown Shopping Centre development. This was a process the board participated in from day one. It has added considerably to our understanding of the potential for the site by including our Zurich House and the more recently acquired HSBC House into a single precinct. This project is anticipated to deliver a world class retail and office development. We expect the adjacent AMP and PwC buildings will also benefit.

This new precinct is an exciting commercial opportunity. It sits in the heart of the city and next to all major transport hubs, including planned allowance for an underground City Rail Link (CRL) tunnel. We have a vision for it to deliver as an investment and to add to the vibrancy in the city. We look forward to unveiling more detailed planning for the development over the coming months.

In large part as a result of this masterplanning process we have increased our allowance for development spending from $300 to $350 million to around $400 to $500 million. In providing for this we will continue with a strategy of selling non-core assets and careful capital management.

As previously announced we have identified assets that we intend to sell. Funding the development opportunities organically through asset recycling remains the objective of the business.

This strategy will result in relatively flat earnings in the short term as the company reduces gearing levels. Over the medium to long term the board expect an improved earnings outlook as developments are completed and as the weighting to Auckland increases.

We raised $62.5 million in equity via a placement and share purchase plan in September and October, and refinanced our existing $610 million secured bank debt facility.

Collectively these steps have been aimed at ensuring we maintain not only growth but stability - and continued good returns for our shareholders. We are focused on the success of our development opportunities and we will continue to plan prudently to meet the costs of their execution.

**DIVIDEND AND RETURNS**

With the business recording another good year, the full year dividend of 5.4 cents per share (cps) is 5.5% up on last year's dividend of 5.12 cps.

Precinct recorded an 8.9% total return for the year. This again exceeded the benchmark New Zealand listed property sector return (excluding Precinct) of 8.0%, with approximately two-fifths of the maximum management performance fee being paid in line with the agreed process for recognising outperformance of the market.

In the year ahead the board will look at its collective skill set to identify any shortcomings, its level of diversity and will review director tenure to ensure director independence. These best practice corporate governance initiatives are something the board is committed to.

During the year we welcomed Mohammed Al Nuaimi to the board. Post balance date we farewelled Rob Walker, the alternate Director for Mohammed. Rob has made a valuable contribution to the business and on behalf of the board I would like to thank him. Rob is replaced by Anthony Bertoldi who brings 20 years of property industry experience.

It was another good year for the company and the outlook looks bright. However as the company begins to execute on its strategy the board will focus on maintaining an appropriate level of governance and risk management.

Craig Stobo

CHAIRMAN

"AS WE EXECUTE ON OUR VISION, THE BOARD WILL FOCUS ON MAINTAINING AN **APPROPRIATE LEVEL** OF GOVERNANCE AND RISK MANAGEMENT."

→ **Craig Stobo**, Chairman.

*"OUR FOCUS IS TO POSITION THE BUSINESS SO WE CAN TAKE ADVANTAGE OF OUR **OPPORTUNITIES**."*

**Scott Pritchard**, CEO.

**Scott Pritchard,** Chief Executive Officer (left) and
**George Crawford,** Chief Financial Officer (right)

# CEO REPORT

Over the last three years Precinct has followed a strategy of improving portfolio quality and creating value from new precincts while continuing to focus on a secure and growing earnings outlook. In 2014, as in previous years, it has been very good to see strong progress on all these fronts as we move to cement what we believe will be a new position of significant market advantage.

We advanced our two major developments on Auckland's waterfront CBD. In Wellington we were very pleased to be short listed (post balance date) by the Government for Bowen Campus, No.1 and No.3 The Terrace, 125 The Terrace, Mayfair House and Pastoral House. While enjoying strong leasing activity and near-record levels of occupancy, we also completed successful capital management initiatives to maintain growth combined with stability.

As with any client-focused business, the key metrics were those that confirmed our ability to meet clients' needs. We leased 57,000 square metres in 61 transactions, and lifted portfolio occupancy to 98% (2013: 97%), well above our historical average of 96.5%. Although slightly down on the previous year's figure of 5.7 years, the weighted average lease term was still strong at 5.4 years.

Our decision to shift more of the balance of the business to Auckland also reflects very strong growth in that city's economy. There is an expectation the CBD will have some 10,000 new workers in the next 5 years. All of these workers will need desks, and many will want quality space. This growth could translate into 150,000 square metres of demand.

Auckland's CBD is currently enjoying record low vacancy levels. Vacancy in prime CBD office buildings fell from 5.8% in June 2013 to just 1.4% in June 2014. This is the lowest it has been for 20 years and well below the average vacancy rate of 8.2%.

Given this low vacancy, few new developments on the horizon, strong demand for quality and expectations of growth in the Auckland economy, most research houses forecast continued good levels of market rental growth.

In meeting this demand, and with the success of the ANZ centre redevelopment now accomplished, our focus in Auckland is very much on the CBD developments at the new precinct around the Downtown Shopping Centre and at Wynyard Central. Both are on the city's waterfront and positioned along a growing new business axis that follows the shoreline rather than running north and south along Queen St.

Wynyard Quarter is one of New Zealand's largest urban regeneration projects. The Wynyard Central development gives us the opportunity to partner with the Council controlled organisation Waterfront Auckland in developing 46,000 square metres of commercial office property.

The opportunity also allows us to cater to the needs of new clients in high-growth technology businesses or those seeking larger floor plates.

We completed a major project milestone for the downtown project with the conclusion of a detailed masterplanning process and while negotiations with Auckland Transport in relation to the CRL on the Downtown Shopping Centre site are continuing they are now significantly advanced.

As a result of the masterplanning work, the development now includes HSBC House and Zurich House, so that we can use our ownership of this entire contiguous block to create an exciting office and retail precinct around a new tower.

Right on the waterfront, we are confident this precinct will be highly attractive to clients and to everyone who visits the heart of the city. Along with the board, we look forward to unveiling our plans and sharing more widely our vision for this special area with clients, shareholders and Aucklanders.

In Wellington, we had a good year in leasing, letting a total of 5,500 square metres at State Insurance Tower and 80 The Terrace. This success increased occupancy, across the two buildings, to 94% (2013: 85%). Overall, the Wellington occupier market improved but at a slower rate than Auckland. CBD 'A-grade' vacancy fell from 3.7% in June 2013 to 2.5%.

As previously announced, we will exit properties that are no longer core to our strategy and redeploy capital into the opportunities we have at the Downtown Shopping Centre, Wynyard Central and Bowen Campus. It is the intention to advance the sales programme during FY15 with the sale of non-core assets.

We were very pleased to welcome Andrew Buckingham who has been appointed to the newly created role of General Manager of Development and Kym Bunting who has been appointed as the new General Manager of Property. We were also pleased to welcome Davida Dunphy as the new General Counsel and Company Secretary. The valuable experience these new team members bring will be hugely helpful as we look to execute on our strategy.

It has been another big year for the company. I thank our board, management team and staff for everything they have done to contribute to its success.

We look forward to continued progress and further good results to report in the coming year.

Scott Pritchard

**CHIEF EXECUTIVE OFFICER**

# OUR STRATEGY

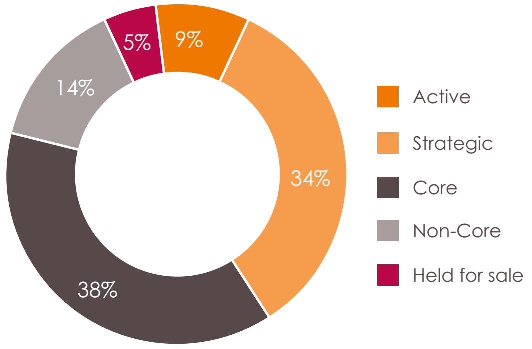
Precinct believes that to maintain the quality of its portfolio it needs to actively manage its assets. This requires a continuous re-assessment of its portfolio of assets and the markets in which it operates. This approach ensures that Precinct invests in assets which meet market demand in terms of trends in location and configuration of office space.

As a result Precinct has developed a long term vision to improve the quality of the portfolio, create unrivalled and vibrant precincts, increase its weighting to Auckland and deliver an improved long term earnings outlook.

The execution of this vision requires Precinct to undertake development on a number of properties within the portfolio and to dispose of a number of properties where the future returns are expected to be relatively lower.

Since 2011, Precinct has secured three distinct development opportunities. The board expects these opportunities to position Precinct as a property investor capable of being a long term business partner, rather than just a landlord.

***Portfolio asset composition as at 30 June 2014***




In order to execute on the vision, Precinct intends to source the funding required predominantly through asset recycling. Precinct believes that this approach will help ensure it maintains sufficient financial strength during the development period. The graph shows the asset composition of Precinct's current portfolio.



## KEY ANTICIPATED BENEFITS OF THE STRATEGY

- ***Weighting to Auckland*** *increased*
  - *Around half of the portfolio located on Auckland's CBD waterfront*
- *A* ***significant improvement in the quality and average age*** *of the portfolio*
  - *The average quality of the existing portfolio is 'A grade'. Under the vision we expect the portfolio to be of premium quality*
  - *By 2020 the current portfolio will have an average age of 26 years under the vision this will reduce to 15 years*
- ***Reduced on-going maintenance*** *capex requirement*
- ***Improved operational metrics***
  - *Such as weighted average lease term, retention and occupancy*
- ***Improved portfolio seismic performance***
- *Precinct to remain a* ***specialist investor in CBD offices***
  - *By continuing to focus on CBD office space Precinct believes it will benefit through developing valued relationships, providing world class service levels and owning some of the best office buildings in the country*

*"OUR VISION IS TO* ***IMPROVE THE QUALITY OF THE PORTFOLIO*** *AND FURTHER INCREASE OUR AUCKLAND WEIGHTING."*

**Scott Pritchard**, CEO



## WYNYARD CENTRAL
### AUCKLAND

Precinct has entered into a development agreement with Waterfront Auckland providing the opportunity to develop the commercial office property within the central precinct of Wynyard Quarter.

Wynyard Quarter is going through one of the largest urban regenerations in New Zealand, evolving from an industrial port area that was closed to the public to a place where people can live, visit, be entertained and do business. This regeneration is expected to continue for 20 or more years.

The site Precinct could develop comprises around 1.1 hectares of land area and has the potential to provide a predominantly office development of around 46,000 square metres of gross floor area. Precinct envisages that the development will be undertaken in five stages. The current design is for two sites separated by a public laneway.

Precinct intends to undertake the leasing, design and development of the site and, once commercial terms for each stage are agreed with Waterfront Auckland, Precinct will acquire a 125 year prepaid ground lease to that stage. Progressing to construction of each stage will be subject to approval by both Waterfront Auckland and Precinct. The consideration for the prepaid ground lease will be based on 'market tested' assumptions.

The board expects this structure to provide strong alignment and encourages a partnership approach between Precinct and Council controlled organisation Waterfront Auckland.

**46,000**sqm
*POTENTIAL OFFICE DEVELOPMENT*

**1.1**HECTARES
*DEVELOPMENT AREA*

## BOWEN CAMPUS
### WELLINGTON

Bowen Campus is made up of the Bowen State and Charles Fergusson buildings and is situated next to the Beehive and Parliament buildings. Encompassing approximately one hectare of land, the property has 30,000 square metres of net lettable area and has existing resource consent for 60,000 square metres of office space.

The property is currently leased to the Ministry of Social Development until October 2016. Following this expiry, Precinct anticipates re-developing and re-leasing the property.

Post balance date, Bowen Campus was shortlisted by the Crown as part of their Wellington office accommodation project.

**30,000**sqm
*OFFICE SPACE*



# DEVELOPMENT OPPORTUNITIES

## DOWNTOWN DEVELOPMENT PROJECT
### AUCKLAND

Located on Auckland's CBD waterfront with a footprint of almost two hectares of land and buildings this site is believed to offer the best office and retail development opportunity available in the New Zealand market. The project aspires to incorporate HSBC House, Zurich House, PWC Tower, AMP Centre and the Downtown Shopping Centre.

In July 2013 Precinct entered negotiations with Auckland Transport with a view to coordinating the timing of development works with the building of a tunnel at the site for the CRL. These negotiations are now significantly advanced. While a final agreement has not yet been signed, both parties are committed in principle to a solution whereby construction of the tunnels for Auckland Transport will occur as part of the redevelopment.

The masterplanning phase has now concluded. A key objective of the process was to explore opportunities to maximise the potential of this 'once in a life time' opportunity. The following pages provide a brief overview of the masterplanning process.

Precinct has now entered the concept design phase. A select group of leading global architects were invited to submit proposals for this phase. Following a series of workshops and presentations NH Architecture from Melbourne was appointed as the retail architect and Woods Bagot based out of San Francisco was appointed as the commercial architect. Local New Zealand architecture firm Warren and Mahoney will ensure the integration of these schemes.

The Downtown project represents an opportunity to incorporate a number of transformational elements including public transport, international quality retail environments, world class commercial office space, urban design and public space.

Should the development proceed, Precinct's current intent is to develop around 20,000 square metres of lettable retail over four levels and 35,000 square metres of lettable premium commercial office space.

**20,000**sqm

*LETTABLE RETAIL SPACE*

**35,000**sqm

*LETTABLE PREMIUM COMMERCIAL OFFICE*



**AN ASPIRATIONAL & SUPPORTIVE COUNCIL**

AUCKLAND COUNCIL THROUGH THE 2012 CITY CENTRE MASTERPLAN HAVE AN ASPIRATION OF MAKING AUCKLAND THE MOST LIVEABLE CITY IN THE WORLD. AUCKLAND'S CBD WATERFRONT IS A SIGNIFICANT PART OF THIS COUNCIL LED PLAN.

IT IS WIDELY ACCEPTED THAT THERE HAS BEEN A SHIFT IN AUCKLAND'S CBD FROM A HISTORIC NORTH-SOUTH OR QUEEN STREET ORIENTATION, TO ONE THAT FOLLOWS THE WATERFRONT.

# AUCKLAND CBD

*WE BELIEVE THAT THE DOWNTOWN SITE PROVIDES THE BEST OFFICE AND RETAIL DEVELOPMENT OPPORTUNITY AVAILABLE IN NEW ZEALAND.*

The site benefits from a number of positive attributes including its location to the waterfront, its adjacency to key transport infrastructure, its proximity to hotels and cruise ships, a large and affluent trade population, a substantial CBD office workforce and a growing city centre resident population.

Macro-environmental factors are also contributing to a solid investment case. Some of these positive factors include a council with a vision for Auckland's waterfront, an owner with a long term interest in the area, a CBD reorienting itself along the waterfront and planned improvements to transport infrastructure.

DOWN



## TRADE DEMOGRAPHICS (stats NZ, 2013)

**MEDIUM HOUSEHOLD INCOME** OF TRADE AREA

| | |
|---|---|
| MTA* INCOME | **$94,868** |
| TTA* INCOME | **$76,500** |
| NZ INCOME | **$63,800** |

**37%** OF MTA WHO HAVE PERSONAL INCOME OF $50,000 OR MORE.

**TRADE AREA POPULATION**

**160,000**

MAIN TRADE AREA **(MTA)**

**1.4** MILLION

TOTAL TRADE AREA **(TTA)**

## TOURISM

**70%** OF ALL INTERNATIONAL ARRIVALS TO NEW ZEALAND ARRIVE AT AUCKLAND INTERNATIONAL AIRPORT. 20KM FROM THE CITY CENTRE.

**1.98** MILLION

**PASSENGERS ARRIVED IN AUCKLAND ON INTERNATIONAL FLIGHTS (June 13 – June14)**

***MTA:** MAIN TRADE AREA **TTA:** TOTAL TRADE AREA

BY 2032**

BY 2032**

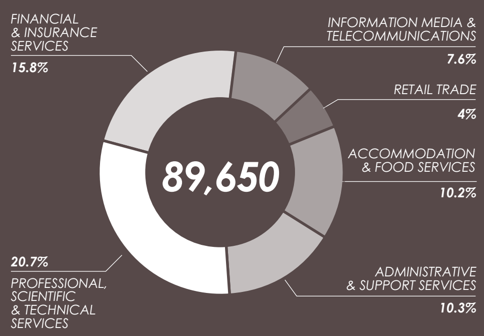
**10,000**
**INCREASED CBD OFFICE WORKERS TO 2018**

**128,000-140,000**
CBD WORKERS

**UPWARDS OF 45,000**
CITY CENTRE RESIDENTS

** AUCKLAND COUNCIL CITY CENTRE MASTERPLAN

**TOTAL CBD EMPLOYEES 2013**




# TOWN

THE **ENGINE ROOM** OF AUCKLAND'S ECONOMY

**6.8** MILLION
TOTAL NUMBER OF GUEST NIGHTS IN AUCKLAND (JUNE13 - JUNE 14)

OVER
**160,000**
CRUISE PASSENGERS

**2013-2014 SEASON**
During the 2013-14 cruise season there were 102 vessel port days providing total net expenditure of $110m.

## TRANSPORT

**ANNUAL PATRONAGE TO JULY 2014** (MILLION)


**CENTRAL RAIL LINK (CRL)**
The CRL will double rail capacity and allow more frequent services. The number of people within 30 minutes train travel of a city centre station will double.

DOWNTOWN DEVELOPMENT PROJECT

# MASTERPLANNING

## PROJECT GUIDING PRINCIPLES

**1 / CENTRE OF THE CENTRE**
Downtown is Auckland's centre; the heart of the most liveable city in the world.

**2 / INTEGRATED AND INTERACTIVE**
Downtown integrates all of the facilities a modern Auckland needs to succeed in one place. Transportation, retail experience, commercial life and entertainment coexist in a completely new, dynamic core at the harbour edge.

**3 / AMBITIOUS AND PROGRESSIVE**
The city is ready for a world-class place at its heart. Downtown announces Auckland's arrival as a key global harbour city.

**4 / SYMBOL AND IDENTITY**
Downtown is a key symbol for Auckland on the skyline, on the street and in person. Downtown captures the energy, confidence, creativity and power of a young and vibrant city and represents Auckland as the Capital of the Pacific.

**5 / EXPERIENCE DRIVEN**
Downtown is an event.

**6 / BEST OF EVERYTHING**
Downtown curates the best balance of commercial, retail, entertainment and civic spaces together in one place.

**7 / ALIVE AND KICKING**
Downtown never sleeps.

**8 / GREAT TODAY, BETTER TOMORROW**
Downtown offers Precinct an opportunity to take a long term perspective on the development of the central city.

**9 / VALUES AND BENEFITS**
Downtown delivers benefits for Precinct and visitors to the CBD.

**10 / FLEXIBLE AND FEASIBLE**
The project must also be flexible and feasible and provide tangible benefits to Precinct and its shareholders.



## PROJECT STRATEGIES

**1 / AN URBAN LANDSCAPE**
Downtown is an extension of the landscape and is an oasis within the city.

**2 / SYMBOLS IN THE SKY TEXTURES ON THE GROUND**
The new tower form is designed as a new symbol on the skyline. It's unique, identifiable & memorable in the city. The light, dynamic, technically expressive form of the tower directly complements the podium.

**3 / INFORMALITY AND INCLUSIVENESS**
Auckland has a culture of casual interaction and informality.

**4 / CULTURE AND IDENTITY REPRESENTING AUCKLAND**
The project should represent Auckland and its uniquely varied cultures.

**5 / HISTORY AND PLACE MAKING**
The Downtown site occupies a historically important location.

**6 / PERMEABILITY AND CONNECTION**
The Downtown site is capable of significantly 'opening up' the lower CBD of Auckland to the harbour while also allowing transverse 'on grade' connections between Britomart and Albert Street.

**7 / BEST WORKPLACE DESTINATION**
Downtown must attract and retain the best talent possible by providing diverse and exciting meeting and lifestyle opportunities which go well beyond the office surroundings. This requires a new urban destination not just a building.

**8 / LEVERAGING TRANSPORT**
It is important that the integrated transport infrastructure and the pivotal site location influence the master planning to ensure that Downtown enjoys maximum pedestrian flows past and through the site.

**9 / BEYOND RETAIL**
The Downtown masterplan seeks to enable an ambitious urban transformation that will create the centre of brands, food, fashion and lifestyle culture in New Zealand.

## DESIGN RESPONSES

In response to the Guiding Principles and Project Strategies our architects have developed specific design responses. These responses translate the project strategies into possible design solutions. The ideas represented in the Masterplan are a starting point. The concept design phase we are currently in will look to define the optimum solution.

Following the concept design phase we will look to unveil more details of our plans. This is expected to occur in the coming months.

**This project represents an opportunity to restore the waterfront as the heart of Auckland's CBD.**
Some of the key workstreams and conclusions of the Masterplan Process are summarised below:

***1/***
***DESIGN & ASPIRATION***
The concept for the project is to create a distinctly Auckland experience connecting with both the harbour and wider city centre. Our aspiration is to offer an unrivalled retail experience, create urban public amenity and create New Zealand's best workplace destination.

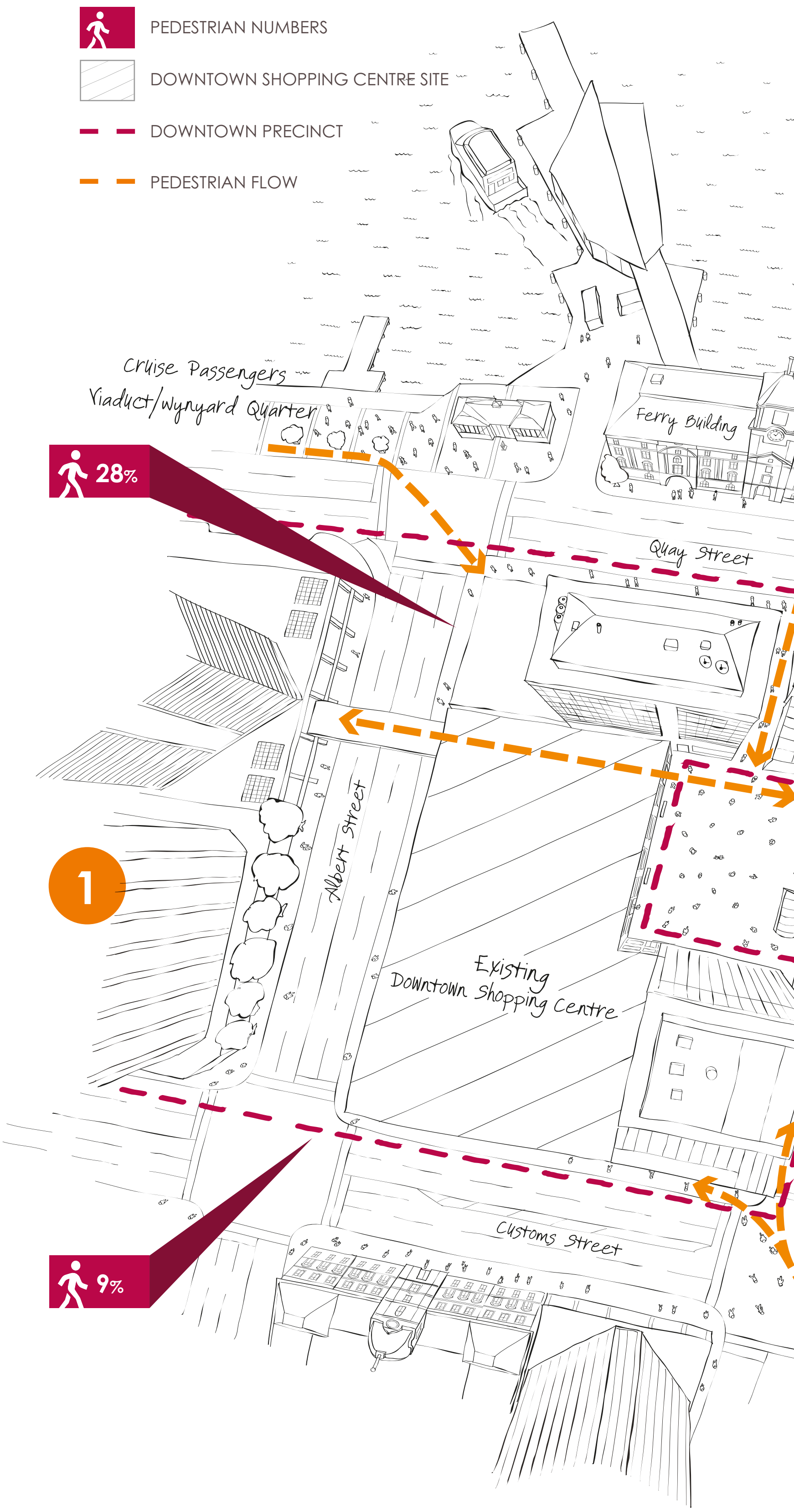
***2/***
***WORKSHOPS***
A series of collaborative workshops were held with the board, management company representatives from Haumi and AMP Capital and our project team. These workshops shaped the aspirations for the project and enabled our project team to have a comprehensive understanding of the opportunity.

***3/***
***DOUBLE GROUNDS***
The site benefits from a 'double-ground' effect due to the contour of the site, with Customs Street higher than Quay Street and the lobby's located on level 1. This effect supports an objective for the site to have a good level of vertical connectivity.

***4/***
***LANEWAYS & ARCADES***
There is an aspiration to create a permeable environment that connects to the broader CBD. This approach should provide for an intimate retail environment.

***5/***
***TOWER OPTIONS***
A wide range of office tower planning typologies were developed to a high level of understanding to test a broad range of criteria – from efficiency to form.

***6/***
***SITE CONSTRAINTS***
The tower location, commercial use and overall scale of the development are all subject to site constraints both physical and planning related. The masterplan process allowed for existing constraints such as the harbour edge height control plane (pictured) and future constraints such as the city rail link. The site currently has resource consent for the construction of a mixed use development including 50,000sqm of office and 450 car parks.

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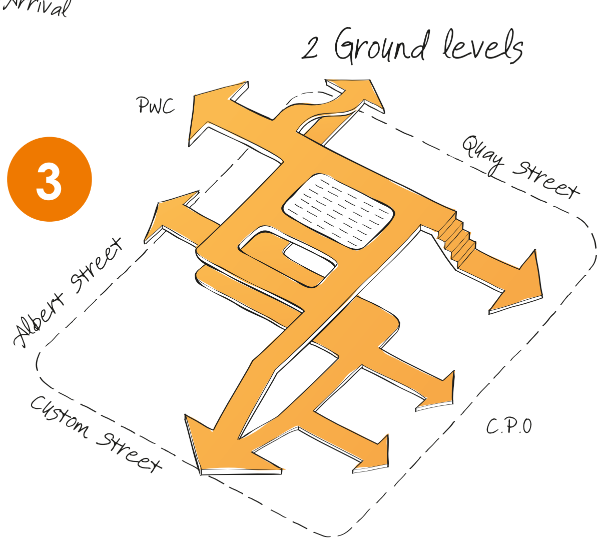
*WE HAVE AN AMBITION TO* ***RESTORE THE WATERFRONT*** *AS THE HEART OF AUCKLAND'S CBD.*


3

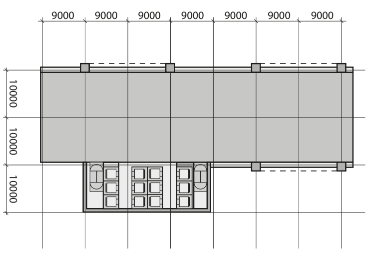



**LANEWAYS WILL ENLIVEN THE PRECINCT** AND CREATE A STRONG EAST WEST NETWORK

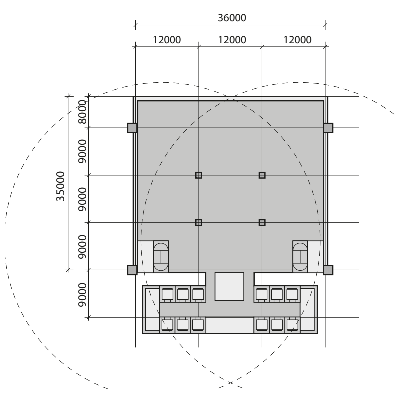
4

5

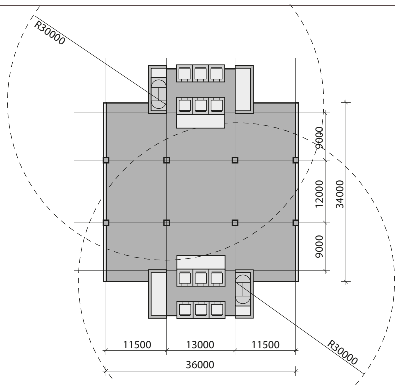
## BUSTLE




## SIDE CORE




## SPLIT CORE

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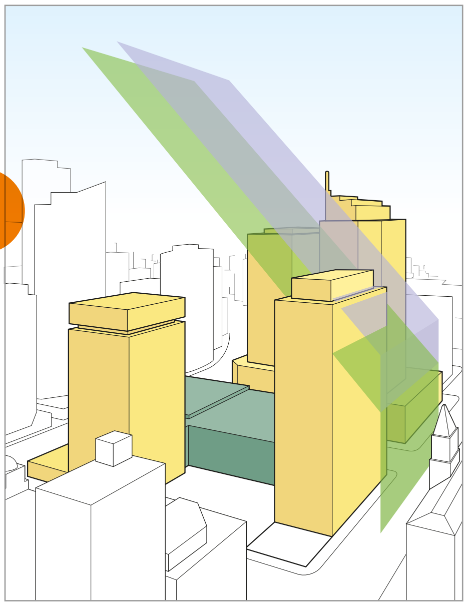


40m + 45° Harbour Edge Height Control Plane

60m + 45° Harbour Edge Height Control Plane

Buildings owned by Precinct Properties

Existing Downtown Shopping Centre

# RESULTS OVERVIEW

Strong rental performance, recent acquisitions, a strong revaluation gain and an unrealised gain on interest rate swaps led to a net profit after tax of $117.2 million (2013: $157.5 million). Compared with the previous period net profit after tax was $40.3 million lower due to a deferred tax benefit of $39.7 million being recorded in 2013. This benefit arose after Precinct adopted a revised approach to determining the provision for deferred tax.

Net operating income recorded a solid increase for the year to $63.8 million (2013: $58.3 million) or 6.10 cents per share (2013: 5.85 cents per share).

## Reconciliation to net operating income

| *Amounts in $millions* | ***30 June 2014*** | *30 June 2013* |
|---|---|---|
| Net profit after taxation | 117.2 | 157.5 |
| Unrealised net (gain) / loss in value of investment properties | (47.5) | (46.3) |
| Unrealised interest rate swap loss | (10.9) | (13.2) |
| Deferred tax expense | 5.0 | (39.7) |
| **Net operating income** | 63.8 | 58.3 |

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.



The acquisitions made in 2012 and 2013 generated a full year's income which helped increase gross rental income to $165.4 million (2013: $147.7 million). Allowing for these transactions, gross rental income increased by 3.6% due to increased Auckland occupancy.

Property expenses were $47.1 million, 7.7% higher than the previous period. However, once these were adjusted for recent acquisitions, expenses actually fell by 1.6%. This reduction was due to a lower level of non-recoverable expenses, a range of procurement initiatives and lower insurance costs compared with 2013.

Precinct renewed its insurance in May with premiums reducing by 26%. This saving was achieved from a significant improvement in insurance market conditions and reflects the quality and seismic performance of the portfolio. Over the previous two years Precinct's insurance premiums have reduced by around one third. This will provide a direct benefit for gross leases in Wellington and will help reduce the total occupancy costs for our other clients.

Net property income at 80 The Terrace fell by around 30% as the property underwent substantial capital works. However, this reduction was outweighed by additional income generated within the Auckland portfolio and income generated by recent acquisitions. In total for the period portfolio net property income increased to $118.3 million (2013: $104.0 million). On a like for like basis net property income rose by 5.7%.

Net interest expense increased $5.2 million to $33.2 million, this reflected higher debt levels following the purchase of Downtown Shopping Centre and HSBC House. The increase in net interest expense was partly offset by the equity initiatives undertaken in 2013 which collectively raised $62.5 million.

Precinct recorded an 8.9% shareholder total return for the year to 30 June 2014. This exceeded the benchmark New Zealand listed property sector return (excluding Precinct) of 8.0%, with approximately two-fifths of the maximum management performance fee being paid in line with the agreed process for recognising outperformance of the market.

Overall indirect expenses were consistent with the previous year.

Current tax expense increased $3.8 million to $8.7 million reflecting higher pre-tax profit and a lower level of deductible leasing costs. The increase was also a reflection of the 2013 tax impact of $2.4 million associated with the disposal of depreciable assets at the ANZ Centre. This was partly offset by the recognition of a tax deduction in 2014 relating to the sale of Chews Lane in 2011 which reduced tax expense by around $1.2 million.

The fair value gain in interest rate swaps of $10.9 million reflects an increase in market interest rates since 30 June 2013 and an unwinding of interest rate swap positions.

The valuation gain of $47.5 million (2013: $46.3 million), when compared with year end book values, reflected valuations increasing by 5.9% in Auckland and decreasing by 1.5% in Wellington. The Auckland increases were mainly attributable to rises in market rents, leasing success and more positive sentiment due to a continued firming investment market.

The main contributors to the Wellington decreases were the uncertainty associated with the Government's future accommodation plans and a softening of gross market rentals. This was largely offset by insurance cost savings. Excluding the Government leased assets, Wellington corporate assets increased in value by 0.9% compared with year end book values.

The revaluation increased the value of Precinct's portfolio to $1.73 billion (2013: $1.64 billion).

Precinct's net tangible assets (NTA) per share at balance date was $1.04, compared with 99 cents per share at 30 June 2013. The increase in NTA is due to the revaluation gain, the fair value gain in interest rate swaps and Precinct's retained earnings policy.

## Reconciliation of NTA Movement

| *Amounts in cents* | |
|---|---|
| **NTA 30 June 2013** | **99** |
| Revaluation | 4 |
| Interest rate swap movement | 1 |
| Retained Earnings | 1 |
| **NTA 30 June 2014** | **104** |



## Key financial metrics

| ($ millions unless otherwise stated) | 2014 | 2013 | Change |
|---|---|---|---|
| Rental revenue | $165.4 | $147.7 | 12.0% |
| Operating profit before indirect expenses | $118.3 | $104.0 | 13.8% |
| Net operating income before tax | $72.5 | $63.2 | 14.7% |
| Net operating income[2] | $63.8 | $58.3 | 9.4% |
| Net profit/(loss) after taxation | $117.2 | $157.5 | (25.6%) |
| Earnings per share based on net operating income before tax | 6.93 cents | 6.33 cents | 9.5% |
| Earnings per share based on net operating income after tax | 6.10 cents | 5.85 cents | 4.3% |
| Gross distribution (cents per share)[3] | 6.232 cents | 5.495 cents | 13.4% |
| Net distribution (cents per share)[3] | 5.400 cents | 5.120 cents | 5.5% |
| Payout ratio | 88.5% | 87.5% | 1.1% |
| | | | |
| Total assets | $1,747.5 | $1,658.5 | 5.4% |
| Total liabilities | $640.7 | $674.7 | (5.0%) |
| Total equity | $1,106.8 | $983.8 | 12.5% |
| Shares on issue (million shares) | 1,059.7 | 997.1 | 6.3% |
| NTA per share | 104 cents | 99 cents | 5.1% |
| Gearing ratio at balance date[4] | 33.8% | 37.3% | (9.4%) |

1. The information set out above has been extracted from the financial statements set out on pages 50 to 77.
2. 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.
3. Dividend paid and proposed relating to financial year.
4. For loan covenant purposes deferred tax losses and fair value of swaps are not included in the calculation of gearing ratio.

# CAPITAL MANAGEMENT

Precinct undertook two equity initiatives in the financial year. The $50 million placement in September and the $12.5 million share purchase plan in October resulted in bank borrowings reducing to $572 million (2013: $603 million). Gearing was 33.8%, compared with 37.3% a year earlier.

Post balance date Precinct refinanced its existing secured bank debt facility and at the same time reduced the facility to $600 million (30 June 2014: $610 million). The refinance will deliver material savings for the company due to lower margins.

Funding is provided by the existing syndicate of ANZ, BNZ, CBA and Bank of Tokyo-Mitsubishi UFJ. The new facility has tranches expiring in July 2016, July 2017, July 2018, and July 2019. The weighted average term to expiry of the new facility is 3.8 years (2013: 4.0 years).

Of Precinct's drawn bank debt, 67% (2013: 57%) was effectively hedged through the use of interest rate swaps. This now results in a weighted average interest rate, including all fees of 6.0% (2013: 5.6%).

## *Capital Management Metrics*

| | ***2014*** | *2013* |
|---|---|---|
| Debt drawn | $572 m | $603 m |
| Gearing – banking covenant | 33.8% | 37.3% |
| Weighted average term to expiry | 3.1 years | 4.0 years |
| Weighted average debt cost (incl fees) | 6.0% | 5.6% |
| Hedged | 67% | 57% |
| Weighted average hedging | 2.3 years | 2.2 years |
| ICR (previous 12 months) | 3.2 x | 3.0 x |
| **Facility size** | $610m | $660 m |

*"WE BELIEVE **WYNYARD CENTRAL COMPLEMENTS** OUR EXISTING PORTFOLIO WITH AUCKLAND'S CBD NOW ORIENTED ALONG THE WATERFRONT."*

→ **Scott Pritchard**, CEO.

Images from Wynyard Quarter.

# OPERATIONAL UPDATE

## PORTFOLIO PERFORMANCE

Following leasing success, particularly at 80 The Terrace and State Insurance Tower, portfolio occupancy increased to 98% (2013: 97%).

The progress made at State Insurance Tower and at 80 The Terrace was very pleasing. In total around 5,500 square metres were leased on a weighted lease term (WALT) of around 6 years. This success increased occupancy, across the two buildings, to 94% (2013: 85%). State Insurance Tower is now close to being fully let and with only one and a half floors available at 80 The Terrace these assets are positioned well for the future. Demand from occupiers towards seismically strong and well located properties were factors in leasing this vacant space.

In total 61 leasing transactions covering 57,000 square metres were secured in the period on a WALT of 4.0 years. This included the lease extension to the Ministry of Social Development at Bowen Campus until October 2016. Excluding this transaction, the 32,000 square metres of leasing transactions were secured on a WALT of 4.9 years. This leasing helped maintain a strong portfolio WALT of 5.4 years.

Overall leasing transactions were secured at a 3% premium to 2013 valuations. In Auckland a strong market saw leasing transactions secured at a 6.1% premium, while in Wellington leasing transactions were at a 0.6% discount.

In the period, Precinct settled 35,000 square metres of market rent reviews at a 3.5% premium to valuation. In Wellington it was pleasing to secure around 16,500 square metres of market rent reviews at a 4.2% premium to valuation. Including structured leases, Precinct settled 72,000 square metres of rent reviews at a 2.6% premium to passing rents.

The strong operational performance of the last three years positions the business well to realise its development opportunities.

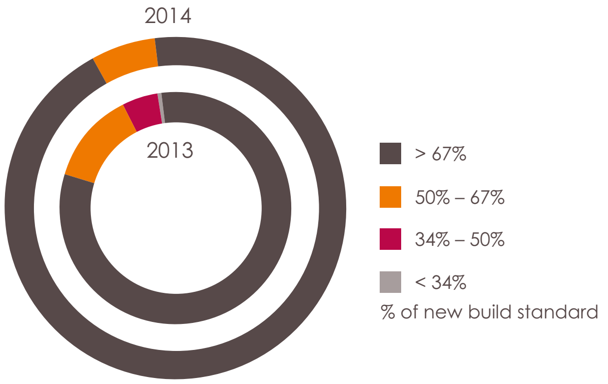
## SEISMIC REFURBISHMENTS

During the year Precinct completed a number of significant seismic upgrades. These included works at 80 The Terrace and the former Central Police Station in Wellington and SAP Tower in Auckland.

The most significant works were at the former Central Police Station. The project reached practical completion in May 2014, returning around 2,500 square metres of premium character office space to the market. A key focus for the year will be to re-lease this space.

Since the completion of these projects, the overall seismic performance of the portfolio has been significantly improved (as shown in the graph above). As at 30 June 2014 the portfolio had a weighted (by value) New Build Standard Score of 88%. Precinct has identified further strengthening work to be undertaken in its portfolio. This additional work will be undertaken as occupier needs allow and is expected to cost between $5 million and $10 million.

### *Seismic performance rating*




## OUR MARKETS

**Auckland**

The current Auckland CBD office stock totals 1.35 million square metres of which Precinct regards approximately 440,000 square metres as Prime grade (includes both ‘Premium’ and ‘A-grade’).

The Auckland CBD office market continues to strengthen driven by a strong Auckland economy. Vacancy in Auckland Prime CBD office buildings has continued to fall since its peak in December 2010. As at June 2014, the overall Auckland Prime CBD office vacancy rate had decreased to 1.4% from 5.8% as at June 2013. This is a record low in the last 20 years and below the long term average of 8.2%.

Given this low vacancy, few new developments on the horizon, strong demand for quality and expectations of growth in the Auckland economy, most research houses forecast continued good levels of market rental growth.

**Wellington**

Currently the office stock in Wellington’s CBD totals 1.53 million sqm of which Precinct regards 248,000 square metres as ‘A-grade’. Around half of this is situated within the core Wellington CBD area.

‘A-grade’ vacancy in Wellington has decreased to 2.5% (June 2013: 3.7%). This drop is mainly due to the lower core CBD ‘A-grade’ vacancy from 4.2% at June 2013 to 0.6% as at June 2014.

The Wellington occupier market is now improving albeit at a slower rate than Auckland due to a combination of low employment growth and uncertainty around the Government’s future accommodation plans. Wellington occupiers remain focused on the risks from seismic events and the quality of assets, in particular their resilience to seismic events.

# OUTLOOK

Consistent with last year, the board expects full year earnings for the 2015 financial year of approximately 6.2 cps (before performance fees) or 6.0 cps (assuming 50% of the maximum performance fee is payable). This guidance provides for the assumed sale of some non-core assets through the year.

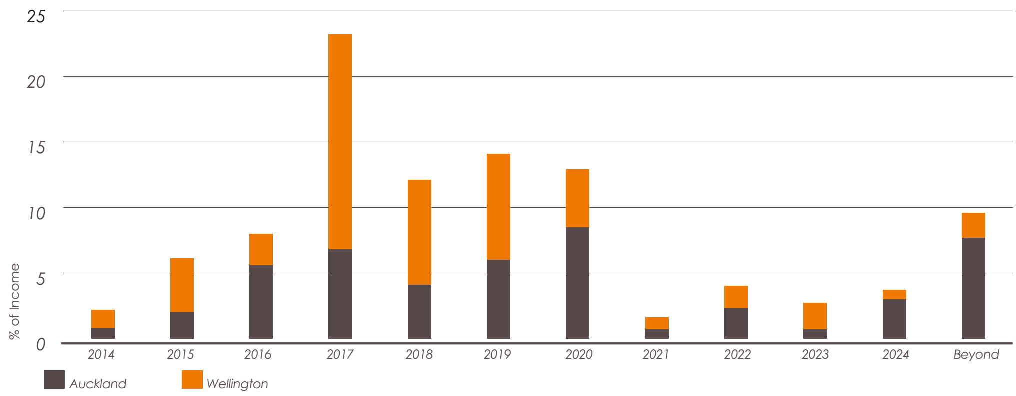
Following an increase in dividend of 5.5%, Precinct expects to maintain a dividend of 5.4 cps for the 2015 financial year, consistent with the 90% payout dividend policy.

Over the coming two years the company will enter a pre-funding phase progressing the sales programme and positioning for the planned developments. During this early phase management will be particularly focused on Precincts operating performance. It expects earnings after tax and dividends will be maintained at current levels.

Precinct expects that once capital redeployment occurs, solid earnings growth and value will result from completed developments.

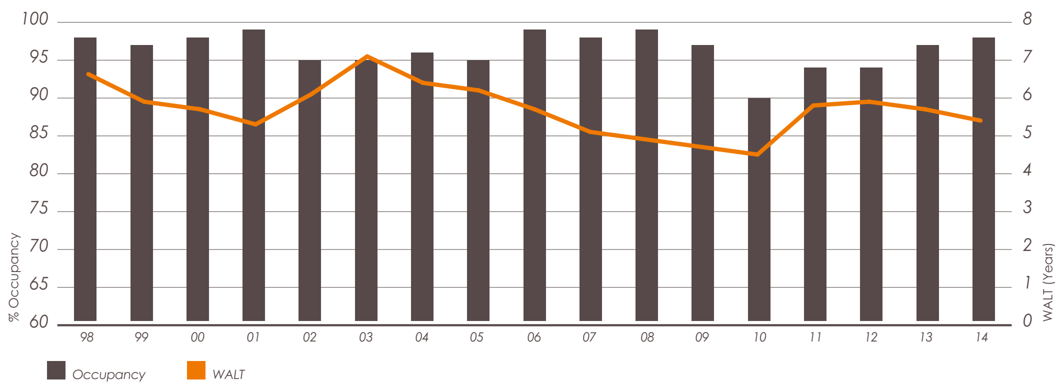
# PORTFOLIO SNAPSHOT

### *Lease expiry profile*




### *Operational performance*

Since 1998 Precinct has achieved an average occupancy of 96.5% and WALT of 5.7 years.



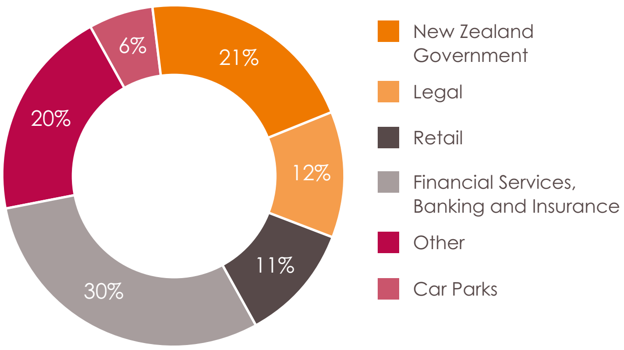

**60%**

WEIGHTING BY VALUE TO AUCKLAND

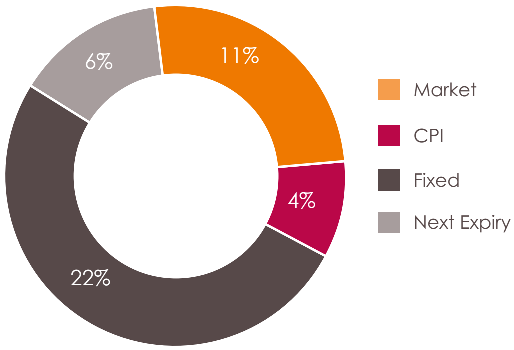
**21%**

WEIGHTING BY INCOME TO NEW ZEALAND GOVERNMENT ORGANISATIONS

## Composition of Revenue by Industry Sector as at 30 June 2014




## FY15 Lease event profile




Across the portfolio, 83% of earnings were derived from office with the remainder generated from retail and car parking. Precinct's largest client (across multiple agencies) is the New Zealand Government with 21% of Precinct's gross rental income being generated by the New Zealand Government.

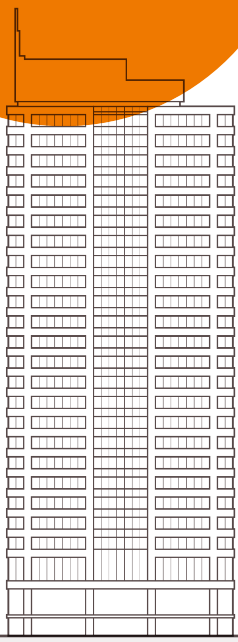


## Property Portfolio as at 30 June 2014

| Property | City | Net Lettable Area | [Typical] Floor plate | Cap rates % | Valuation | WALT | Occupancy |
|---|---|---|---|---|---|---|---|
| ANZ Centre | Auckland | 33,351 m² | 1,000 m² | 6.6% | $256.0 m | 10.5 yrs | 97% |
| SAP Tower | Auckland | 17,630 m² | 762 m² | 7.5% | $95.6 m | 3.7 yrs | 99% |
| PwC Tower | Auckland | 31,296 m² | 1,350 m² | 6.8% | $263.0 m | 5.9 yrs | 98% |
| AMP Centre | Auckland | 25,265 m² | 1,097 m² | 7.4% | $122.4 m | 5.7 yrs | 100% |
| Downtown Shopping Centre | Auckland | 13,950 m² | | 6.9% | $101.0 m | 1.8 yrs | 97% |
| Zurich House | Auckland | 14,445 m² | 912 m² | 6.9% | $91.5 m | 4.8 yrs | 100% |
| HSBC House | Auckland | 19,224 m² | 1,060 m² | 7.3% | $108.0 m | 4.1 yrs | 100% |
| Bowen Campus | Wellington | 30,167 m² | 1,485 m² | 9.6% | $49.0 m | 2.3 yrs | 100% |
| No.1 and No.3 The Terrace | Wellington | 18,462 m² | 768 m² | 7.6% | $72.5 m | 4.8 yrs | 100% |
| Pastoral House | Wellington | 15,522 m² | 800 m² | 8.6% | $49.5 m | 2.7 yrs | 100% |
| Vodafone on the Quay | Wellington | 16,756 m² | 1,000 m² | 7.5% | $108.0 m | 4.3 yrs | 88% |
| Mayfair House | Wellington | 12,332 m² | 1,100 m² | 8.5% | $37.5 m | 4.9 yrs | 100% |
| 80 The Terrace | Wellington | 10,682 m² | 780 m² | 8.4% | $36.6 m | 5.5 yrs | 89% |
| 125 The Terrace | Wellington | 12,069 m² | 869 m² | 7.9% | $63.8 m | 5.1 yrs | 98% |
| 171 Featherston Street | Wellington | 11,352 m² | 915 m² | 7.4% | $75.8 m | 7.1 yrs | 99% |
| Deloitte House | Wellington | 12,972 m² | 775 m² | 8.1% | $50.6 m | 3.0 yrs | 98% |
| State Insurance Tower | Wellington | 26,641 m² | 1,050 m² | 7.6% | $136.7 m | 4.4 yrs | 97% |
| No.3 The Terrace[1] | Wellington | N/A | N/A | N/A | $10.6 m | 44.2 yrs | N/A |
| **Total** | | **322,115 m²** | | **7.3%** | **$1,728.1 m** | **5.4 yrs** | **98%** |

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

# PROPERTY PORTFOLIO



1.

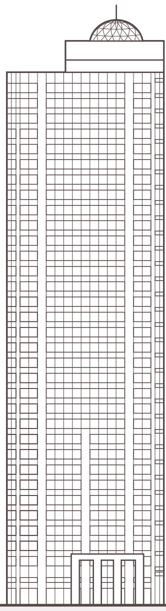
## PwC Tower

OCCUPANCY ***98%***
WALT ***5.9 years***
CLIENTS
***PwC, Buddle Findlay, Hesketh Henry, Jones Lang LaSalle***

**Quay Street, Auckland**

The PwC Tower is one of New Zealand's most sought after office addresses. Completed in 2002 with state-of-the-art building technology, the 29-level tower is set in a first-class location in Auckland's waterfront precinct and features some of the country's largest floor plates, a hotel-style lobby and high-speed lifts, along with 11 retail premises and 358 car parks.

JONES LANG LASALLE VALUATION
AS AT 30 JUNE 2014: ***$263.0 million***
TOTAL NET LETTABLE AREA (NLA): ***31,296 sqm***
TYPICAL OFFICE FLOOR: ***1,350 sqm***



2.

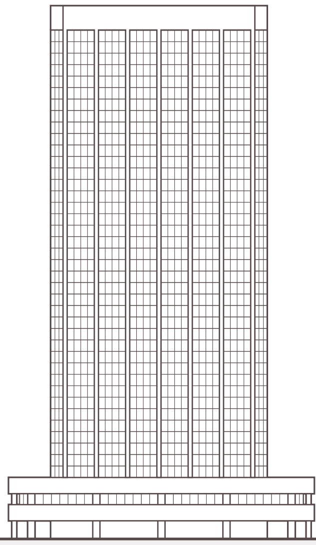
## ANZ Centre

OCCUPANCY ***97%***
WALT ***10.5 years***
CLIENTS
***ANZ Bank, Chapman Tripp, Mighty River Power, Vero, First NZ Capital***

**Albert Street, Auckland**

Topped by a unique geodesic dome, the ANZ Centre is one of New Zealand's tallest and most recognisable buildings at 39 levels, occupying a key site on Auckland's Albert Street. It features a distinctive polished Spanish granite façade and full-height windows, providing generous natural light and expansive views of Auckland city and the Waitemata Harbour. The ANZ Centre has undergone a major upgrade.

CBRE VALUATION
AS AT 30 JUNE 2014: ***$256.0 million***
TOTAL NET LETTABLE AREA (NLA): ***33,351 sqm***
TYPICAL OFFICE FLOOR: ***1,000 sqm***



3.

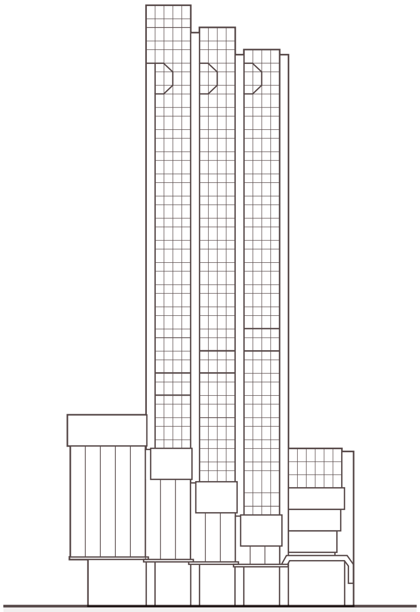
## AMP Centre

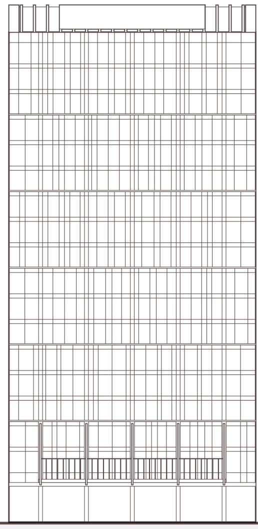
OCCUPANCY ***100%***
WALT ***5.7 years***
CLIENTS
***AMP Financial Services, Aon, AJ Park, QBE Insurance, Southern Cross, Thales New Zealand***

**Customs Street West, Auckland**

The AMP Centre is a 25-level building with excellent views to Viaduct Harbour and the Hauraki Gulf. It occupies a prominent site adjoining the PwC Tower in Auckland's waterfront precinct, and has large flexible plates, making it attractive to organisations requiring extensive areas of efficient working space.

JONES LANG LASALLE VALUATION
AS AT 30 JUNE 2014: ***$122.4 million***
TOTAL NET LETTABLE AREA (NLA): ***25,265 sqm***
TYPICAL OFFICE FLOOR: ***1,097 sqm***





4.

## SAP Tower

OCCUPANCY ***99%***

WALT ***3.7 years***

CLIENTS

***SAP, Marsh, Colliers International***

**Queen Street, Auckland**

Located in the heart of Auckland's Queen Street, this prime office building comprises 21 levels of high-quality office accommodation, as well as two levels of retail and a health club that includes a tennis court and swimming pool. SAP Tower was built in 1989 to a striking design, and its distinctive architecture has made it an Auckland landmark. The building's rectangular shape, together with the positioning of the service core, provides a high level of flexibility of use.

CBRE VALUATION

AS AT 30 JUNE 2014: ***$95.6 million***

TOTAL NET LETTABLE AREA (NLA): ***17,630 sqm***

TYPICAL OFFICE FLOOR: ***762 sqm***

5.

## Zurich House

OCCUPANCY ***100%***

WALT ***4.8 years***

CLIENTS

***Zurich, Willis New Zealand, CBRE, NZ Funds Management, Guardians of NZ Superannuation***

**Queen Street, Auckland**

Zurich House was redeveloped by Precinct to a 5-Star Green Star rating, achieved by incorporating highly innovative energy-efficient and environmentally-friendly materials while recycling some of the existing building structure and using sustainable business practices.

The building features 15 levels of high-quality office accommodation, with a two-storey entrance gallery and lobby. The entire façade of Zurich House is clad in energy-efficient glazing to maximise natural light.

COLLIERS INTERNATIONAL VALUATION

AS AT 30 JUNE 2014: ***$91.5 million***

TOTAL NET LETTABLE AREA (NLA): ***14,445 sqm***

TYPICAL OFFICE FLOOR: ***912 sqm***

6.

## Downtown Shopping Centre

OCCUPANCY ***97%***

WALT ***1.8 years***

CLIENTS

***The Warehouse, Burger King, McDonald's, ASB***

**Customs Street West, Auckland**

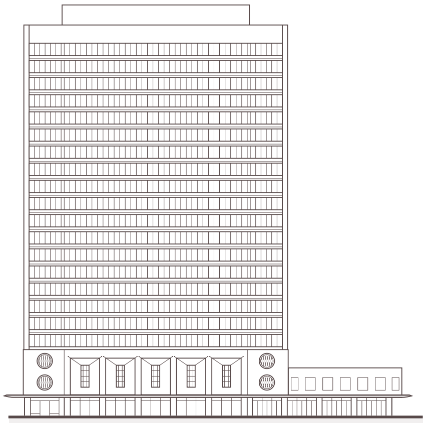
First opened in 1975, the Downtown Shopping Centre has a land area of approximately 6,500 square metres and existing resource consent for a 71,000 sqm (GFA) mixed-use office and retail development. With excellent access to public transport and positioned by Auckland's waterfront, this property has to be one of New Zealand's best long term investment opportunities.

CBRE VALUATION

AS AT 30 JUNE 2014: ***$101.0 million***

TOTAL NET LETTABLE AREA (NLA): ***13,950 sqm***

## *Property portfolio*



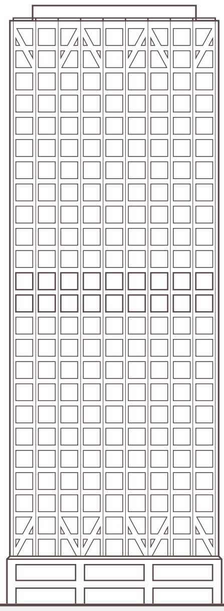
### 7.
### *HSBC House*

OCCUPANCY ***100%***
WALT ***4.1 years***
CLIENTS
***HSBC Bank, NZTA Limited, Baldwins Limited***

**Queen Street, Auckland**

HSBC House comprises a 21 level commercial office tower situated on a prime waterfront CBD site. This is a landmark building occupying one of the most prominent and sought after positions in the Auckland CBD. The building enjoys excellent natural light on all sides together with virtually uninterrupted harbour views.

CBRE VALUATION
AS AT 30 JUNE 2014: ***$108.0 million***
TOTAL NET LETTABLE AREA (NLA): ***19,224 sqm***
TYPICAL OFFICE FLOOR: ***1,060 sqm***



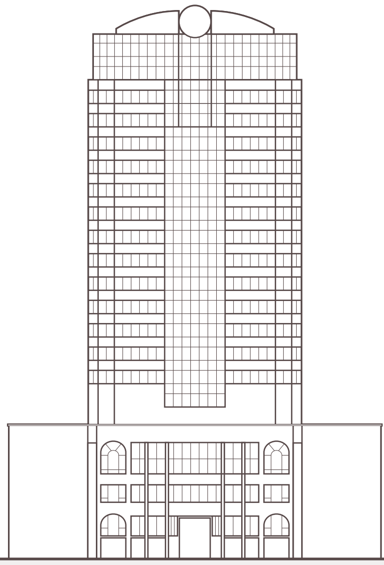
### 8.
### *State Insurance Tower*

OCCUPANCY ***97%***
WALT ***4.4 years***
CLIENTS
***State Insurance, Air New Zealand, AJ Park, Buddle Findlay, Hudson Global Resources***

**Willis Street, Wellington**

One of New Zealand's best-known office buildings, located in the corporate precinct of the Wellington CBD, State Insurance Tower was completed in 1984. The building is adjacent to Willis Street and Lambton Quay and is a short stroll from Frank Kitts Park and the Wellington harbour waterfront. The office floors enjoy excellent harbour views and natural sunlight from all cardinal points. The property also offers one level of street-level retail, one-and-a-half levels of car parking and an enclosed subterranean retail level.

COLLIERS INTERNATIONAL VALUATION
AS AT 30 JUNE 2014: ***$136.7 million***
TOTAL NET LETTABLE AREA (NLA): ***26,641 sqm***
TYPICAL OFFICE FLOOR: ***1,050 sqm***



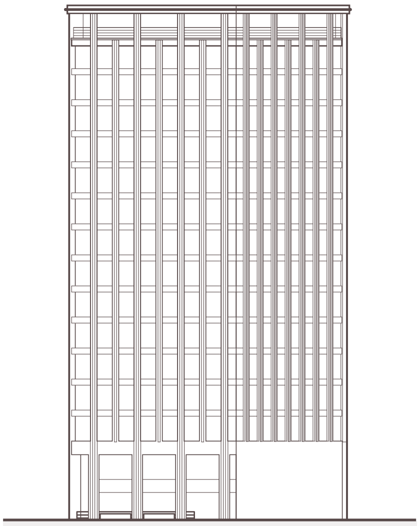
### 9.
### *Vodafone on the Quay*

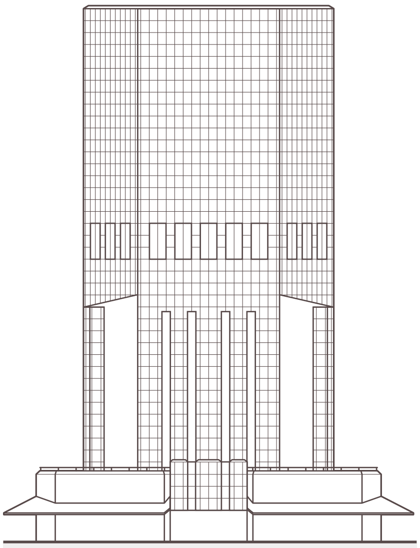
OCCUPANCY ***88%***
WALT ***4.3 years***
CLIENTS
***Vodafone, Russell McVeagh, Microsoft, Fonterra, Rabobank***

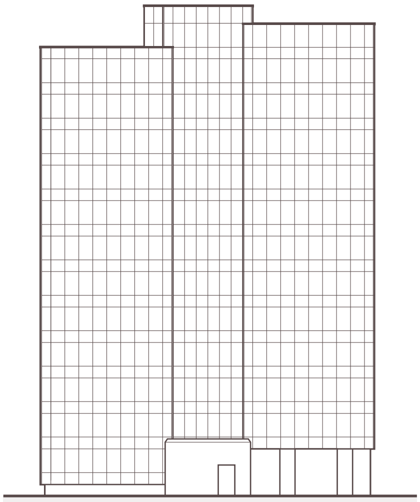
**Lambton Quay, Wellington**

Vodafone on the Quay is a landmark property in the heart of Wellington fronting Midland Park. The building has a distinctive presence on Lambton Quay, with its integrated architectural styles and green-tinted glazing. Vodafone on the Quay is close to the Courts, Parliament and Treasury. The office floors have panoramic views of the harbour and inner city, and provide column-free office space and efficient floor layouts.

BAYLEYS VALUATION
AS AT 30 JUNE 2014: ***$108.0 million***
TOTAL NET LETTABLE AREA (NLA): ***16,756 sqm***
TYPICAL OFFICE FLOOR: ***1,000 sqm***







*10.*

### *No.1 and No.3 The Terrace*

OCCUPANCY ***100%***

WALT ***4.8 years***

CLIENTS

***The Treasury, Ministry of Health, Parliamentary Services***

**The Terrace, Wellington**

No. 1 The Terrace occupies the prestigious corner location of The Terrace and Bowen Street in Wellington, in the heart of the parliamentary precinct. After redevelopment in 2006, it is an 18-level building with an adjoining low-rise annex featuring some of the largest CBD floor plates in New Zealand.

COLLIERS INTERNATIONAL VALUATION

AS AT 30 JUNE 2014: ***$83.1 million****

TOTAL NET LETTABLE AREA (NLA): ***18,462 sqm***

TYPICAL OFFICE FLOOR (TOWER): ***768 sqm***

***2,080 sqm (podium floors)***

*11.*

### *171 Featherston Street*

OCCUPANCY ***99%***

WALT ***7.1 years***

CLIENTS

***Bell Gully, First NZ Capital, Cameron & Partners, ANZ***

**Featherston Street, Wellington**

171 Featherston Street is the office tower component of a 26-level dual office/hotel complex occupying a key Wellington waterfront location, with uninterrupted views of the harbour. The office tower comprises the upper 13 levels, the three basement levels of car parks and part of the ground floor. The building features distinctive bronze-tinted glass cladding and strong vertical lines and offers a premium Wellington business address.

BAYLEYS VALUATION

AS AT 30 JUNE 2014: ***$75.8 million***

TOTAL NET LETTABLE AREA (NLA): ***11,352 sqm***

TYPICAL OFFICE FLOOR: ***915 sqm***

*12.*

### *125 The Terrace*

OCCUPANCY ***98%***

WALT ***5.1 years***

CLIENTS

***Minter Ellison Rudd Watts, New Zealand Qualifications Authority, Canadian High Commission***

**The Terrace, Wellington**

125 The Terrace is in the heart of Wellington's central business and retail district and enjoys some of the region's highest measured pedestrian traffic flows. The building comprises 13 levels of prime office accommodation, two levels of retail and four levels of car parks. The blue laminated reflective glass and distinctive blue granite exterior finishes merge to create an attractive landmark that provides some of Wellington's best-appointed office accommodation.

CBRE VALUATION

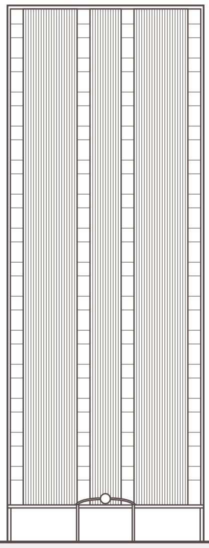
AS AT 30 JUNE 2014: ***$63.8 million***

TOTAL NET LETTABLE AREA (NLA): ***12,069 sqm***

TYPICAL OFFICE FLOOR: ***869 sqm***

* Includes $10.6 million relating to No 3 The Terrace.

# *Property portfolio*



*13.*

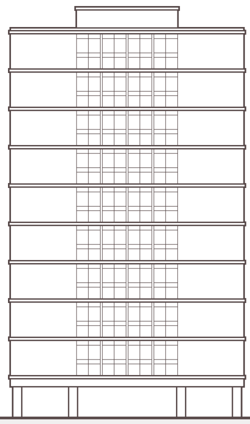
### *Pastoral House*

OCCUPANCY ***100%***
WALT ***2.7 years***
CLIENTS
***Ministry of Primary Industries, Bank of New Zealand***

**The Terrace, Wellington**

Pastoral House is an 18-level ‘A-grade’ building comprising 17 levels of office accommodation and one ground floor retail level. It has dual frontages to The Terrace and Lambton Quay, and offers easy access to Government departments, Parliament and transport hubs. The property has an excellent aspect with harbour views and the Lambton Quay frontage enjoys good retail pedestrian exposure. Precinct completed a refurbishment of Pastoral House in 2005.

CBRE VALUATION
AS AT 30 JUNE 2014: ***$49.5 million***
TOTAL NET LETTABLE AREA (NLA): ***15,522 sqm***
TYPICAL OFFICE FLOOR: ***800 sqm***



*14.*

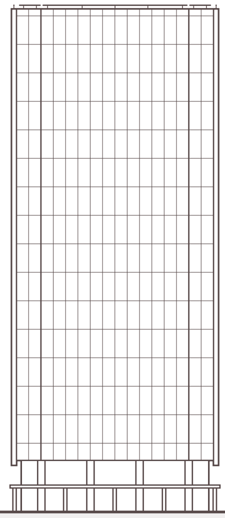
### *Bowen Campus*

OCCUPANCY ***100%***
WALT ***2.3 years***
CLIENTS
***Ministry of Social Development***

**Bowen Street, Wellington**

Bowen Campus encompasses approximately one hectare of land and is situated in the heart of the parliamentary precinct next to the Beehive. This includes the 10-storey Bowen State Building and the 15-storey Charles Fergusson Tower which were built between the early 1960s and mid-1970s. The property offers a redevelopment opportunity with resource consent currently in place for 60,000 sqm of office space.

COLLIERS INTERNATIONAL VALUATION
AS AT 30 JUNE 2014: ***$49.0 million***
TOTAL NET LETTABLE AREA (NLA): ***30,167 sqm***
TYPICAL OFFICE FLOOR:
***1,485 sqm (Bowen State)***
***802 sqm (Charles Fergusson Tower)***



*15.*

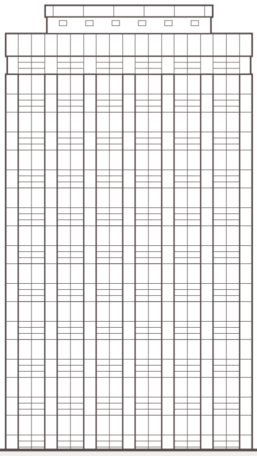
### *Deloitte House*

OCCUPANCY ***98%***
WALT ***3.0 years***
CLIENTS
***Deloitte, Medsafe, Real Estate Agents Authority***

**Featherston Street, Wellington**

Deloitte House is located in the heart of the Wellington corporate precinct and enjoys triple frontages to Brandon and Featherston Streets and Customhouse Quay. Originally built in 1983, the building was extended and refurbished in 2005/07 and now comprises 16 office floors, ground floor retail and a basement car parking level. There is good natural light for all levels and unobstructed harbour views from level five and above.

COLLIERS INTERNATIONAL VALUATION
AS AT 30 JUNE 2014: ***$50.6 million***
TOTAL NET LETTABLE AREA (NLA): ***12,972 sqm***
TYPICAL OFFICE FLOOR: ***775 sqm***



16.

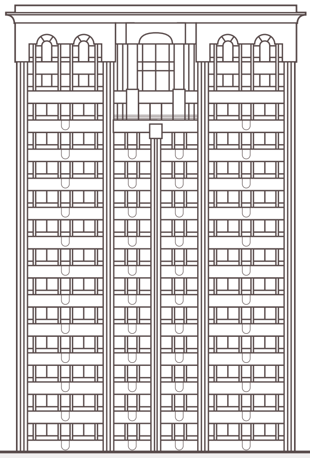
## Mayfair House

OCCUPANCY ***100%***
WALT ***4.9 years***
CLIENTS
***Department of Corrections***

**The Terrace, Wellington**

Mayfair House was constructed in 1986. It is well-located, enjoying a favourable aspect at the northern end of The Terrace, close to the parliamentary precinct and close to key Government departments. It comprises 13 office floors, being some of the largest and most efficient plate sizes in the area. The property includes 251 car parks.

CBRE VALUATION
AS AT 30 JUNE 2014: ***$37.5 million***
TOTAL NET LETTABLE AREA (NLA): ***12,332 sqm***
TYPICAL OFFICE FLOOR: ***1,100 sqm***



17.

## 80 The Terrace

OCCUPANCY ***89%***
WALT ***5.5 years***
CLIENTS
***New Zealand Fire Service, Transport Accident and Investigation Commission, NZ Medical Council, AECOM***

**The Terrace, Wellington**

80 The Terrace is located on The Terrace, conveniently positioned near Government offices, car parks, bus and rail transport links, with nearby on-and off-ramps to the urban motorway. The set-back frontage and motorway to the rear ensure good natural light to all levels and harbour views from the upper floors. Completed in 1987, the building comprises 14 levels of office accommodation on top of four levels(eight split levels) of car parks.

COLLIERS INTERNATIONAL VALUATION
AS AT 30 JUNE 2014: ***$36.6 million***
TOTAL NET LETTABLE AREA (NLA): ***10,682 sqm***
TYPICAL OFFICE FLOOR: ***780 sqm***

# BOARD OF DIRECTORS






## 01. Graeme Henry Wong

DIRECTOR, INDEPENDENT BCA (HONS) BUS ADMIN, INFINZ (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 Areograph Limited, Tourism Holdings Limited and shareholder and director of Southern Capital Partners (NZ) Limited, member of the Trust Board of Samuel Marsden Collegiate School and member of the Management Board of The Bible Society Development (New Zealand) Incorporated.

## 02. Graeme John Horsley

DIRECTOR, INDEPENDENT MNZM, LFNZIV/LFPINZ, FRICS, F INST D

Graeme Horsley is an independent property consultant and professional director with 40 years property valuation and consultancy experience, including 14 years with Ernst & Young New Zealand where he was a partner and national director of the real estate group.

Graeme is a Member of the New Zealand Order of Merit, a Life Fellow of the New Zealand Institute of Valuers (NZIV) now the Property Institute of New Zealand, an Eminent Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Institute of Directors.

In 2006 he was appointed a panel member of the Local Government Rates Inquiry; a ministerial inquiry setup to investigate the cost drivers and funding of local authority rating and in 2007 he was appointed an additional member of the High Court.

He is chairman of Vital Healthcare Properties Trust and an independent director of Willis Bond Capital Partners Limited and Accessible Properties Limited.

## 03. Donald William Huse

DIRECTOR, INDEPENDENT BCA, CA

Don Huse is a professional director. His previous roles include chief executive officer of Auckland International Airport, chief financial officer of Sydney Airport Corporation, chief executive officer of Wellington International Airport and a director of Trans Alta New Zealand and Sydney Airport Corporation.

He is a director of OTPP New Zealand Forest Investments Limited, Crown Irrigation Investments Limited and Transpower 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.


### 04. Christopher James Judd

DIRECTOR, MANAGER APPOINTEE

Chris Judd has over 25 years' experience in the property industry.

Chris is the Head of Property Funds Management for AMP Capital Investors Australia. He is a registered valuer being an Associate of the Australian Property Institute. Chris is chairman of the Property Council of Australia's Unlisted Property Roundtable and is a member of the Property Council of Australia's International and Capital Markets Division Management Committee.

### 05. 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 chief executive officer of BT Funds Management Limited.

He has authored reports for the Government on "The Taxation of Investment Income" and for the Taupo group on "Creating Wealth for New Zealanders", and chaired the Government's International Financial Services Development group in 2010.

Craig is a professional director and entrepreneur. In addition to chairing Precinct, he is chairman of the New Zealand Local Government Funding Agency (LGFA), AIG Insurance NZ Limited, OCG Consulting Limited, Saturn Portfolio Management Limited, Elevation Capital Management Limited and Appello Services Limited.

### 06. Robert James Campbell

DIRECTOR

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 of Summerset Group Holdings Limited and Tourism Holdings Limited; director of Guinness Peat Group Limited and Turners & Growers Limited. He is a director of substantial private companies based in Australia and New Zealand. In addition he is 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.

### Absent. Mohammed Al Nuaimi

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 now in the AsiaPacific investment team covering Australia, New Zealand and specific investments in China.

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

# EXECUTIVE TEAM




## Absent. Kym Bunting

GENERAL MANAGER OF PROPERTY
(commencing September 2014)

Since 2007 Kym has worked for Brookfield Office Properties, a global owner, developer and manager of premier real estate. Kym has been responsible for management of all aspects of the company's New Zealand operating platform.

With 25 years of institutional property knowledge Kym is highly experienced in portfolio strategy, and all aspects of asset/ property management, facilities management, and development.

## 01. Davida Dunphy

GENERAL COUNSEL AND COMPANY SECRETARY

Davida was appointed in August 2014 bringing over 10 years' experience in all aspects of commercial property (particularly large scale commercial development, acquisitions/disposals and portfolio management) both in New Zealand and the United Kingdom.

After working for four years with a large international firm, Davida moved to New Zealand in 2004 and worked for Bell Gully, where she was most recently a Senior Associate.

Davida is a New Zealand and England & Wales qualified solicitor holding a Bachelor of Laws (Hons) from the University of Sheffield and a Legal Practice (Post Dip) from DeMontfort University.

## 02. Scott Pritchard

CHIEF EXECUTIVE OFFICER

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

Scott was most recently employed for six years as Fund Manager for Goodman Property Trust.

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

Scott holds a Masters degree in Management from Massey University. He is a director of the New Zealand Green Building Council and is also a member of the Property Council's national council.




### 03. George Crawford

CHIEF FINANCIAL OFFICER

George was appointed in late 2010. As Chief Financial Officer he is responsible for the capital management and financial and management reporting, as well as taking a leading role in strategy, development and major projects.

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 most recently Chief Financial Officer.

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

### 04. Richard Hilder

CORPORATE ANALYST AND INVESTOR RELATIONS MANAGER

Richard joined Precinct in 2010 after returning from the United Kingdom where he worked within Goodman Group's European Funds Management business. He gained experience in capital structuring, fund management and developments in both continental Europe and the United Kingdom.

Prior to moving to the United Kingdom Richard 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.

### 05. Andrew Buckingham

GENERAL MANAGER OF DEVELOPMENT (commencing September 2014)

Andrew has worked in the commercial property industry for the past 30 years in both Australia and New Zealand. For the past 10 years Andrew was employed by Kiwi Income Property Trust as the Project Director. Andrew has also held roles with 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.

# CORPORATE GOVERNANCE

## INTRODUCTION

The board of directors is responsible for the governance of Precinct. The board is committed to ensuring that Precinct is governed in accordance with best practice and the highest ethical standards and integrity.

The board's commitment to corporate governance best practice can be seen in the Corporate Governance Manual that the board developed and adopted. The manual includes a Code of Ethics and a board Charter.

The Corporate Governance Manual is available on Precinct's website (www.precinct.co.nz) in the investor relations section together with a statement of how Precinct's corporate governance policies, practices and processes differ from the NZX Corporate Governance Best Practice Code and the corporate governance policies, practices and processes adopted or followed by Precinct. If any investor would like a copy sent to them, please contact Precinct investor relations.

Precinct's four independent directors are appointed by Precinct's shareholders and are required to retire by rotation. At this year's annual general meeting in November 2014, investors will have the opportunity to re-elect two independent directors, as well as vote on various other matters.

## THE BOARD

As at 30 June 2014 there were seven directors of Precinct and one alternate director. All directors are non-executive, and a majority (four) of the directors are independent (as defined by the NZX Listing Rules) being Messrs, Stobo, Horsley, Huse and Wong, with the other directors not being independent. Further details of each director are set out below.

Robert Campbell was appointed as a director by Haumi Company Limited pursuant to a provision in Precinct's constitution which grants any security holder holding more than 15% of Precinct shares the right to appoint one director. Mr Campbell is not required by Precinct's constitution to retire by rotation.

Mohammed Al Nuaimi was appointed on 30 October 2013 as a director by AMP Haumi Management Limited pursuant to a provision in Precinct's constitution which grants the manager the right to appoint up to two directors. Robert Walker was alternate director for Mohammed Al Nuaimi for the year to 30 June 2014. Christopher Judd is the other director appointed by AMP Haumi Management Limited. Mr Al Nuaimi, Mr Judd and Mr Walker are not required by Precinct's constitution or by rule 3.3.11 of the NZX Listing Rules to retire by rotation.

As at 30 June 2014 Precinct had three subsidiary companies which hold all of the individual Precinct properties. The directors for the Precinct subsidiary companies as at 30 June 2014 were Scott Pritchard and George Crawford. During the year to 30 June 2014 Trevor Wairepo (resigned with effect from 17 April 2014) ceased to hold office as a director of the subsidiary companies. Davida Dunphy has been appointed director of the three Precinct subsidiary companies from 13 August 2014.

A schedule of directors and their board meeting attendance record for the year to 30 June 2014 is set out below.

The board comprised eight males and no females as at 30 June 2014. The officers of the company comprised two males and no females as at 30 June 2014.

| *Director* | *Status* | *Date of appointment* | *Board attendances for the year: nine board meetings* | *Gender* |
|---|---|---|---|---|
| Craig Stobo | Board Chairman<br>Nominations Committee Chairman<br>Independent Director | 4 May 2010 | 9 | M |
| Mohammed Al Nuaimi | Director | 30 October 2013 | 5 | M |
| Robert Campbell | Director | 2 April 2012 | 8 | M |
| Graeme Horsley | Due Diligence Committee Chairman<br>Independent Director | 4 May 2010 | 9 | M |
| Don Huse | Audit and Risk Committee Chairman<br>Independent Director | 1 November 2010 | 9 | M |
| Christopher Judd | Director | 29 April 2013 | 9 | M |
| Robert Walker* | Alternate Director for<br>Mohammed Al Nuaimi | 2 April 2012 | 9 | M |
| Graeme Wong | Remuneration Committee Chairman<br>Independent Director | 1 November 2010 | 8 | M |

* Robert Walker resigned and Anthony Bertoldi was appointed Alternative Director for Mohammed Al Nuaimi on 12 August 2014.

### THE COMMITTEES OF THE BOARD

For the year to 30 June 2014 there were four committees of the board. These comprise an Audit and Risk Committee, a Nominations Committee, a Remuneration Committee and a Due Diligence Committee. The charters that exist for each committee can be found in the Corporate Governance Manual which is available on Precinct's website (www.precinct.co.nz).

The Audit and Risk Committee comprised Don Huse as Chairman, Graeme Horsley, Craig Stobo and Rob Campbell. This committee met four times during the year and all members attended every meeting. The committee was established to assist the board in discharging its duties with respect to financial reporting, compliance and risk management.

The Remuneration Committee comprised Graeme Wong as Chairman and Craig Stobo. This committee met once during the year and all members attended this meeting. The committee is to provide guidance to the board when approving directors' remuneration.

The Nominations Committee comprised Craig Stobo as Chairman and Graeme Horsley. This committee did not meet during the year. The committee is to 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 can be established by the board to provide guidance and recommendations on the due diligence process for any transaction of a significant size and/or complexity. The Due Diligence Committee was established twice for the year to 30 June 2014 and met seven times. The Due Diligence Committee includes at least one Independent Director, relevant external consultants and members of management considered appropriate for the transaction in question.

### MANAGEMENT FEE STRUCTURE

Precinct's management fee structure includes a three-tier base fee and a performance fee based on relative outperformance over other NZX-listed property entities.



#### Management services agreement summary

Precinct and the manager are party to a management services agreement (*the Management Agreement*), pursuant to which the manager provides management services to Precinct.

The Management Agreement, which came into effect on 1 November 2010, was subsequently amended to include a third tier in the base management services fee (see below). Under the NZSX Listing Rules, this amendment would have required shareholder approval, but for a waiver granted by the NZX.

#### Management services fee

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

- the base management services fee;
- the performance fee; and
- additional services fee.

#### Base management services fee

The base management services fee is calculated as follows:

- 0.55% per annum, plus GST (if any) of the Value of Investment Property to the extent that the Value of Investment Property is less than or equal to $1,000,000,000; plus
- 0.45% per annum, plus GST (if any) of the Value of Investment Property to the extent that the Value of Investment Property is between $1,000,000,001 and $1,500,000,000; plus
- 0.35% per annum, plus GST (if any) of the Value of Investment Property to the extent that the Value of Investment Property exceeds $1,500,000,001.

"Value of Investment Property" means, in effect, the total value of all real property assets owned or leased by Precinct as determined in accordance with GAAP. Adjustments for revaluations, acquisitions and disposals are made on a pro rata basis each month.

Development properties are excluded from the Value of Investment Property. A property is classified as a development property if it is under construction or is fully vacant and undergoing refurbishment 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 base management services fee is paid to the manager monthly in arrears in cash.

**Performance fee**

Precinct also pays a performance fee to the manager linked to Precinct's adjusted equity returns relative to its peers in the listed property sector.

Key features of the performance fee are, in broad terms, as follows:

- 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 performanc*e 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.

**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**

The manager is also responsible for procuring the provision of Additional Services to Precinct, relating primarily to the day-to-day management of individual properties and assets within the Precinct portfolio.

The Additional Services may be provided by any person approved by the manager as having sufficient expertise and resources available to it to perform the service. The manager may perform Additional Services so long as, other than in respect of certain services which Precinct has already agreed the manager has the skills to perform, the manager can demonstrate to the reasonable satisfaction of the board that the manager has sufficient expertise and resources available to it to perform the Additional Services. Furthermore, no person is to 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. The fees for these services will be 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).

**Services similar to services provided to Precinct**

The manager has, in effect, represented and warranted to Precinct that, as at the date of the Management Agreement:

- The base management services set out in the Management Agreement are all the material services that were performed by the manager in its capacity as manager of AMP NZ Office Trust (as Precinct was then known) in consideration for the management fee payable by Precinct under the relevant provisions of the Trust Deed.
- The Additional Services set out in the Management Agreement are services which were not provided by the manager in its capacity as manager of AMP NZ Office Trust (as Precinct was then known) in consideration for the management fee referred to immediately above.

The manager and Precinct have agreed that if this warranty proves not to be correct, the remedy will be, in effect, to correct the relevant Management Agreement schedules and, in certain cases where Precinct has paid fees for Additional Services, the manager will reimburse Precinct.

**Resourcing**

Precinct does not employ any staff, including senior executives. Instead, all personnel, including Precinct's Chief Executive 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 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 the manager is to provide the management services to Precinct until such time as the Management Agreement is terminated in accordance with its terms.

In general, the Management Agreement 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 special resolution of Shareholders other than 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.

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)**
Under the Management Agreement, the manager has agreed that any person who acquires, or acquires the right or power to exercise or control the exercise of the votes attached to, 50% or more of the voting securities of Precinct will have a six week period to exercise an option to purchase the manager's interests in the Management Agreement by way of assignment upon and 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, by notice in writing to Precinct, to appoint up to two directors to the board and to substitute or remove such directors by notice in writing.

This director appointment right is subject to the Listing Rules and the requirements of any ruling granted by NZX from time to time.

## TAKEOVERS CODE EXEMPTIONS

**Introduction**
This section contains information required by the Takeovers Code (AMP NZ Office Limited) Exemption Notice 2010.

Unless otherwise stated, the information provided in this section of the report is as at 31 August 2014.

Any term capitalised in this section but undefined has the meaning given to it in the Takeovers Code (AMP NZ Office Limited) Exemption Notice 2010.

## PRE-EMPTIVE ACQUISITIONS

AMP Capital Investors (New Zealand) Limited *(AMPCI)* and Haumi Company Limited (as general partner of the Haumi (NZ) Limited Partnership *(HNZLP)*) are party 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 described 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) held by it 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 (as the case may be) 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 below.

**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 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 below.

**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. In other circumstances, participants are required to repay the Loan at the expiry of the Loan Period (and 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 below. 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 below.

## 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 31 August 2014, the percentage of voting securities on issue that are held or controlled by the AMPCI Parties as at 31 August 2014, 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* | 1.90** | 20.93 | 21.35 | 21.411 |

Note: The figure marked * is calculated on the basis that no voting securities in Precinct have been acquired under the Pre-emptive arrangements. The figures marketed with a ** are calculated on the basis of the total holdings of voting securities in Precinct by the Combined AMPCI Parties as at 31 August 2014.

### 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 |



### 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** |

### 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 |

## NZX RULINGS AND WAIVERS

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

NZX has 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 AMP NZ Office Trust, and on the new management agreement being approved by unit holders of AMP NZ Office Trust.
- 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 AMP NZ Office Trust (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 this waiver, 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.

# SHAREHOLDER INFORMATION

### Twenty largest Precinct shareholders as at 31 August 2014

| *Rank* | *Shareholder* | *No. of shares* | *% of shares* |
|---|---|---|---|
| 1. | National Nominees New Zealand Limited | 219,375,558 | 20.70 |
| 2. | Accident Compensation Corporation | 57,959,872 | 5.47 |
| 3. | Fnz Custodians Limited | 56,477,998 | 5.33 |
| 4. | Investment Custodial Services Limited | 45,060,599 | 4.25 |
| 5. | HSBC Nominees (New Zealand) Limited A/C State Street | 37,537,917 | 3.54 |
| 6. | Private Nominees Limited | 33,755,543 | 3.19 |
| 7. | Guardian Nominees No 2 Limited – WPAC Wholesale Property Trust | 29,474,675 | 2.78 |
| 8. | ANZ Wholesale Trans-Tasman Property Securities Fund | 29,313,979 | 2.77 |
| 9. | Custodial Services Limited | 28,513,946 | 2.69 |
| 10. | Forsyth Barr Custodians Limited | 28,100,191 | 2.65 |
| 11. | BNP Paribas Nominees (NZ) Limited | 27,534,928 | 2.60 |
| 12. | JP Morgan Chase Bank NA NZ Branch-Segregated Clients ACCT | 26,820,700 | 2.53 |
| 13. | MFL Mutual Fund Limited – NZCSD | 18,818,303 | 1.78 |
| 14. | ANZ Wholesale Property Securities | 18,350,086 | 1.73 |
| 15. | Forsyth Barr Custodians Limited | 15,766,132 | 1.49 |
| 16. | Citibank Nominees (New Zealand) Limited | 14,264,515 | 1.35 |
| 17. | Custodial Services Limited | 10,505,584 | 0.99 |
| 18. | HSBC Nominees (New Zealand) Limited | 8,847,565 | 0.83 |
| 19. | Forsyth Barr Custodians Limited | 8,551,830 | 0.81 |
| 20. | Custodial Services Limited | 7,036,714 | 0.66 |
| | **Totals: top 20 holders of Ordinary Shares** | **722,066,635** | **68.14** |
| | **Total Remaining Holders Balance** | **337,666,960** | **31.86** |

Source: Computershare

### Distribution of Precinct shares and shareholders as at 31 August 2014

| *Range* | *Total holders* | *Shares* | *% of issued Capital* |
|---|---|---|---|
| 1 – 99 | 1 | 2 | 0.00 |
| 100 – 199 | 2 | 221 | 0.00 |
| 200 – 499 | 14 | 4,770 | 0.00 |
| 500 – 999 | 66 | 43,135 | 0.00 |
| 1,000 – 1,999 | 159 | 210,096 | 0.02 |
| 2,000 – 4,999 | 628 | 2,172,307 | 0.20 |
| 5,000 – 9,999 | 1,291 | 9,143,913 | 0.86 |
| 10,000 – 49,999 | 4,414 | 100,848,157 | 9.52 |
| 50,000 – 99,999 | 851 | 55,930,562 | 5.28 |
| 100,000 – 499,999 | 427 | 75,129,663 | 7.09 |
| 500,000 – 999,999 | 25 | 16,535,523 | 1.56 |
| 1,000,000 – 9,999,999,999,999 | 35 | 799,715,246 | 75.46 |
| Rounding | | | 0.01 |
| **Total** | **7,913** | **1,059,733,595** | **100.00** |

Source: Computershare

**Substantial security holders as at 31 August 2014**

| *Security holder* | *No. of shares held at date of notice* | *%* | *Date of notice* |
|---|---|---|---|
| AMP Capital Investors (New Zealand) Limited[1] | 216,915,710 | 21.755 | 23.07.2012 |
| Haumi Company Limited | 201,759,768 | 19.039 | 11.10.2013 |
| ANZ New Zealand Investments Limited | 63,856,414 | 6.026 | 21.05.2014 |
| Accident Compensation Corporation | 59,223,252 | 5.589 | 04.08.2014 |

Source: NZX substantial shareholder notices

1. AMP Capital Investors (New Zealand) Limited's substantial security holder notice includes the Precinct shares of Haumi Company Limited.

The total number of ordinary shares on issue as at 31 August 2014 was 1,059,733,595. Precinct has only ordinary shares on issue.

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 preceding the date 2 months before the date of publication of this annual report.

Neither Precinct nor its subsidiaries made any donations during the year to 30 June 2014.

**Details of directors' interests in Precinct shares as at 30 June 2014 are as follows;**

| | *2014* | *2013* |
|---|---|---|
| *Director* | *No. of shares* | *No. of shares* |
| Rob Campbell | 123,902 | 98,750 |
| Graeme Horsley | 395,152 | 310,000 |
| Don Huse | 377,652 | 250,000 |
| Graeme Wong | 59,000 | 50,000 |



**The following interests register entries were recorded for Precinct and its subsidiaries for the year to 30 June 2014.**

**Rob Campbell**
Director of Localist Limited
Director of SAL Limited
Director of Harmoney Group Limited
Acquired 25,152 Precinct shares

**Graeme Horsley**
Director of Accessible Properties New Zealand Limited
Resigned as a director of MNL NZ Limited
Acquired 85,152 Precinct shares

**Don Huse**
Director of Crown Irrigation Investments Limited
Acquired 127,652 Precinct shares

**Craig Stobo**
Resigned as a director of Broadview Financial Management Limited

**Graeme Wong**
Director of SAL Limited
Resigned as a director of CFGC Forest Managers Limited
Ceased as a director of CFGC Investments Limited
Acquired 9,000 Precinct shares

**Mohammed Al Nuaimi**
Director of Precinct Properties New Zealand Limited
Director of Haumi Development Auckland Limited
Director of Haumi Company Limited
Director of AMP Haumi Management Limited

# REMUNERATION SECTION

**Insurance and indemnity**

As permitted by the constitution and the Companies Act 1993, Precinct has indemnified its directors, and the directors of its subsidiaries against potential liabilities and costs they may incur for acts or omissions in their capacity as directors. In addition, Precinct has indemnified officers against potential liabilities and costs they may incur for acts or omissions in their capacity as officers of Precinct, or directors of Precinct's subsidiaries. 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.

**Report on the remuneration of the Precinct Directors, the manager and management**

**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. As part of the corporatisation of Precinct, a cap of $450,000 per annum on director remuneration was established. The actual fees paid are below this cap and 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 remuneration from the company for their services as directors.

| | Role | 30 June 2014 | | 30 June 2013 | |
|---|---|---|---|---|---|
| | | Sub committee | Board | Sub committee | Board |
| Craig Stobo | Board Chair | – | $141,516 | $3,500 | $137,467 |
| Don Huse | Audit and Risk Committee Chair | – | $90,975 | – | $87,159 |
| Graeme Horsley | Independent Director | – | $80,867 | $3,900 | $77,098 |
| Graeme Wong | Independent Director | – | $80,867 | $3,500 | $77,098 |
| **Total** | | – | **$394,225** | **$10,900** | **$378,821** |



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 $250 – $285 per hour. During the year ended 30 June 2014 no committee fees were paid to the due diligence committee (30 June 2013: $10,900).

**Remuneration of the manager**

The roles, responsibilities and remuneration of the manager are determined by the Management Services Agreement between Precinct and the manager. All additional fees are approved by independent directors on a fair and reasonable basis. The table below sets out the various services provided by the manager and details the fees paid for those services in the period.

| Fee | Fee basis | Service provided | 30 June 2014 | 30 June 2013 |
|---|---|---|---|---|
| Base management services fee | In accordance with clause 9.2 of the MSA:<br>0.55% on the Value of Investment Property to $1 billion.<br>0.45% on the Value of Investment Property between $1 billion and $1.5 billion.<br>0.35% on the Value of Investment Property above $1.5 billion. | Overall management of Precinct to deliver on the board approved business plans, budgets and strategies. | $8.3 million | $7.5 million |
| Performance fee | In accordance with clause 9.4c of the MSA:<br>10% of quarterly outperformance of Precinct against the NZX Property Index (excluding Precinct). Limited to a cap of 0.125% of Precinct's opening market capitalisation. | Investment outperformance.<br>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. | $2.2 million | $3.4 million |

| Fee | Fee basis | Service provided | 30 June 2014 | 30 June 2013 |
|---|---|---|---|---|
| Leasing fees – new leases | In accordance with Clause 1 of Schedule 3 of the MSA: | Leasing of vacant space comprising annual rental of $7.5 million (2013: $4.8m) for a weighted average term of 5.75 years (2013: 6 years). | $1.08 million | $0.66 million |
| | a) A minimum fee of $2,500 per lease. | Precinct engages the manager and external agents to lease vacant space. | | |
| | b) For leases with an annual rental of less than $100,000, a fee equivalent to two months rental. | Where both the manager and an external agent are involved, any fee payable to an external agent reduces the fee payable to the manager so that the total fee payable by Precinct is no greater than the agreed scale of fees. | | |
| | c) For leases with a term of less than 3 years, 12% of the annual rental. | 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. | | |
| | d) For leases with a 3 year term, 13% of the rental. | During the year, Precinct and the manager agreed that fees payable for relocations of existing customers would be based on the additional term certain secured. | | |
| | e) For leases with a term exceeding three years, 13% of the annual rental plus 1% for each year or part thereof, up to a maximum of 20% of annual rental. | The scale of leasing fees paid to the manager is consistent with the scale of leasing fees paid to external agents. Fees paid by Precinct to external agents during the year totalled $1.8 million (2013: $1.6m). | | |
| | f) Incentive fees ranging from 150% to 300% of the standard scale; only payable where competing market opportunities include incentive fees. | During the year no incentive fees were payable. | | |
| Surrender Fees | In accordance with Clause 2 of Schedule 3 of the MSA:<br>A fee of 10% of the surrender payment | Surrender payments made during the period totalling $1.1 million (2013: $0.2m). | $0.11 million | $0.02 million |
| Leasing fees – renewals | In accordance with Clause 2 of Schedule 3 of the MSA. | Lease renewals over space comprising annual rental of $4.5 million (2013: $6.0m) for a weighted average term of 4.1 years (2013: 4.0 years). | $1.42 million | $0.71 million |
| | A fee of 50% to 100% of the leasing fee for new leases.<br>The board of Precinct has applied judgement to determine the fair and reasonable fee payable for lease renewals. Broadly, the board has determined that the following guidelines should apply: | | | |
| | a) 50%: where a client exercises its renewal option in accordance with the lease agreement. | | | |
| | b) 75%: where a client renegotiates the terms of the lease resulting in new documentation, but for a term materially consistent with the existing renewal term. | | | |

| *Fee* | *Fee basis* | *Service provided* | *30 June 2014* | *30 June 2013* |
|---|---|---|---|---|
| Development management fees | In accordance with Clause 6 of Schedule 3 of the MSA. | Development management fees paid in the period relate to the redevelopment of the former Central Police Station, Wellington and a fee on the refurbishment of 80 The Terrace, Wellington. | $0.37 million paid in the year. | $0.56 million paid in the year. |
| | A fee of 2.5% of the total development cost excluding land cost, incentives, marketing, and finance costs. | Overall management of the development includes co-ordination of design, construction contract tendering, management of risks, appointment of consultants. | | |
| Acquisition and disposal of properties | In accordance with Clause 5 of Schedule 3 of the MSA. | No assets were bought or sold during the year. | Nil | $1.93 million paid in the year relating to the acquisition of Downtown Shopping Centre and HSBC House. |
| | A fee of 1% of the purchase price or other consideration to be provided by the purchaser. | Managing the sale or purchase including instruction of agents, valuers and lawyers and coordination of due diligence. | | |
| | A reasonable cost recovery fee on unsuccessful acquisitions based on "time in attendance" using a reasonable hourly rate and capped at $40,000 per acquisition. | | No fees were charged in relation to unsuccessful acquisitions. | No fees were charged in relation to unsuccessful acquisitions. |
| 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. | $2.63 million | $2.10 million |
| Rent review fees | In accordance with Clause 3 of Schedule 3 of the MSA. | The manager managed the rent review process for reviews totalling annual rental of $2.8m (2013: $9.2m). The balance of rent reviews were managed by external agents. | $0.08 million. | $0.24 million. |
| | a) Where the rent does not increase because of a ratchet clause, an administration fee of $1,000 will only be payable at board discretion.<br>b) Open market reviews: 3% of the annual gross rental or 10% of the rental increase achieved. | | | |

**Management expense ratio**

| | 2014 $m | 2013 $m |
|---|---|---|
| Base management fee | $8.3 m | $7.5 m |
| Performance fee | $2.2 m | $3.4 m |
| Audit & Directors | $0.7 m | $0.6 m |
| Other expenses | $1.4 m | $1.3 m |
| **Total management expenses** | **$12.6 m** | **$12.8 m** |
| **Average total property value** | **$1,684 m** | **$1,486.1 m** |
| Management expense ratio – excluding performance fee | 62 bps | 63 bps |
| Management expense ratio | 75 bps | 86 bps |

Other fees paid to the manager outside of management expenses total $5.70 million (2013: $6.21 million) as detailed above.

**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 and CFO comprises base salary, short term incentive payments ("STI") and long term incentive payments ("LTI").



**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 earnings targets; portfolio objectives of occupancy and WALT; treasury and capital management; major leasing initiatives; client satisfaction; manager earnings targets and staff management objectives.

**LTI scheme**

The manager operates an LTI scheme under which the CEO, CFO and other senior managers 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 amounts 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 | Beneficial interest number |
|---|---|---|---|---|---|
| Scott Pritchard | CEO | 30 June 14 | $389,365 | 352,717 | 1,556,615 |
| | | 30 June 13 | $605,412 | 605,412 | 1,203,898 |
| | | 30 June 12 | $582,626 | 598,486 | 598,486 |
| George Crawford | CFO | 30 June 14 | $259,577 | 235,145 | 1,037,744 |
| | | 30 June 13 | $403,608 | 403,608 | 802,599 |
| | | 30 June 12 | $388,418 | 398,991 | 398,991 |

During the year ended 30 June 2014, the number of employees of the manager (including the CEO and CFO) who received short term remuneration with a combined total value exceeding $100,000 is set out on the following page. The amounts in this table do not include the value of shares granted under the LTI.

| *Remuneration Range* | *# Employees* |
|---|---|
| $800,001 – $850,000 | 1 |
| $650,001 – $700,000 | 1 |
| $300,001 – $350,000 | 1 |
| $250,001 – $300,000 | 3 |
| $200,001 – $250,000 | 4 |
| $100,001 – $150,000 | 6 |
| | 16 |

This annual report of Precinct Properties New Zealand Limited is dated 12 September and is signed on behalf of the board by:

*Director*

***CRAIG STOBO***
**CHAIRMAN**

*Director*

***DON HUSE***
**CHAIRMAN AUDIT & RISK COMMITTEE**


# THE NUMBERS

***PRECINCT PROPERTIES NEW ZEALAND LIMITED FINANCIAL STATEMENTS 2014***

# Statements of Comprehensive Income

*For the year ended 30 June 2014*

| | | Group | | Company | |
|---|---|---|---|---|---|
| *Amounts in $millions* | *Notes* | ***30 June 2014*** | *30 June 2013* | ***30 June 2014*** | *30 June 2013* |
| **Revenue** | | | | | |
| Gross rental income | | **165.4** | 147.7 | **–** | – |
| Less direct operating expenses | | **(47.1)** | (43.7) | **–** | – |
| **Operating income before indirect expenses** | | **118.3** | 104.0 | **–** | – |
| **Indirect expenses / (revenue)** | | | | | |
| Interest expense | | **33.4** | 28.2 | **33.4** | 28.2 |
| Interest income | | **(0.2)** | (0.2) | **(75.3)** | (66.4) |
| Other expenses | 3 | **12.6** | 12.8 | **12.5** | 12.8 |
| **Total indirect expenses / (revenue)** | | **45.8** | 40.8 | **(29.4)** | (25.4) |
| **Operating income before income tax** | | **72.5** | 63.2 | **29.4** | 25.4 |
| **Non operating income** | | | | | |
| Unrealised net gain in value of investment properties | 10 | **47.5** | 46.3 | **–** | – |
| Unrealised interest rate swap gain | | **10.9** | 13.2 | **10.9** | 13.2 |
| **Total non operating income** | | **58.4** | 59.5 | **10.9** | 13.2 |
| **Net profit before taxation** | | **130.9** | 122.7 | **40.3** | 38.6 |
| **Income tax expense / (benefit)** | | | | | |
| Current tax expense | 4 | **8.7** | 4.9 | **6.9** | 7.2 |
| Deferred tax expense / (benefit) | 4 | **5.0** | (39.7) | **3.1** | 3.7 |
| **Total taxation expense / (benefit)** | | **13.7** | (34.8) | **10.0** | 10.9 |
| **Net profit after taxation attributable to equity holders** | | **117.2** | 157.5 | **30.3** | 27.7 |
| **Total comprehensive income after income tax attributable to equity holders** | 5 & 7 | **117.2** | 157.5 | **30.3** | 27.7 |
| **Earnings per share (cents per share)** | | | | | |
| Basic and diluted earnings per share | 6 | **11.20** | 15.79 | | |
| **Other amounts (cents per share)** | | | | | |
| Operating income before current tax per share | 6 | **6.93** | 6.33 | | |
| Net operating income per share | 5 & 6 | **6.10** | 5.85 | | |



The accompanying notes on pages 54 to 77 form part of these Financial Statements.

# *Statements of Changes in Equity*

*For the year ended 30 June 2014*

| *Amounts in $millions* | *Ordinary shares* | *Retained earnings* | *Total equity* |
|---|---|---|---|
| ***Group*** | | | |
| **At 1 July 2012** | 814.7 | 62.5 | 877.2 |
| Total comprehensive income for the period | – | 157.5 | 157.5 |
| Distributions to equity holders | – | (50.9) | (50.9) |
| **At 30 June 2013** | **814.7** | **169.1** | **983.8** |
| **At 1 July 2013** | **814.7** | **169.1** | **983.8** |
| Total comprehensive income for the period | **–** | **117.2** | **117.2** |
| Issue of new shares | **61.5** | **–** | **61.5** |
| Distributions to equity holders | **–** | **(55.7)** | **(55.7)** |
| **At 30 June 2014** | **876.2** | **230.6** | **1,106.8** |
| ***Company*** | | | |
| **At 1 July 2012** | 814.7 | (289.2) | 525.5 |
| Total comprehensive income for the period | – | 27.7 | 27.7 |
| Distributions to equity holders | – | (50.9) | (50.9) |
| **At 30 June 2013** | **814.7** | **(312.4)** | **502.3** |
| **At 1 July 2013** | **814.7** | **(312.4)** | **502.3** |
| Total comprehensive income for the period | **–** | **30.3** | **30.3** |
| Issue of new shares | **61.5** | **–** | **61.5** |
| Distributions to equity holders | **–** | **(55.7)** | **(55.7)** |
| **At 30 June 2014** | **876.2** | **(337.8)** | **538.4** |



The accompanying notes on pages 54 to 77 form part of these Financial Statements.

# Statements of Financial Position

*As at 30 June 2014*

| | | Group | | Company | |
|---|---|---|---|---|---|
| *Amounts in $millions* | *Notes* | ***30 June 2014*** | *30 June 2013* | ***30 June 2014*** | *30 June 2013* |
| **Current assets** | | | | | |
| Cash and cash equivalents | | **1.7** | 3.0 | **1.7** | 3.0 |
| Fair value of interest rate swaps | | **0.1** | – | **0.1** | – |
| Debtors | 9 | **10.7** | 7.3 | **6.4** | 3.0 |
| **Total current assets** | | **12.5** | 10.3 | **8.2** | 6.0 |
| **Investment properties held for sale** | 10 | **95.6** | – | **–** | – |
| **Non-current assets** | | | | | |
| Fair value of interest rate swaps | | **6.0** | 3.8 | **6.0** | 3.8 |
| Deferred tax asset – fair value of interest rate swaps | 4 | **0.9** | 4.0 | **0.9** | 4.0 |
| Investment properties | 10 | **1,632.5** | 1,640.4 | **–** | – |
| Loan to subsidiaries | 11 | **–** | – | **1,111.3** | 1,116.1 |
| **Total non-current assets** | | **1,639.4** | 1,648.2 | **1,118.2** | 1,123.9 |
| **Total assets** | | **1,747.5** | 1,658.5 | **1,126.4** | 1,129.9 |
| **Current liabilities** | | | | | |
| Fair value of interest rate swaps | | **0.7** | 0.4 | **0.7** | 0.4 |
| Provision for tax | | **2.9** | 2.0 | **2.3** | 3.3 |
| Other current liabilities | 12 | **14.2** | 11.4 | **4.3** | 3.3 |
| **Total current liabilities** | | **17.8** | 13.8 | **7.3** | 7.0 |
| **Non-current liabilities** | | | | | |
| Interest bearing liabilities | 14 | **572.0** | 603.0 | **572.0** | 603.0 |
| Fair value of interest rate swaps | | **8.7** | 17.6 | **8.7** | 17.6 |
| Deferred tax liability – depreciation | 4 | **42.2** | 40.3 | **–** | – |
| **Total non-current liabilities** | | **622.9** | 660.9 | **580.7** | 620.6 |
| **Total liabilities** | | **640.7** | 674.7 | **588.0** | 627.6 |
| **Total equity** | | **1,106.8** | 983.8 | **538.4** | 502.3 |
| **Total liabilities and equity** | | **1,747.5** | 1,658.5 | **1,126.4** | 1,129.9 |

Signed on behalf of the Board of Precinct Properties New Zealand Limited, who authorised the issue of these financial statements on 12 August 2014.

*Director* *Director*

The accompanying notes on pages 54 to 77 form part of these Financial Statements.

# Statements of Cash Flows

*For the year ended 30 June 2014*

| Amounts in $millions | Notes | Group 30 June 2014 | Group 30 June 2013 | Company 30 June 2014 | Company 30 June 2013 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Gross rental income | 8 | **163.1** | 142.5 | **–** | – |
| Interest income | | **0.2** | 0.2 | **75.3** | 66.4 |
| Property expenses | | **(52.8)** | (40.9) | **–** | – |
| Other expenses | | **(10.0)** | (13.8) | **(14.7)** | (16.3) |
| Interest expense | | **(33.2)** | (29.3) | **(33.2)** | (27.2) |
| Income tax | | **(7.7)** | (4.5) | **(8.3)** | (5.8) |
| **Net cash inflow from operating activities** | 7 | **59.6** | 54.2 | **19.1** | 17.1 |
| **Cash flows from investing activities** | | | | | |
| Loan to subsidiaries | | **–** | – | **4.8** | (220.4) |
| Capital expenditure on investment properties | | **(35.6)** | (59.7) | **–** | – |
| Acquisition of investment properties | | **–** | (195.8) | **–** | – |
| Capitalised interest on investment property | | **(0.1)** | (2.0) | **–** | – |
| **Net cash inflow / (outflow) from investing activities** | | **(35.7)** | (257.5) | **4.8** | (220.4) |
| **Cash flows from financing activities** | | | | | |
| Loan facility drawings to fund acquisitions | | **–** | 195.8 | **–** | 195.8 |
| Loan facility drawings to fund capex | | **35.6** | 59.7 | **–** | 59.7 |
| Loan facility repayment and cancellation | | **(50.0)** | – | **(50.0)** | – |
| Other loan facility drawings[1] | | **(16.6)** | 1.0 | **19.0** | 1.0 |
| Issue of new shares[2] | | **61.5** | – | **61.5** | |
| Distributions paid to share holders | | **(55.7)** | (50.9) | **(55.7)** | (50.9) |
| **Net cash inflow / (outflow) from financing activities** | | **(25.2)** | 205.6 | **(25.2)** | 205.6 |
| **Net increase / (decrease) in cash held** | | **(1.3)** | 2.3 | **(1.3)** | 2.3 |
| Cash at the beginning of the year | | **3.0** | 0.7 | **3.0** | 0.7 |
| **Cash at the end of the year** | | **1.7** | 3.0 | **1.7** | 3.0 |

1. Loan facility drawings are net of repayments made throughout period.
2. Issue of new shares are net of issue costs.



The accompanying notes on pages 54 to 77 form part of these Financial Statements.

**1) Summary of significant accounting policies**

**The 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 issuer for the purposes of the Financial Reporting Act 1993.

These audited financial statements are those of Precinct and its subsidiaries (the 'Group').

Precinct's principal activity is investment in predominantly prime CBD office properties in New Zealand. Precinct is managed by AMP Haumi Management Limited.

**a) Measurement base**

The financial statements have been prepared on the historical cost basis except for the following:

– Financial instruments at fair value through profit or loss are measured at fair value

– Investment property is measured at fair value

**b) Statement of compliance**

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ('IFRS'). Financial statements have been prepared using the New Zealand Dollar functional and reporting currency. Financial statements have been rounded to the nearest hundred thousand dollars.

**The following standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Group for the reporting period:**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 July 2013 or later periods which the Company has not early adopted:

NZ IFRS 9 – Financial Instruments: Classification and measurement. The standard requires financial assets to be classified on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value. Precinct have not yet determined the effect, if any, on the financial statements. The first balance date this standard will be applicable for Precinct will be 30 June 2016.

**c) Basis of consolidation**

The consolidated financial statements include Precinct and its subsidiary companies. The acquisition of subsidiaries is accounted for using the acquisition method. The acquisition method of accounting involves recognising at acquisition separate from goodwill, the identifiable assets acquired, the liabilities assumed and non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities of the acquiree are measured initially at their fair values at the acquisition date.

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

**d) 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.

External, independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of 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.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

**1) Summary of significant accounting policies** (continued)

**d) Investment properties** (continued)

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 approaches used can be found in Note 2(ii).

Investment properties are derecognised when they have either been disposed of 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.

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.

Leasing fees and lease incentives are capitalised to the respective investment properties in the Statements of Financial Position and amortised over the term certain life of the lease.

**e) Development properties**

Investment properties that are being constructed or developed for future use are classified as investment properties. All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditure is capitalised. After initial recognition, development properties are stated at fair value.

**f) Revenue recognition**

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Interest income is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.



**g) 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. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to loan to subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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. The deferred tax liabilities or assets on investment property therefore reflect the anticipated depreciation clawback or loss on disposal arising on sale.

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.

**h) Goods and services tax**

The financial statements have been prepared on a GST exclusive basis, except for receivables and payables that are stated inclusive of GST.

**1) Summary of significant accounting policies** (continued)

**i) Receivables**

Receivables are recognised and carried initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectable amounts. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments of debts more than 60 days overdue are considered objective evidence of the impairment. Bad debts are written off when identified.

**j) Leasing fees**

Precinct capitalises all significant leasing fees to the respective investment property in the Statements of Financial Position and amortises them on a straight-line basis over the term certain life of the lease.

**k) Lease incentives**

Precinct capitalises all significant lease incentives to the respective investment property in the Statements of Financial Position and amortises them on a straight-line basis over the term certain life of the lease.

**l) Payables**

Payables are carried at amortised cost. They represent liabilities for goods and services provided to Precinct prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**m) Interest bearing liabilities**

Interest bearing liabilities are recognised initially at fair value less any attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the liability on an effective interest basis.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.



**n) Derivative financial instruments**

Precinct uses derivative financial instruments to manage its exposure to interest rate risks arising from operational, financing and investment activities.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are re-measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss as the financial instrument meets the criteria of a derivative.

The fair value of interest rate swaps is the estimated amount that Precinct would receive or pay to terminate the swap at the balance date, taking into account current interest rates and creditworthiness of the swap counterparties.

**o) Investments in subsidiary**

Investments in subsidiary are carried at the lower of cost and estimated recoverable amount.

**p) Derecognition of financial instruments**

Financial assets are derecognised when the right to receive cash flows from the financial assets 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.

**q) Cash and cash equivalents**

For purposes of Statements of Cash Flows, cash includes coins, notes, demand deposits and other highly liquid investments in which the group has invested as part of its day to day cash management. Cash includes current liabilities such as negative cash balances in the form of overnight bank overdrafts.

**r) Operating and finance leases**

Leases under which the Group retains substantially all the risks and rewards of ownership are classified as operating leases. All other leases are classified as finance leases.

**1) Summary of significant accounting policies** (continued)

**s) Changes in accounting policies**

The Group has adopted the following new standards and amendments to existing standards, with an initial application date of 1 July 2013:

(a) NZ IFRS 13 Fair Value Measurement: NZ IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other NZ IFRS. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other NZ IFRS. As a result, the Group has included additional disclosures in this regard (see Note 10).

In accordance with the transitional provisions of NZ IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change has had no material impact on the measurement of the Group's assets and liabilities.

**2) Significant accounting judgements, estimates and assumptions**

In applying Precinct's accounting policies, management continually evaluates 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 outlined below:

**(i) Operating lease commitments**

Precinct has entered into commercial property leases on its investment properties. Precinct has determined that it retains all significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

**(ii) Investment and development properties**

Independent valuations are used to determine the fair value of investment and development properties. The most common and accepted methods for assessing the current market value of a property are the Capitalisation and Discounted Cash Flow approaches. Each approach derives a value based on contract rentals, expected future market rentals, income void assumptions, maintenance requirements and appropriate discount rates.

The Capitalisation approach is considered a 'snapshot' view of the property's value, based on current contract and market income and an appropriate market yield or return for the particular property. Capital adjustments are then made to the value to reflect under- or over-renting, pending capital expenditure, upcoming expiries and associated lease-up costs.

Taking a more long-term investment view, the Discounted Cash Flow analysis adopts a 10-year investment horizon and makes appropriate allowances for rental income growth, leasing up on expiries, along with a terminal value at the end of the investment period. The resultant Net Present Value being a reflection of market based income and expenditure projections over the 10-year period.

In deriving a market value under each approach, all assumptions are compared, where possible, to market based evidence and transactions for properties with similar locations, condition and quality of accommodation. The adopted market value is a weighted combination of both the capitalisation and discounted cash flow approaches.

**(iii) Deferred tax assets**

As at 30 June 2014, Precinct had recognised deferred tax assets relating to the fair value of interest rate swaps. The deferred tax asset is the amount of income taxes recoverable in future periods in respect of the deductible temporary differences. In recognising this asset, management have considered the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

**(iv) Deferred tax liabilities**

As at 30 June 2014, 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 buildings components 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. Generally, Precinct has assessed that the market value of fixtures and fittings will be equal to their tax book value.

### 3) Operating profit before income tax

Operating profit before income tax has been arrived at after charging the following items:

| Amounts in $millions | Group 30 June 2014 | Group 30 June 2013 | Company 30 June 2014 | Company 30 June 2013 |
|---|---|---|---|---|
| **Other expenses** | | | | |
| Audit fees[1] | **0.2** | 0.2 | **0.2** | 0.1 |
| Directors' fees and expenses | **0.5** | 0.4 | **0.5** | 0.4 |
| Manager's base fees | **8.3** | 7.5 | **8.3** | 7.5 |
| Manager's performance fees | **2.2** | 3.4 | **2.2** | 3.4 |
| Other[2] | **1.4** | 1.3 | **1.4** | 1.4 |
| **Total other expenses** | **12.6** | 12.8 | **12.6** | 12.8 |

1. Audit fees include $133,000 for audit and review of financial statements (2013: $129,500) and $42,500 for other assurance services (2013: $36,000).
2. Other expenses includes valuation fees, share registry costs and annual report design and publication

### 4) Taxation

**Statement of Comprehensive Income**

Major components of income tax expense for the years ended 30 June 2014 and 2013 are:

| Amounts in $millions | Group 30 June 2014 | Group 30 June 2013 | Company 30 June 2014 | Company 30 June 2013 |
|---|---|---|---|---|
| Current tax expense | **8.7** | 4.9 | **6.9** | 7.2 |
| **Deferred tax expense / (benefit)** | | | | |
| Fair value of interest rate swaps | **3.1** | 3.7 | **3.1** | 3.7 |
| Depreciation – current year | **1.9** | (43.4) | **–** | – |
| **Total deferred tax expense / (benefit)** | **5.0** | (39.7) | **3.1** | 3.7 |
| **Total taxation expense** | **13.7** | (34.8) | **10.0** | 10.9 |

**4) Taxation** (continued)

**Statement of Comprehensive Income** (continued)

A reconciliation of income tax expense applicable to accounting profit before tax at statutory tax rate to tax expense at Precinct's effective tax rate for the years ended 30 June 2014 and 2013 is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 | **30 June 2014** | 30 June 2013 |
| **Net profit before taxation** | **130.9** | 122.7 | **40.3** | 38.6 |
| **At the statutory income tax rate of 28.0%** | **36.7** | 34.3 | **11.3** | 10.8 |
| Unrealised (gain) on value of investment properties | **(13.3)** | (13.0) | **–** | – |
| Disposal of depreciable assets | **(1.4)** | (2.4) | **–** | – |
| Other adjustments | **(4.9)** | (7.3) | **(4.4)** | (3.6) |
| Depreciation | **(8.4)** | (6.7) | **–** | – |
| **Current tax expense** | **8.7** | 4.9 | **6.9** | 7.2 |
| **Total deferred tax expense / (benefit)** | **5.0** | (39.7) | **3.1** | 3.7 |
| **Total taxation expense** | **13.7** | (34.8) | **10.0** | 10.9 |
| **Effective tax rate** | **10%** | –28% | **25%** | 28% |

**Statement of Financial Position**

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 | **30 June 2014** | 30 June 2013 |
| ***Deferred tax asset at 30 June relates to the following:*** | | | | |
| Revaluation of interest rate swaps to fair value | **0.9** | 4.0 | **0.9** | 4.0 |
| ***Deferred tax liability at 30 June relates to the following:*** | | | | |
| Depreciation clawback | **(42.2)** | (40.3) | **–** | – |
| **Total deferred tax asset / (liability)** | **(41.3)** | (36.3) | **0.9** | 4.0 |

Precinct has no tax losses available to carry forward as at 30 June 2014 (2013: $nil).

As at 30 June 2014, Precinct holds its properties on capital account for income tax purposes.

### 5) 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, deferred tax and other non-cash NZ IFRS adjustments.

| *Amounts in $millions* | **30 June 2014** | 30 June 2013 |
|---|---|---|
| Net profit after taxation | **117.2** | 157.5 |
| Unrealised net (gain) / loss in value of investment properties | **(47.5)** | (46.3) |
| Unrealised interest rate swap (gain) / loss | **(10.9)** | (13.2) |
| Deferred tax (benefit) / expense | **5.0** | (39.7) |
| **Net operating income** | **63.8** | 58.3 |

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

### 6) Earnings per share

Basic and diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary share holders (excluding distributions to share holders) by the weighted average number of shares outstanding during the period.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

| | ***Group*** | |
|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 |
| Net profit after tax for basic and diluted earnings per share | **117.2** | 157.5 |
| Weighted average number of shares for basic and diluted earnings per share | **1,046.6** | 997.1 |

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

Operating income before tax per share is calculated by dividing net operating income plus current tax, by the weighted average number of shares outstanding during the period.

Net operating income per share is calculated by dividing net operating income (refer Note 5) by the weighted average number of shares outstanding during the period.

These additional measures are provided to assist shareholders in assessing their returns for the year.

### 7) Reconciliation of net profit after taxation with cash inflow / (outflow) from operating activities

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 | **30 June 2014** | 30 June 2013 |
| **Net profit after taxation** | **117.2** | 157.5 | **30.3** | 27.7 |
| **Add / (less) non-cash items and non operating items** | | | | |
| Unrealised (gain) / loss in value of investment properties | **(47.5)** | (46.3) | **–** | – |
| Unrealised interest rate swap gain | **(10.9)** | (13.2) | **(10.9)** | (13.2) |
| Deferred tax (benefit) / expense | **5.0** | (39.7) | **3.1** | 3.7 |
| Amortisation of leasing costs and incentives | **6.1** | 4.3 | **–** | – |
| **Movement in working capital** | | | | |
| Increase / (decrease) in creditors | **(4.5)** | (0.1) | **(3.4)** | (1.1) |
| (Increase) / decrease in debtors | **(5.8)** | (8.3) | **–** | – |
| **Net cash inflow from operating activities** | **59.6** | 54.2 | **19.1** | 17.1 |

### 8) Reconciliation of gross rental income recognised in the statement of comprehensive income to cash flow from gross rental income

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 | **30 June 2014** | 30 June 2013 |
| Gross rental income | **165.4** | 147.7 | **–** | – |
| Less: Current year incentives | **(5.9)** | (8.7) | **–** | – |
| Add: Amortisation of incentives | **3.5** | 3.1 | **–** | – |
| Add: Working capital movements | **0.1** | 0.4 | **–** | – |
| Cash flow from gross rental income | **163.1** | 142.5 | **–** | – |



### 9) Debtors

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 | **30 June 2014** | 30 June 2013 |
| Trade debtors | **0.5** | 1.1 | **–** | – |
| Provision for doubtful debts | **(0.1)** | (0.1) | **–** | – |
| Prepaid insurance premium | **3.7** | – | **3.6** | – |
| Other debtors | **6.6** | 6.3 | **2.8** | 2.9 |
| **Total debtors** | **10.7** | 7.3 | **6.4** | 2.9 |

Debtors are reviewed for impairment on an on-going basis. A trade debtor is considered past due when the counterparty has failed to make payment when contractually due. A debtor is considered to be impaired when all amounts due according to the original terms of receivables may not be able to be collected. Doubtful debts are provided for when the debt is considered to be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows relating to the debt. The provision for doubtful debts as at 30 June 2014 and 30 June 2013 relate to trade debtors that have been outstanding for less than a year.

## 10) Investment properties

**30 June 2014**

| Amounts in $millions | Valuer | Category | Fair value hierarchy | Initial yield[2] % |
|---|---|---|---|---|
| ANZ Centre | CBRE | Office | 3 | 6.4% |
| AMP Centre | JLL | Office | 3 | 7.4% |
| 125 The Terrace | CBRE | Office | 3 | 8.7% |
| 171 Featherston Street | Bayleys | Office | 3 | 7.4% |
| No.1 and No.3 The Terrace | Colliers International | Office | 3 | 8.5% |
| No.3 The Terrace[1] | Colliers International | Office | 3 | N/A |
| PricewaterhouseCoopers Tower | JLL | Office | 3 | 6.6% |
| Pastoral House | CBRE | Office | 3 | 9.2% |
| Vodafone on the Quay | Bayleys | Office | 3 | 7.1% |
| State Insurance Tower | Colliers International | Office | 3 | 7.9% |
| Mayfair House | CBRE | Office | 3 | 8.6% |
| 80 The Terrace | Colliers International | Office | 3 | 7.2% |
| Deloitte House | Colliers International | Office | 3 | 7.9% |
| Zurich House | Colliers International | Office | 3 | 7.2% |
| Bowen Campus | Colliers International | Office | 3 | 12.7% |
| Downtown Shopping Centre | CBRE | Retail | 3 | 6.5% |
| HSBC House | CBRE | Office | 3 | 7.8% |
| **Market value (fair value) of properties** | | | | 7.5% |
| | | | | |
| SAP Tower[6] | CBRE | Office | 3 | 8.0% |
| **Market value (fair value) of investment properties held for sale** | | | | 8.0% |

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

2 Total weighted average by market value.

3 Total weighted average lease term is weighted by income.

4 Valuation gain / (loss).

5 Additions arise from subsequent expenditure recognised in the carrying amount. Disposals relate to completed sales or unconditional contracts for sale at year-end.

6 The property is currently being marketed for sale. No specific transaction has been entered into. A sale is expected to be completed within the next 12 months.

| Capitalisation rate[2] % | Occupancy % | WALT[3] years | Valuation 30 June 2013 | Capitalised incentives | Additions/ disposals[5] | Revaluation[4] 30 June 2014 | Valuation 30 June 2014 |
|---|---|---|---|---|---|---|---|
| 6.6% | 97% | 10.5 | 250.0 | (0.2) | 2.2 | **4.0** | **256.0** |
| 7.4% | 100% | 5.7 | 110.0 | 0.2 | 1.1 | **11.1** | **122.4** |
| 7.9% | 98% | 5.1 | 66.7 | (0.3) | 0.1 | **(2.7)** | **63.8** |
| 7.4% | 99% | 7.1 | 72.3 | 0.2 | 1.3 | **2.0** | **75.8** |
| 7.6% | 100% | 4.8 | 76.1 | (0.1) | 1.9 | **(5.4)** | **72.5** |
| N/A | N/A | 44.2 | 10.7 | – | – | **(0.1)** | **10.6** |
| 6.8% | 98% | 5.9 | 233.1 | 1.0 | 2.6 | **26.3** | **263.0** |
| 8.6% | 100% | 2.7 | 53.7 | (0.0) | 0.5 | **(4.7)** | **49.5** |
| 7.5% | 88% | 4.3 | 95.5 | (0.1) | 9.0 | **3.6** | **108.0** |
| 7.6% | 97% | 4.4 | 135.2 | 2.0 | 3.0 | **(3.5)** | **136.7** |
| 8.5% | 100% | 4.9 | 37.1 | 0.2 | 0.4 | **(0.2)** | **37.5** |
| 8.4% | 89% | 5.5 | 26.4 | 1.0 | 6.0 | **3.2** | **36.6** |
| 8.1% | 98% | 3.0 | 48.4 | 0.1 | 0.4 | **1.7** | **50.6** |
| 6.9% | 100% | 4.8 | 85.2 | (0.1) | 0.1 | **6.3** | **91.5** |
| 9.6% | 100% | 2.3 | 51.9 | 0.4 | 0.6 | **(3.9)** | **49.0** |
| 6.9% | 97% | 1.8 | 96.2 | 0.1 | 2.0 | **2.7** | **101.0** |
| 7.3% | 100% | 4.1 | 103.2 | 0.9 | 0.9 | **3.0** | **108.0** |
| 7.3% | 98% | 5.4 | 1,551.7 | 5.3 | 32.1 | **43.4** | **1,632.5** |
| | | | | | | | |
| 7.5% | 99% | 3.7 | 88.7 | (0.7) | 3.5 | **4.1** | **95.6** |
| 7.5% | 99% | 3.7 | 88.7 | (0.7) | 3.5 | **4.1** | **95.6** |

## 10) Investment properties (continued)

***30 June 2013***

| *Amounts in $millions* | *Valuer* | *Category* | *Fair value hierarchy* | *Initial yield[2] %* |
|---|---|---|---|---|
| ANZ Centre[6] | Colliers International | Office | 3 | 6.8% |
| SAP Tower | JLL | Office | 3 | 8.1% |
| AMP Centre | Colliers International | Office | 3 | 8.0% |
| 125 The Terrace | Bayleys | Office | 3 | 8.1% |
| 171 Featherston Street | Bayleys | Office | 3 | 8.3% |
| No.1 and 3 The Terrace | Colliers International | Office | 3 | 8.0% |
| No. 3 The Terrace[1] | Colliers International | Office | 3 | N/a |
| PricewaterhouseCoopers Tower | CBRE | Office | 3 | 6.2% |
| Pastoral House | CBRE | Office | 3 | 8.6% |
| Vodafone on the Quay | Colliers International | Office | 3 | 7.3% |
| State Insurance Tower | Bayleys | Office | 3 | 5.4% |
| Mayfair House | Colliers International | Office | 3 | 8.7% |
| 80 The Terrace | CBRE | Office | 3 | 4.5% |
| Deloitte House | Colliers International | Office | 3 | 9.1% |
| Zurich House | JLL | Office | 3 | 7.6% |
| Bowen Campus | CBRE | Office | 3 | 11.4% |
| Downtown Shopping Centre[7] | CBRE | Retail | 3 | 7.1% |
| HSBC House[8] | CBRE | Office | 3 | 8.0% |
| **Market value (fair value) of properties** | | | | 7.4% |

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

2 Total weighted average by market value.

3 Total weighted average lease term is weighted by income.

4 Valuation gain / (loss).

5 Additions arise from subsequent expenditure recognised in the carrying amount. Disposals relate to completed sales or unconditional contracts for sale at year-end.

6 Additions include $2.0m of capitalised interest. The amount of interest that is capitalised is calculated by taking the average cost of borrowing from Precinct's lenders and the cost of interest attached to the financial instruments associated with the borrowings.

7 Downtown Shopping Centre was purchased on 31 October 2012.

8 HSBC House was purchased on 17 May 2013.

9 HSBC House was valued as at 12 April 2013 (all other properties were valued at 30 June 2013). Management are of the view that there would be no change in the value if it was valued as at 30 June 2013.

Precinct's properties were valued as at 30 June 2014 by independent registered valuers Colliers International, Bayleys, JLL and CBRE. The valuations are on the basis of fair value.

| *Amounts in $millions* | ***2014*** | *2013* |
|---|---|---|
| **Breakdown of Valuation by Valuer** | | |
| Colliers International | **447.5** | 627.8 |
| JLL | **385.4** | 173.9 |
| CBRE | **711.4** | 564.5 |
| Bayleys | **183.8** | 274.2 |
| | **1,728.1** | 1,640.4 |

| Capitalisation rate[2] % | Occupancy % | WALT[3] years | Valuation 30 June 2013 | Capitalised incentives | Additions/ disposals[5] | Revaluation[4] 30 June 2013 | Valuation 30 June 2013[9] |
|---|---|---|---|---|---|---|---|
| 6.8% | 100% | 11.5 | 192.5 | 0.9 | 39.7 | 16.9 | 250.0 |
| 7.6% | 96% | 4.2 | 80.0 | 0.5 | 3.0 | 5.2 | 88.7 |
| 7.6% | 100% | 6.0 | 100.2 | (0.2) | 0.9 | 9.1 | 110.0 |
| 7.9% | 100% | 5.5 | 64.0 | 0.3 | 0.4 | 2.0 | 66.7 |
| 7.7% | 100% | 8.0 | 69.4 | 0.5 | 0.0 | 2.4 | 72.3 |
| 7.5% | 100% | 5.3 | 78.0 | 0.1 | 0.3 | (2.3) | 76.1 |
| N/a | N/a | 45.2 | 10.7 | 0.0 | 0.0 | 0.0 | 10.7 |
| 7.1% | 92% | 5.9 | 222.4 | 1.8 | 6.5 | 2.4 | 233.1 |
| 8.3% | 100% | 3.6 | 54.8 | (0.1) | 0.1 | (1.1) | 53.7 |
| 7.5% | 100% | 5.1 | 92.5 | 0.6 | 4.1 | (1.7) | 95.5 |
| 7.8% | 88% | 5.1 | 129.5 | 0.9 | 0.7 | 4.1 | 135.2 |
| 8.8% | 100% | 2.9 | 38.2 | (0.3) | 0.3 | (1.1) | 37.1 |
| 9.5% | 78% | 4.7 | 26.1 | 0.4 | 2.7 | (2.8) | 26.4 |
| 8.1% | 100% | 3.3 | 47.0 | 0.2 | 0.1 | 1.1 | 48.4 |
| 7.0% | 94% | 5.6 | 75.4 | 0.7 | 0.8 | 8.3 | 85.2 |
| 9.8% | 97% | 1.7 | 51.5 | 0.0 | 0.0 | 0.4 | 51.9 |
| 7.0% | 99% | 2.2 | – | 0.0 | 91.7 | 4.5 | 96.2 |
| 7.5% | 100% | 4.1 | – | 0.0 | 104.3 | (1.1) | 103.2 |
| 7.5% | 97% | 5.7 | 1,332.1 | 6.3 | 255.7 | 46.3 | 1,640.4 |

**10) Investment properties** (continued)

**Fair value measurement, valuation techniques and inputs**

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* | *Fair value hierarchy* | *Fair value 30-Jun-14 $M* | *Valuation techniques used* | *Inputs used to measure fair value* | *Range of significant unobservable inputs* |
|---|---|---|---|---|---|
| CBD Office & Retail | Level 3 | 1,728.1 | Income capitalisation approach, discounted cashflow analysis, sales comparison approach and residual approach | Office gross market rent per sqm | $150–$650 |
| | | | | Retail gross market rent per sqm | $210–$8,246 |
| | | | | Core capitalisation rate | 6.6%–9.6% |
| | | | | Discount rate | 8.8%–10.0% |
| | | | | Terminal capitalisation rate | 6.9%–10.1% |
| | | | | Rental growth rate per annum | (1.2%)–5.2% |

During the year there were no transfers of investment properties between levels of the fair value hierarchy.

**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 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 which calculates the 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 amount for 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. 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. |

**10) Investment properties** (continued)

The following table shows the impact on the fair value of a change in a significant unobservable input:

| *Significant inputs* | *Fair value measurement sensitivity to increase in input* | *Fair value measurement sensitivity to decrease in input* |
|---|---|---|
| Gross market rent per sqm | Increase | Decrease |
| Core capitalisation rate | Decrease | Increase |
| Discount rate | Decrease | Increase |
| Terminal capitalisation rate | Decrease | Increase |
| Rental growth rate per annum | Increase | Decrease |

**11) Investment in subsidiaries**

**Shares in subsidiaries**

Precinct owns 100 shares in each of its subsidiary companies with each parcel of 100 subsidiary shares being purchased for $100. The subsidiaries balance dates are 30 June 2014.

There were no changes in the percentage of Precinct ownership and in the balance date of the subsidiary companies. The subsidiaries are incorporated in New Zealand.

**Investment in and loan to subsidiaries**

| *Amounts in $millions* | *% Company ownership* | *Incorporation date of company* | *Subsidiary loan* | |
|---|---|---|---|---|
| | | | ***2014*** | *2013* |
| Precinct Properties Holdings Limited | 100% | 15-May-12 | **1,021.2** | 1,116.1 |
| Precinct Properties Downtown Limited | 100% | 27-Aug-13 | **90.1** | – |
| Precinct Properties Wynyard Limited | 100% | 17-Dec-13 | **–** | – |
| **Total loan to subsidiaries** | | | **1,111.3** | 1,116.1 |

The subsidiary loans are subject to individual loan facility agreements between Precinct and the subsidiaries. The interest rate of this loan is variable and is set by Precinct. The current interest rate as set by Precinct is 8% (2013: 8%).

**12) Other current liabilities**

| *Amounts in $millions* | ***Group*** ***30 June 2014*** | *30 June 2013* | ***Company*** ***30 June 2014*** | *30 June 2013* |
|---|---|---|---|---|
| Trade creditors | **3.9** | 3.2 | **0.4** | – |
| Other liabilities | **7.6** | 5.5 | **3.9** | 3.3 |
| Accrued capital expenditure | **2.7** | 2.7 | **–** | – |
| **Total other current liabilities** | **14.2** | 11.4 | **4.3** | 3.3 |

**13) Contingent liabilities**

There are no contingent liabilities as at 30 June 2014 (2013: $nil).

### 14) Interest bearing liabilities

As at 30 June 2014 Precinct has a cash advance facility with ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand Limited (BNZ), Commonwealth Bank of Australia (ASB) and Bank of Tokyo-Mitsubishi UFJ Limited (BTMU) for $610,000,000 (2013: $660,000,000). The maturity profile for the facility is as follows:

| | | Group and Company 2014 | |
|---|---|---|---|
| *Amounts in $millions* | *Maturity Date* | ***Facility*** | ***Drawn*** |
| **Loan facility 2014** | | | |
| ANZ | Jul-18 | **67.8** | **55.3** |
| ASB | Jul-18 | **67.8** | **55.3** |
| BNZ | Jul-18 | **67.8** | **55.3** |
| ANZ | Jul-17 | **67.8** | **67.8** |
| ASB | Jul-17 | **67.8** | **67.8** |
| BNZ | Jul-17 | **67.7** | **67.7** |
| ANZ | Jul-16 | **51.1** | **51.1** |
| ASB | Jul-16 | **51.1** | **51.1** |
| BNZ | Jul-16 | **51.1** | **51.1** |
| BTMU | Jul-16 | **50.0** | **49.5** |
| **Total** | | **610.0** | **572.0** |

The lenders under the loan facility 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.



Interest rates charged on the facility for the drawdown period are at the 90-day benchmark borrowing rate (BKBM) plus a margin. As at 30 June 2014 the weighted average interest rate applying to drawn amounts was 4.29% (includes margin) (2013: 3.55%). Through the use of interest rate swaps Precinct has as of 30 June 2014 effectively fixed the interest rate on $381,500,000 being 66.7% (2013: $341,500,000, 56.6%) of its total drawn amount leading to a weighted average interest rate of 5.99% (includes margin) (2013: 5.84%). The weighted average term of the swaps is 3.35 years (2013: 3.66 years).

Precinct also pays a fee for the facility which is payable quarterly to BNZ, ANZ, BTMU and ASB. Precinct also pays a facility agent fee to ANZ.

| | | Group and Company 2013 | |
|---|---|---|---|
| *Amounts in $millions* | *Maturity Date* | *Facility* | *Drawn* |
| **Loan facility 2013** | | | |
| ANZ | Jul-18 | 67.8 | 48.8 |
| ASB | Jul-18 | 67.8 | 48.8 |
| BNZ | Jul-18 | 67.7 | 48.7 |
| ANZ | Jul-17 | 67.8 | 67.8 |
| ASB | Jul-17 | 67.8 | 67.8 |
| BNZ | Jul-17 | 67.7 | 67.7 |
| ANZ | Jul-16 | 67.8 | 67.8 |
| ASB | Jul-16 | 67.8 | 67.8 |
| BNZ | Jul-16 | 67.8 | 67.8 |
| BTMU | Jul-16 | 50.0 | 50.0 |
| **Total** | | 660.0 | 603.0 |

### 15) Imputation credit account

Imputation credits available for use as at 30 June 2014 are 1,745,448 (2013: nil).

### 16) Shares issued

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in millions* | ***30 June 2014 shares*** | *30 June 2013 shares* | ***30 June 2014 shares*** | *30 June 2013 shares* |
| Shares issued | 1,059.7 | 997.1 | 1,059.7 | 997.1 |

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in millions* | *shares* | *$* | *shares* | *$* |
| **Movement in shares on issue** | | | | |
| **At 1 July 2012** | 997.1 | 814.7 | 997.1 | 814.7 |
| **At 1 July 2013** | 997.1 | 814.7 | 997.1 | 814.7 |
| Issue of Shares via Placement (9th September 2013) | 50.0 | 50.0 | 50.0 | 50.0 |
| Issue of Shares via Share Purchase Plan (10th October 2013) | 12.6 | 12.5 | 12.6 | 12.5 |
| Issue costs | – | (1.0) | – | (1.0) |
| **At 30 June 2014** | **1,059.7** | **876.2** | **1,059.7** | **876.2** |

On 9 September 2013 Precinct issued 50,000,000 shares at $1.00 per share. On 10 October 2013 Precinct issued 12,663,801 shares at $0.99 per share. Issue costs of $998,705 have been netted off the proceeds from the issues.

The total number of shares outstanding as at 30 June 2014 is 1,059,733,595 (2013: 997,069,794). The shares carry full voting rights, no redemption rights, have no par value and are subject to the terms of the constitution.

### 17) Distributions paid and proposed

The following distributions were declared and paid during the year.

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | ***30 June 2014*** | *30 June 2013* | ***30 June 2014*** | *30 June 2013* |
| Q4 2013 final distribution: 1.280 cents per share (Q4 2012: 1.260 cents per share) | **12.8** | 12.5 | **12.8** | 12.5 |
| Q1 2014 interim distribution: 1.350 cents per share (Q1 2013: 1.280 cents per share) | **14.3** | 12.8 | **14.3** | 12.8 |
| Q2 2014 interim distribution: 1.350 cents per share (Q2 2013: 1.280 cents per share) | **14.3** | 12.8 | **14.3** | 12.8 |
| Q3 2014 interim distribution 1.350 cents per share (Q3 2013: 1.280 cents per share) | **14.3** | 12.8 | **14.3** | 12.8 |
| **Total distributions paid** | **55.7** | 50.9 | **55.7** | 50.9 |
| Distribution approved subsequent to balance date | | | | |
| Q4 2014 final distribution 1.350 cents per share (Q4 2013: 1.280 cents per share) | **14.3** | 12.8 | **14.3** | 12.8 |

### 18) Commitments

Precinct has $6.6m of capital commitments as at 30 June 2014 (2013: $4.5m) relating to construction contracts.

**Operating lease commitments as lessor**

Precinct has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have remaining non-cancellable lease terms of between one and 45 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 | **30 June 2014** | 30 June 2013 |
| Within one year | **155.0** | 151.9 | **–** | – |
| After one year but not more than five years | **426.6** | 410.6 | **–** | – |
| More than five years | **235.6** | 274.1 | **–** | – |

The above rental numbers are based on contract rates as at 30 June 2014 and 30 June 2013. Actual rental amounts in the future will differ due to rent review provisions within the lease agreements. The commitments are calculated using the term certain expiry dates of lease contracts.

**Operating lease commitments as lessee**

Precinct has entered into ground leases on some of its investment property portfolio. These non-cancellable leases have remaining non-cancellable lease terms of between one and 58 years.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:



| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 | **30 June 2014** | 30 June 2013 |
| Within one year | **0.5** | 0.5 | **–** | – |
| After one year but not more than five years | **2.1** | 2.1 | **–** | – |
| More than five years | **11.0** | 11.5 | **–** | – |

The above rental numbers are based on contract rates as at 30 June 2014 and 30 June 2013. Actual rental amounts in future will differ due to rent review provisions within the lease agreements. The commitments are calculated using the term certain expiry dates of lease contracts.

### 19) 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, who is responsible for allocating resources and assessing performance of the operating segments, 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.

### 20) Related party transactions

**Manager fees**

Precinct pays AMP Haumi Management Limited a base management services fee and a performance 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 $1billion; 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.

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, 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 2014 there is a notional performance fee surplus of $nil to be carried forward to the calculation of performance fees in future quarters (2013: $nil).

For the year ended 30 June 2014 the following related party transactions occurred on an arms' length basis:

a) Precinct does not employ personnel in its own right. Under the terms of the Management Services Agreement, AMP Haumi Management Limited (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 $394,225 in 2014 (2013: $378,821).

b) Precinct pays AMP Haumi Management Limited a base management services fee. The amount paid for the year was $8,305,011 (30 June 2013: $7,466,122). An outstanding amount for Precinct of $704,331 (2013: $678,647) is payable to AMP Haumi Management Limited.



c) Precinct pays AMP Haumi Management Limited on a cost recovery basis a property and facilities management fee. The amount paid for the year was $2,628,290 (30 June 2013: $2,084,459). An outstanding amount of $nil (2013: $nil) is payable to AMP Haumi Management Limited.

d) Precinct pays AMP Haumi Management Limited a leasing fee where AMP Haumi Management Limited has negotiated leases instead of or alongside a real estate agent. The amount paid for the year was $2,697,785 (2013: $1,572,935). An outstanding amount of $nil (2013: $140,679) is payable to AMP Haumi Management Limited.

e) Precinct pays AMP Haumi Management Limited a performance fee based on Precinct's quarterly returns relative to its peers in the NZ listed property sector as measured by the NZX listed property index. The amount paid for the year was $2,163,512 (2013: $3,363,788). An amount of $nil was outstanding at 30 June 2014 (2013: $1,293,000).

f) Precinct paid AMP Haumi Management Limited as development manager total fees for the year of $371,638 (2013: $556,866). An outstanding amount of $nil at 30 June 2014 (2013: $468,497) is payable to AMP Haumi Management Limited.

g) Precinct received rental income from AMP Haumi Management Limited, AMP Capital Investors (New Zealand) Limited, National Mutual Life Association of Australasia Ltd and AMP Services (NZ) Limited, being the Manager or companies related to the manager for premises leased in PWC Centre, AMP Centre, 80 The Terrace and 171 Featherson Street. Total rent received by Precinct from these parties during the year was $3,267,710 (2013: $5,854,108). As at 30 June 2014 an amount of $31,419 (2013: $29,305) was owing to Precinct from AMP Capital Investors (New Zealand) Limited and AMP Services (NZ) Limited.

h) Precinct paid AMP Haumi Management Limited no acquisition fees during the year (2013: $1,930,000). An outstanding amount of $nil at 30 June 2014 (2013: $1,030,000) is payable to AMP Haumi Management Limited.

i) Precinct has three subsidiary loans which are subject to individual loan facility agreements with variable interest rates as set by Precinct. See note 11. The total loan to the subsidiary companies at 30 June 2014 was $1,111.3m (2013: $1,116.1m).

j) Precinct Properties Holdings Limited sold Downtown Shopping Centre to Precinct Properties Downtown Limited on 1 October 2013.

k) No related party debts have been written off or forgiven during year (2013: $nil).

**21) Capital management**

The Group's capital includes ordinary shares and retained earnings. 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 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, interest rate swaps 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.

**22) Financial risk management, objectives and policies**

Precinct's principal financial instruments, other than derivatives, comprise bank loans. The main purpose of these financial instruments is to raise finance for Precinct.

Precinct has various other financial assets and liabilities such as cash and cash equivalents, trade debtors and trade creditors, which arise directly from its operations.

Precinct also enters into derivative transactions, principally interest rate swaps. The purpose is to manage the interest rate risk arising from Precinct's operations and its sources of finance.

The main risks arising from Precinct's financial instruments are cash flow interest rate risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks as summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.



**Summary of financial instruments**

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | **30 June 2014** | 30 June 2013 | **30 June 2014** | 30 June 2013 |
| **Non-derivative financial assets** | | | | |
| **Classified as loans and receivables** | | | | |
| Cash and cash equivalents | **1.7** | 3.0 | **1.7** | 3.0 |
| Trade debtors | **0.5** | 1.1 | **–** | – |
| Loan to subsidiaries | **–** | – | **1,111.3** | 1,116.1 |
| Total non-derivative financial assets at amortised cost | **2.2** | 4.1 | **1,113.0** | 1,119.1 |
| **Non-derivative financial liabilities** | | | | |
| **At amortised cost** | | | | |
| Other current liabilities | **14.2** | 11.4 | **4.3** | 3.3 |
| Loan facility | **572.0** | 603.0 | **572.0** | 603.0 |
| Total non-derivative financial liabilities at amortised cost | **586.2** | 614.4 | **576.3** | 606.3 |
| **Derivative financial instruments** | | | | |
| **At fair value through profit or loss – held for trading** | | | | |
| Interest rates swaps | **3.3** | 14.2 | **3.3** | 14.2 |
| Total derivative financial instruments at fair value through profit or loss | **3.3** | 14.2 | **3.3** | 14.2 |

Due to the short-term nature of trade debtors and other current liabilities, variable interest rates charged on advances to subsidiaries and 90 day interest rate resets on bank loans, the carrying value of these instruments are considered to reflect their fair value at balance date.

**22) Financial risk management, objectives and policies** (continued)

**Fair value estimation**

Precinct uses various methods in estimating fair values. The methods comprise:

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

The valuation technique applied to fair value derivatives include swap models, using present value calculations. The model incorporates various observable inputs including interest rate curves and forward rates.

The following table presents the financial instruments that are measured at fair value at 30 June 2014 and 30 June 2013.

| | Group | | Company | |
|---|---|---|---|---|
| *Amounts in $millions* | ***30 June 2014*** | *30 June 2013* | ***30 June 2014*** | *30 June 2013* |
| **Assets** | | | | |
| Level 1 | **–** | – | **–** | – |
| Level 2 | | | | |
| Interest Rate Swaps (current) | **0.1** | – | **0.1** | – |
| Interest Rate Swaps (non current) | **6.0** | 3.8 | **6.0** | 3.8 |
| Level 3 | **–** | – | **–** | – |
| **Liabilities** | | | | |
| Level 1 | **–** | – | **–** | – |
| Level 2 | | | | |
| Interest Rate Swaps (current) | **0.7** | 0.4 | **0.7** | 0.4 |
| Interest Rate Swaps (non current) | **8.7** | 17.6 | **8.7** | 17.6 |
| Level 3 | **–** | – | **–** | – |

**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 and cash equivalents and trade debtors. Precinct's exposure to credit risk is equal to the fair value of the instruments.

Precinct conducts credit assessments to determine credit worthiness prior to entering into lease agreements.

In addition, receivable balances are monitored on an ongoing basis with the result that Precinct's exposure to bad debts is not significant.

With the exception of Precinct's loan to its subsidiary companies and counterparties to the interest rate swaps there is no significant concentration of credit risk and financial assets are spread amongst a number of financial institutions. Interest rate swaps counterparties may be ANZ, ASB, BNZ or Westpac. The interest rate swap counterparties have the benefit of the security trust deed in respect of Precinct's interest rate swap obligations. The maximum exposure to credit risk is disclosed in the following table.

### 22) Financial risk management, objectives and policies (continued)

The table below presents the categorisation of Precinct's financial assets as at 30 June 2014 and 30 June 2013.

**2014**

| Amounts in $millions | Group: Loans & receivables | Group: At fair value through P&L | Company: Loans & receivables | Company: At fair value through P&L |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 1.7 | – | 1.7 | – |
| Trade debtors | 0.5 | – | – | – |
| Loan to subsidiaries | – | – | 1,111.3 | – |
| Fair value of interest rate swaps | – | 6.1 | – | 6.1 |
| **Total** | 2.2 | 6.1 | 1,113.0 | 6.1 |

| Amounts in $millions | Group: Other financial liabilities | Group: At fair value through P&L | Company: Other financial liabilities | Company: At fair value through P&L |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Loan facility | 572.0 | – | 572.0 | – |
| Other current liabilities | 14.2 | – | 4.3 | – |
| Fair value of interest rate swaps | – | 9.4 | – | 9.4 |
| **Total** | 586.2 | 9.4 | 576.3 | 9.4 |

**2013**

| Amounts in $millions | Group: Loans & receivables | Group: At fair value through P&L | Company: Loans & receivables | Company: At fair value through P&L |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 3.0 | – | 3.0 | – |
| Trade debtors | 1.1 | – | – | – |
| Loan to subsidiaries | – | – | 1,116.1 | – |
| Fair value of interest rate swaps | – | 3.8 | – | 3.8 |
| **Total** | 4.1 | 3.8 | 1,119.1 | 3.8 |

| Amounts in $millions | Group: Other financial liabilities | Group: At fair value through P&L | Company: Other financial liabilities | Company: At fair value through P&L |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Loan facility | 603.0 | – | 603.0 | – |
| Other current liabilities | 11.4 | – | 3.3 | – |
| Fair value of interest rate swaps | – | 18.0 | – | 18.0 |
| **Total** | 614.4 | 18.0 | 606.3 | 18.0 |

**22) Financial risk management, objectives and policies** (continued)

**Interest rate risk**

Precinct's exposure to the risk of changes in market interest rates relates primarily to Precinct's long-term debt obligations with a floating interest rate.

Precinct's policy is to manage its interest cost using a mix of fixed and variable rate debt. Precinct's policy is to keep at least 60% of its bank borrowings at fixed rates of interest. To manage this mix in a cost-efficient manner, Precinct enters into interest rate swaps, in which Precinct agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. At 30 June 2014, after taking into account the effect of interest rate swaps, approximately 66.7 % of Precinct's bank loan is at a fixed rate of interest (2013: 56.6%).

As Precinct holds fixed rate debt there is a risk that the economic value of a financial instrument will fluctuate because of changes in market interest rates. The level of fixed debt is disclosed in Note 14 and it is acknowledged that this risk is a by-product of Precinct's attempt to manage its cash flow interest rate risk.

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

***Group & Company 2014***

| *Increase/decrease in basis points* | *Effect on profit or equity* |
|---|---|
| **+75** | **(1.4)** |
| **-25** | **0.5** |

***Group & Company 2013***

| *Increase/decrease in basis points* | *Effect on profit or equity* |
|---|---|
| +75 | (2.2) |
| -25 | 0.7 |

**22) Financial risk management, objectives and policies** (continued)

**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 instruments. The Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has bank facilities available to cover any potential shortfalls.

The tables below analyse Precinct's financial assets and liabilities (principal and interest) into relevant contracted maturity groupings based on the remaining period as at 30 June 2014 and 30 June 2013.

***2014***

| *Amounts in $millions* | ***Carrying amount*** | ***0–6 mths*** | ***6 mths–1 yr*** | ***1–2 yrs*** | ***2–5 yrs*** | ***> 5 yrs*** | ***Total contractual cashflows*** | ***Effective interest rate*** |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| **Group** | | | | | | | | |
| Trade debtors | **0.5** | **0.5** | **–** | **–** | **–** | **–** | **0.5** | |
| Cash and cash equivalents | **1.7** | **1.7** | **–** | **–** | **–** | **–** | **1.7** | |
| Interest rate swaps | **6.1** | **0.3** | **0.2** | **(0.4)** | **(2.1)** | **(0.2)** | **(2.2)** | |
| **Company** | | | | | | | | |
| Loan to subsidiaries | **1,111.3** | **–** | **–** | **–** | **–** | **1,111.3** | **1,111.3** | **8.00%** |
| Cash and cash equivalents | **1.7** | **1.7** | **–** | **–** | **–** | **–** | **1.7** | |
| Interest rate swaps | **6.1** | **0.3** | **0.2** | **(0.4)** | **(2.1)** | **(0.2)** | **(2.2)** | |



***2013***

| *Amounts in $millions* | *Carrying amount* | *0–6 mths* | *6 mths–1 yr* | *1–2 yrs* | *2–5 yrs* | *> 5 yrs* | *Total contractual cashflows* | *Effective interest rate* |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| **Group** | | | | | | | | |
| Trade debtors | 1.1 | 1.1 | – | – | – | – | 1.1 | |
| Cash and cash equivalents | 3.0 | 3.0 | – | – | – | – | 3.0 | |
| Interest rate swaps | 3.8 | – | 0.1 | (0.4) | (2.2) | (1.9) | (4.4) | |
| **Company** | | | | | | | | |
| Loan to subsidiaries | 1,116.1 | – | – | – | – | 1,116.1 | 1,116.1 | 8.00% |
| Cash and cash equivalents | 3.0 | 3.0 | – | – | – | – | 3.0 | |
| Interest rate swaps | 3.8 | – | 0.1 | (0.4) | (2.2) | (1.9) | (4.4) | |

### 22) Financial risk management, objectives and policies (continued)

**Liquidity risk** (continued)

*2014*

| *Amounts in $millions* | *Carrying amount* | *0–6 mths* | *6 mths–1 yr* | *1–2 yrs* | *2–5 yrs* | *> 5 yrs* | *Total contractual cashflows* | *Effective interest rate* |
|---|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | | |
| **Group** | | | | | | | **cashflows** | |
| Loan facility | **572.0** | **4.6** | **4.5** | **9.1** | **581.9** | **–** | **600.1** | **5.99%** |
| Interest Rate Swaps | **9.4** | **3.9** | **3.3** | **3.4** | **3.4** | **0.2** | **14.2** | |
| Other current liabilities | **14.2** | **14.2** | **–** | **–** | **–** | **–** | **14.2** | |
| **Company** | | | | | | | | |
| Loan facility | **572.0** | **4.6** | **4.5** | **9.1** | **581.9** | **–** | **600.1** | **5.99%** |
| Interest Rate Swaps | **9.4** | **3.9** | **3.3** | **3.4** | **3.4** | **0.2** | **14.2** | |
| Other current liabilities | **4.3** | **4.3** | **–** | **–** | **–** | **–** | **4.3** | |

*2013*

| *Amounts in $millions* | *Carrying amount* | *0–6 mths* | *6 mths–1 yr* | *1–2 yrs* | *2–5 yrs* | *> 5 yrs* | *Total contractual cashflows* | *Effective interest rate* |
|---|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | | |
| **Group** | | | | | | | | |
| Loan facility | 603.0 | 4.8 | 4.8 | 9.6 | 269.3 | 353.0 | 641.5 | 5.56% |
| Interest Rate Swaps | 18.0 | 3.9 | 3.4 | 5.3 | 3.8 | 1.2 | 17.6 | |
| Other current liabilities | 11.4 | 11.4 | – | – | – | – | 11.4 | |
| **Company** | | | | | | | | |
| Loan facility | 603.0 | 4.8 | 4.8 | 9.6 | 269.3 | 353.0 | 641.5 | 5.56% |
| Interest Rate Swaps | 18.0 | 3.9 | 3.4 | 5.3 | 3.8 | 1.2 | 17.6 | |
| Other current liabilities | 3.3 | 3.3 | – | – | – | – | 3.3 | |

### 23) Events after balance date

**Payment of final dividend**

On 12 August 2014 the board approved the financial statements for issue and approved the payment of a dividend of $14,306,409 (1.35 cents per share) to be paid on 18 September 2014.

**Refinancing activities**

On 12 August 2014 the board approved a refinance of Precinct's bank borrowings which extended the average duration of Precinct's bank facilities by 8 months.

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Chartered Accountants

**Independent Auditor's Report**

**To the Shareholders of Precinct Properties New Zealand Limited**

**Report on the Financial Statements**

We have audited the financial statements of Precinct Properties New Zealand Limited (the "Company") and its subsidiaries on pages 50 to 77, which comprise the statements of financial position of the Company and the group as at 30 June 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended of the Company and the Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. 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.

**Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Ernst & Young provides other assurance services to the Company and its subsidiaries. We have no other relationship with, or interest in the Company or any of its subsidiaries.

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

**Opinion**

In our opinion, the financial statements on pages 50 to 77:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the Company and the group as at 30 June 2014 and the financial performance and cash flows of the Company and the group for the year then ended.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by the Company as far as appears from our examination of those records.

Ernst + Young

12 August 2014

Auckland

# DIRECTORY

**Board**

**Directors:**
Craig Stobo – Chairman, Independent
Don Huse – Independent Director
Graeme Horsley – Independent Director
Graeme Wong – Independent Director
Chris Judd – Director
Mohammed Al Nuaimi – Director
Rob Campbell – Director

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Scott Pritchard, Chief Executive Officer
George Crawford, Chief Financial Officer
Davida Dunphy, General Counsel and Company Secretary

**Manager**
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Level 12,
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Auckland, 1010
New Zealand

**Bankers**
ANZ Bank
Bank of New Zealand
ASB Institutional Bank
Bank of Tokyo Mitsubishi UFJ. Limited

**Auditor**
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**Registrar**
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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.
- To elect to receive electronic communication.

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