

NZX announcement – 17 August 2017

PCT announces full year profit of \$162.1 million

Performance summary for the twelve months ended 30 June 2017

17.3% rise in net profit after tax and 3.6% increase in dividend guidance for FY18

- Net profit after tax increased by 17.3% to \$162.1 million (2016: \$138.2 million).
- Net operating income¹ increased to \$74.7 million (2016: \$72.8 million).
- Property portfolio revaluation gain of \$77.5 million (2016: \$81.2 million).
- NTA per share increased by 6.0% to \$1.24 (2016: \$1.17).
- Full year dividend of 5.60 cps, up 3.7% (2016: 5.40 cps), representing a 90.8% payout ratio.
- Earnings guidance for FY18 net operating income of approximately 6.30 cps, with the FY18 dividend expected to lift 3.6% to 5.80 cps.

Advancing our developments

- Wynyard Quarter Stage One has been successfully completed and Bowen Campus is well underway, both projects recording a revaluation uplift.
- The as-if-complete value of Commercial Bay increased by \$88 million to \$941 million.
- Strong Commercial Bay retail launch with 46% of the retail space committed.
- Post balance date, the Crown advised its intention to lease the remaining office space at Bowen Campus increasing the office pre-commitment to 100%.

Strengthened portfolio

- Occupancy increased to 100% (June 2016: 98%).
- An extended weighted average lease term across the portfolio of 8.7 years incl. developments.
- 56 leasing transactions across 37,500 sqm of space secured during the period.
- The portfolio is now under-rented by 4.7% (June 2016: 3.6% under-rented).
- Advanced strategic focus on high levels of client service with the acquisition of a 50% interest in co-working space operator Generator.

Sustainable growth

- Reflecting development progress, gearing increased to 25.1% (30 June 2016: 14.4%).
- Also announced today, Precinct is considering issuing a subordinated convertible note.
- Post issue, committed gearing is expected to reduce supporting growth through a flexible funding option.

Note: Further information can be found within the 2017 Annual Report and results presentation. You can find these at www.precinct.co.nz/annual-report-2017

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.

Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the 12 months ended 30 June 2017 today, with net profit after tax up 17.3% to \$162.1 million (2016: \$138.2 million). A strong revaluation gain, reduced interest and tax charges and an unrealised gain on financial derivatives have all contributed to the increase in net profit after tax this year. Net operating income (distributable earnings) which adjusts for a number of non-cash items has increased from \$72.8 million to \$74.7 million over the period. On a cents per share basis, this was in line with guidance and up 2.7% to 6.17 cps (2016: 6.01 cps).

Net property income reduced to \$90.4 million (2016: \$104.5 million). Adjusting for developments and seismic repair costs, like for like net property income rose by 0.7% with Auckland increasing by 1% and Wellington flat.

As at 30 June 2017 Precinct's portfolio value increased to \$2.04 billion (2016: \$1.70 billion). This increase was due to the valuation gain and the significant development spend in the period. Precinct's net tangible assets per share at balance date increased 6% to \$1.24.

Scott Pritchard, Precinct's CEO, said "We achieved strong progress across all our activities last year. We successfully completed our Wynyard Quarter Stage One development, commenced works at Bowen Campus and achieved good progress at Commercial Bay. We saw continued gains from executing on a strategy of specialising in our city centres."

Investment portfolio metrics have remained strong in both Auckland and Wellington. Occupancy increased to 100% at year-end (2016: 98%) and the WALT increased to 8.7 years. In total 56 leasing transactions across 37,500 sqm of space were secured during the period on a WALT of 6.9 years, reinforcing this year's strong operational result.

"Demand for city centre office space remains strong with Precinct reporting 100% occupancy across its investment portfolio. With limited supply available and overall vacancy rates at record lows, we expect this strong demand for office space to continue and be further driven by continuing employment growth in the coming years. Some additional supply has been completed in the fringe of Auckland City but this has matched demand and is not expected to impact the city centre market. The city's retail market also showed high occupier demand, and rental growth, with limited new supply outside Commercial Bay. Wellington's city centre office market also strengthened with high occupier demand and rental growth and reduction in supply".

The November 2016 Kaikoura earthquake had a significant impact on the Wellington market, and revealed structural issues at Deloitte House, resulting in a value write down of \$26.1 million. This seismic event also reduced Precinct's earnings per share through lost income and seismic repair costs.

"We are pleased with our position in Auckland and Wellington. We now have a 72% and 28% holding in each market, positioning us very well as Auckland continues to grow. Consistent with our strategy to develop strong client relationships though a focus on providing high levels of service, we acquired a 50% stake in Generator the co-working and shared office space provider, which was recently appointed to operate the Innovation Precinct at Wynyard Quarter".

Development progress

Precinct has achieved a number of development milestones over the last 12 months including the completion of Wynyard Quarter Stage One. On practical completion the development was 100% leased. The development has provided Precinct with a high-quality asset with a WALT of 10 years providing a development profit of \$16 million.

Significant progress at Commercial Bay has also been made with 66% of the office tower now being pre-committed, up from 60% last year. In the period we secured a further 4,000 sqm of space. Achieving an unconditional agreement to acquire Queen Elizabeth Square in December 2016 provided additional certainty to launch the retail leasing, with commitments being secured over 46% of the retail space. The retail precinct continues to attract high interest.

Pleasingly, the as-if-complete value of Commercial Bay increased by \$88 million to \$941 million. This increase was driven by leasing success, higher rental levels and in recognition of the quality of the development. Forecast development profit¹ has increased to \$213 million and once complete the project is now expected to deliver a return on cost² of around 30%. Forecast development profit¹ from both Bowen Campus and Commercial Bay has increased to around \$240 million of which approximately \$160 million remains to be recognised in future years.

¹ Development profit is calculated as independently assessed as-if-complete value less forecast total project cost.

² Return on cost is development profit divided by forecast total project cost.

Commercial Bay remains on track for overall completion by mid 2019. The opening of the retail component has now been split into two phases with phase one, comprising around 20% of the retail, planned to open earlier than previously indicated in mid 2018. The opening date for the balance of the retail is now programmed for late Q1 2019.

The updated retail opening plan is not expected to materially impact the cost or returns to Precinct. Based on site progress to date, the revised opening plan is expected to mitigate risk from construction delays and help ensure a successful opening. We retain a positive working relationship with our main contractor and remain comfortable with the provisions of the fixed price construction contract. The project yield on cost remains unchanged at 7.5%.

Post balance date, the Crown has advised its intention to lease the remaining office space at Bowen Campus, increasing the office pre-commitment to 100%. Construction works continue to progress in line with expectations.

Senior management changes

In the period we were pleased to announce the appointment of Richard Hilder, formerly Precinct's General Manager of Finance, to lead the finance function in the role of Chief Financial Officer. Richard has been with the business for seven years. We look forward to his ongoing contribution. In addition and reflecting the increased activity of the business, Kym Bunting, Precinct's General Manager of Property, was appointed to the newly created role of General Manager of Transactions. Precinct's Chief Operating Officer, George Crawford will increase his commercial management responsibilities, assuming leadership of the property team and responsibility for performance of the investment portfolio.

Convertible note

Precinct has today announced that it is considering making an offer of up to \$150 million of four year, fixed rate, subordinated convertible notes ("Notes") to institutional and New Zealand retail investors. The offer is expected to consist of a Priority Offer to eligible New Zealand resident Precinct retail shareholders, as well as a General Offer. The Notes are expected to be listed on the NZX Main Board.

Precinct has pre-funded its extensive existing development pipeline, including Commercial Bay. However it is considering issuing the Notes to provide the company flexibility to pursue prudently other projects, should they arise.

The conversion price to convert the Notes into Precinct ordinary shares ("Shares") will be set at the lesser of:

- A fixed price per Share ("Conversion Price Cap"); and
- A 2% discount to the 20-day volume weighted average price ("Market Price").

Precinct may elect instead to pay a cash amount to Noteholders at the end of the term rather than converting the Notes into Shares. In this case, Noteholders would be paid an amount equal to the market price (as described above) of all the Shares that would have otherwise been issued on conversion of their Notes, so that they receive an equivalent value to those Shares and similarly benefit from the 2% discount and share price appreciation above the maximum conversion price.

It is expected that full details of the offer will be released later in August, when the offer is expected to open. Post issue, we expect to further diversify our funding sources and reduce our leverage, providing Precinct with the capacity to consider future opportunities.

First NZ Capital Securities Limited and Forsyth Barr Limited have been appointed as Joint Lead Arrangers and ANZ Bank New Zealand Limited and Deutsche Craigs Limited have been appointed Joint Lead Managers for the proposed offer. Investors can register their interest in the offer by contacting the Joint Lead Arrangers, Joint Lead Managers, or their usual financial advisor. Indications of interest will not constitute an obligation or commitment of any kind. No money is currently being sought and applications for the Notes cannot currently be made. If Precinct offers the Notes, the offer will be made in accordance with the Financial Markets Conduct Act 2013.

2017 Dividend payment

Precinct shareholders will receive a final dividend of 1.5605 cents per share plus imputation credits of 0.1605 cents per share. Offshore investors will receive an additional supplementary dividend of 0.07281 cents per share to offset non-resident withholding tax. The record date is 15 September 2017. Payment will be made on 28 September 2017.

Outlook and guidance

The board expects full year earnings for the 2018 financial year of approximately 6.30 cps, before performance fees and expects to pay a dividend of 5.80 cps. This represents a 3.6% increase in dividend to shareholders. It reflects confidence that the business is on track to deliver sustained growth in earnings through completion of its current development pipeline.

Over the year the company has enjoyed favourable occupier markets, continued good gains in Wellington in spite of the setbacks from the Kaikoura earthquake and built a strong position to benefit from growth in Auckland. It has been a positive year, moving to a more mature development phase that will continue to support future earnings and dividend growth.

We are positive about New Zealand's economy, in particular Auckland's, with its population growth, tourism and construction activity. We remain confident in the earnings guidance provided to the market during the past 3 years and in the value that will be created from the committed developments. As the company executes its strategy and development risks such as cost, programme and leasing are reduced, it is anticipated that dividends will grow further.

We look forward to delivering more of our long term strategy over the next 12 months.

Ends

Further financial information can be found within the 2017 Annual Report. You can find these at www.precinct.co.nz/annual-report-2017

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About Precinct (PCT)

Precinct is New Zealand's only listed city centre specialist investing predominately in premium and A-grade commercial office property. Listed on the NZX Main Board, PCT currently owns 15 New Zealand buildings – Auckland's PwC Tower, AMP Centre, ANZ Centre, Zurich House, HSBC House, Mason Brothers Building, 12 Madden Street and Commercial Bay; and Wellington's State Insurance Building, 157 Lambton Quay, No. 1 and No. 3 The Terrace, Pastoral House, Mayfair House, Deloitte House and Bowen Campus.

Note 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 below. 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.

Reconciliation of net operating income

Amounts in millions	2017	2016
Net profit after taxation	162.1	138.2
Unrealised net (gain)/loss in value of investment properties	(77.5)	(81.2)
Net realised loss on sale of investment properties	0.0	2.7
Unrealised net loss/(gain) on financial instruments	(11.8)	16.4
Depreciation recovered on sale	0.0	10.0
Deferred tax expense/(benefit)	1.9	(13.3)
Net operating income	74.7	72.8