NZX and media announcement – 19 February 2013

Precinct announces improved result and positive outlook

Performance for six months to 31 December 2012

Financial Performance

- Net profit after tax: $23.6 million (2011: $20.4 million), after non-cash deferred tax and interest rate swap movements
- Net operating income[1]: $26.2 million (2011: $26.6 million) or 2.63 cents per share (2011: 2.67 cents per share)
- 1.6% increase in shareholders' first-half dividend

Portfolio

- Portfolio occupancy increased to 95% (2011: 92%)
- Forty leasing transactions covering 18,000 square metres of net lettable area
- Office space leasing secured at a 2% premium to June valuations
- An overall weighted average lease term of 5.5 years (2011: 6.2 years)
- Auckland Downtown Shopping Centre acquisition
- Completion of ANZ Centre lobby

AUCKLAND: Precinct Properties New Zealand (NZX: PCT) today reported its financial results for the six months to 31 December 2012, with a net profit after-tax of $23.6 million up on $20.4 million for the same period last year.

Net operating income was $26.2 million. This was 1.5% lower than the comparative period's $26.6 million mainly due to lower occupancy, foregone income at ANZ Centre and an increase in tax expense. However, net operating income was up 6.1% on the immediately prior six month period to 30 June 2012, reflecting continued leasing momentum and the impact of the recent earnings accretive acquisitions.

With earnings now improving, Precinct will increase shareholders' first-half dividend for the first time since 2008, with a cash dividend of 2.56 cents per share (cps) up 1.6% from the previous period. The increased dividend reflects the expectation of continued positive earnings momentum in the second half of the financial year, augmenting a strong first half result.

[1] 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 provided at the end of this announcement. 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.

“It has been an active period. We are happy with the good progress we’ve made on several fronts,” Scott Pritchard, Precinct’s CEO, said. “Our new corporate identity has been greeted positively. We purchased a strategic asset strengthening our Auckland waterfront portfolio and completed the ANZ Centre lobby, a key phase of redevelopment at the site. Our relationship with the ANZ continues to build with its commitment to 4,000 square metres of office space with us in Wellington.”

“Downtown Shopping Centre in Auckland is operating ahead of expectations and the transition from Westfield has run smoothly. We have worked to make the Centre more appealing from street level and continue to look at ways to develop its brand.”

He said the key operational focus over the next year will be on leasing space in the State Insurance Tower and the AXA Centre, in Wellington. Planned departures from the latter building affects about 2% of the total space in the portfolio. The business will also be focused on advancing longer term opportunities within the portfolio at Downtown Shopping Centre, Auckland and Bowen Campus, Wellington.

During the period Precinct’s total occupancy increased to 95% with around 18,000 square metres leased. It was encouraging to see firmer market conditions reflecting leasing being secured at a 2% premium over June valuations, Mr Pritchard said

Financial Results

Precinct’s rental revenue for the six months was up 6.8% to $68.9 million compared with $64.5 million in the previous interim period. The additional revenue was principally due to rental income from the Bowen Campus and Downtown Shopping Centre acquisitions and leasing success at Zurich House (now 100% leased), offset by lower occupancy in the portfolio. Allowing for capital transactions and the ANZ Centre redevelopment, revenue was 1% higher than the previous interim period.

Property expenses for the period were $21.3 million, 10.9% higher than the previous period. The increase reflected the enlarged portfolio, as well as higher insurance costs and council rates.

Interest expense increased $1.7 million to $12.1 million reflecting investment in the ANZ Centre redevelopment and acquisitions, offset by the benefit of lower interest rates. Administrative expenses were 9.8% higher, due to higher management fees as a result of an increase in portfolio values and a higher performance fee being earned in the period.

Tax was $3.8 million compared with $3.4 million in the previous period due to a lower level of deductible leasing costs.

The fair value gain in interest rate swaps of $1.7 million compared with a $7.9 million loss for the same period last year. The reversal reflected an unwinding of interest rate swap positions and more stable interest rates.

An internal review of the 30 June 2012 valuations was undertaken. It indicated no material value movement in the period. The 31 December 2012 investment property book values were consistent with Precinct's policy of carrying investment property at fair value.

Precinct's net tangible assets (value) per share at balance date was 87.8 cents per share, down marginally from 88.0 cents per share at 30 June 2012. This reflected an increase in the provision for deferred tax on depreciation recovered.

Capital Management

Following the Downtown Shopping Centre acquisition and investment in the ANZ Centre redevelopment, Precinct's gearing increased to 33.5% (30 June 2012: 27%).

The Downtown acquisition was funded through bank debt, with Precinct securing a new $107 million tranche expiring in September 2017 and a new $53 million tranche expiring in July 2015. The $535 million facility now has a weighted average term to expiry of 3.5 years (30 June 2012: 3.2 years).

Of Precinct's drawn debt 68% (30 June 2012: 63%) was effectively fixed through the use of interest rate swaps. This results in a weighted average interest rate at 31 December 2012 including all fees of 6.2% (30 June 2012: 6.8%) and a weighted average term of 2.5 years (30 June 2012: 2.8 years)

Portfolio Performance

Following some challenging periods in previous years, particularly in Auckland, Precinct continued to increase occupancy which rose to 95%. This is reflected in a number of buildings being 100% leased including ANZ Centre and Zurich House in Auckland and Vodafone on the Quay, 171 Featherston Street and 125 The Terrace in Wellington. Auckland occupancy, which had reached a low in 2009 of under 80%, now sits at 95%.

During the period 40 leasing transactions were secured at a 2% premium to market rents adopted within the June valuations. In Auckland, office space was let at a 3% premium to June valuations while Wellington's were at a 1%

premium. Across the 18,000 square meters secured, the weighted average lease term was 6.2 years.

The key leasing achievement for the period was securing ANZ for around 4,000 square metres at Wellington's 171 Featherston Street. Other major leasing highlights in the period included:

- Two leasing transactions at AXA Centre, including one with the New Zealand Fire Service,
- Seven leasing transactions at SAP Tower, and
- Five leasing transactions at 125 The Terrace, including a lease with Telecom

At 31 December 2012 Precinct's weighted average lease term was 5.5 years compared with 5.9 years at 30 June 2012.

The investment market in Auckland and Wellington continued to improve with a number of large transactions over the period. The Wellington CBD office market was particularly active with over $400 million in sales to local and offshore investors.

The outlook for prime CBD office space also continues to firm. In Auckland a significant reduction in prime vacancy coupled with no new supply in the near term means most research houses are forecasting an increase in prime market rents of between 4 and 4.5% over 2013. This is consistent with leasing activity in Precinct's portfolio over the six month period.

Wellington leasing activity remains more subdued. Nonetheless we expect this part of the portfolio to perform well, with a scarcity of prime grade vacancies and a large number of expiries due later in 2013 and 2014.

Precinct continues to undertake seismic-related work. As previously outlined, it expects to spend between $15 million and $25 million over the next five to eight years.

In particular, seismic works at the former Central Police Station will start shortly. They are expected to cost around $3 million. Demand for structurally sound character office accommodation at this property is expected to be good. Completion is expected in December 2013.

Earnings and dividend outlook

Guidance for the 2013 financial year remains unchanged with full-year operating earnings after tax expected to be around 5.8 cents per share (before performance fees), reflecting continued positive earnings momentum in the second half of the financial year. This will be driven by the staged completion of the ANZ Centre in Auckland and the impact of the Downtown Shopping Centre acquisition.

Increasing occupancy continues to provide Precinct with the greatest opportunity to increase earnings. In the medium term the company sees good potential for market rental growth, particularly in Auckland.

Precinct shareholders will receive a second-quarter dividend of 1.28 cents per share plus imputation credits of 0.1197 cents per share. Offshore investors will receive an additional supplementary dividend of 0.054335 cents per share to offset non-resident withholding tax. The record date is 28 February 2013. Payment will be made on 14 March 2013.

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About Precinct (PCT)

Precinct is New Zealand's only specialist listed investor in prime and A-grade commercial office property. Listed on the New Zealand Exchange, PCT currently owns 16 New Zealand buildings – Auckland's PricewaterhouseCoopers Tower, ANZ Centre, SAP House, AMP Centre, Zurich House and Downtown Shopping Centre; and Wellington's State Insurance Tower, Vodafone on the Quay, 171 Featherston Street, 125 The Terrace, No. 1 and 3 The Terrace, Pastoral House, Mayfair House, 80 The Terrace, Deloitte House and Bowen Campus.

Net operating income reconciliation

	31 December 2012	31 December 2011
	$M	$M
Net profit after taxation	23.6	20.4
Unrealised net (gain) / loss in value of investment properties	-	-
Realised loss / (gain) on sale of investment properties		0.3
Unrealised interest rate swap (gain)/loss	(1.7)	7.9
Deferred tax expense/(benefit)	4.3	(2.0)
Net operating income	**26.2**	**26.6**