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PRECINCT PROPERTIES NEW ZEALAND LIMITED
FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

Consolidated statement of comprehensive income

For the six months ended 31 December 2018

<i>Amounts in \$millions unless otherwise stated</i>	<i>Notes</i>	<i>Unaudited six months ended 31 December 2018</i>	<i>Unaudited six months ended 31 December 2017</i>	<i>Audited year ended 30 June 2018</i>
Revenue				
Gross property income from rentals		50.8	51.7	103.2
Gross property income from expense recoveries		13.8	14.0	27.5
Less direct operating expenses		(17.3)	(18.1)	(35.4)
Operating income before indirect expenses		47.3	47.6	95.3
Indirect expenses / (revenue)				
Interest expense		1.8	1.8	2.5
Interest income		(0.3)	(0.2)	(0.3)
Other expenses	7	7.7	5.1	10.2
Total indirect expenses / (revenue)		9.2	6.7	12.4
Operating income before income tax		38.1	40.9	82.9
Non operating income / (expenses)				
Unrealised net gain / (loss) in value of investment and development properties	6	-	(14.7)	208.7
Unrealised net gain / (loss) on financial instruments		(12.6)	(6.9)	(11.1)
Net realised gain / (loss) on sale of investment properties	6	(1.9)	-	-
Total non operating income / (expenses)		(14.5)	(21.6)	197.6
Net profit before taxation		23.6	19.3	280.5
Income tax expense / (benefit)				
Current tax expense		0.4	2.7	6.3
Depreciation recovered on sale		10.7	-	-
Deferred tax expense / (benefit) - financial instruments		(2.5)	(1.6)	(3.0)
Deferred tax expense / (benefit) - depreciation		(10.4)	0.0	20.0
Total taxation expense / (benefit)		(1.8)	1.1	23.3
Share of profit or (loss) of joint ventures		(0.8)	(0.5)	(2.3)
Net profit after income tax attributable to equity holders		24.6	17.7	254.9

<i>Amounts in \$millions unless otherwise stated</i>		<i>Unaudited six months ended 31 December 2018</i>	<i>Unaudited six months ended 31 December 2017</i>	<i>Audited year ended 30 June 2018</i>
	<i>Notes</i>			
Other comprehensive income / (expense)				
Items that will not be reclassified to profit or loss				
Credit risk adjustments on financial liabilities designated at fair value through profit or loss		1.2	-	-
Tax on items transferred directly to/(from) equity		(0.3)	-	-
Total other comprehensive income / (expense)		0.9	-	-
Total comprehensive income after tax attributable to equity holders				
		25.5	17.7	254.9
Earnings per share (cents per share)				
Basic and diluted earnings per share	8	2.03	1.46	21.05
Other amounts (cents per share)				
Operating income before income tax per share		3.15	3.38	6.85
Net operating income per share	12	3.11	3.15	6.32

The accompanying notes on pages 07 to 17 form part of these Financial Statements

Consolidated statement of changes in equity

For the six months ended 31 December 2018

Amounts in \$millions unless otherwise stated	Cents per share	Shares (m)	Ordinary shares	Retained earnings	Total equity
At 1 July 2017		1,211.1	1,046.7	458.9	1,505.6
Profit after income tax for the period				17.7	17.7
Other comprehensive income for the period				-	-
Distributions					
FY17 Q4 final (paid 28 Sep 2017)	1.40			(17.0)	(17.0)
FY18 Q1 interim (paid 1 Dec 2017)	1.45			(17.6)	(17.6)
At 31 December 2017		1,211.1	1,046.7	442.0	1,488.7
Profit after income tax for the period				237.2	237.2
Other comprehensive income for the period				-	-
Distributions					
FY18 Q2 interim (paid 23 Mar 2018)	1.45			(17.6)	(17.6)
FY18 Q3 interim (paid 8 Jun 2018)	1.45			(17.6)	(17.6)
At 30 June 2018		1,211.1	1,046.7	644.0	1,690.7
Profit after income tax for the period				24.6	24.6
Other comprehensive income for the period				0.9	0.9
Distributions					
FY18 Q4 final (paid 28 Sep 2018)	1.45			(17.6)	(17.6)
FY19 Q1 interim (paid 3 Dec 2018)	1.50			(18.1)	(18.1)
At 31 December 2018		1,211.1	1,046.7	633.8	1,680.5

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

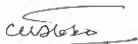
The accompanying notes on pages 07 to 17 form part of these Financial Statements

Consolidated statement of financial position

As at 31 December 2018

Amounts in \$millions	Notes	Unaudited six months ended 31 December 2018	Audited year ended 30 June 2018
Current assets			
Cash		5.4	2.9
Debtors and other current assets		8.5	7.4
Total current assets		13.9	10.3
Investment properties held for sale			
	6	-	191.2
Non current assets			
Fair value of derivative financial instruments	11	20.7	18.2
Other assets		0.7	5.1
Investment in joint ventures		10.9	11.2
Development properties	6	874.3	838.1
Investment properties	6	1,604.4	1,487.6
Total non current assets		2,511.0	2,360.2
Total assets		2,524.9	2,561.7
Current liabilities			
Fair value of derivative financial instruments	11	0.9	0.9
Provision for tax		8.1	1.1
Accrued development capital expenditure		16.8	20.7
Other current liabilities	9	23.3	13.4
Total current liabilities		49.1	36.1
Non current liabilities			
Interest bearing liabilities	10	725.8	761.7
Fair value of derivative financial instruments	11	41.8	32.9
Deferred tax liability		27.7	40.3
Total non current liabilities		795.3	834.9
Total liabilities		844.4	871.0
Total equity		1,680.5	1,690.7
Total liabilities and equity		2,524.9	2,561.7

Signed on behalf of the Board of Precinct Properties New Zealand Limited, who authorised the issue of these financial statements on 18 February 2019.



CRAIG STOBO

CHAIRMAN



DON HUSE

CHAIRMAN AUDIT & RISK COMMITTEE

The accompanying notes on pages 07 to 17 form part of these Financial Statements

Consolidated statement of cash flows

For the six months ended 31 December 2018

Amounts in \$millions	Unaudited six months ended 31 December 2018	Unaudited six months ended 31 December 2017	Audited year ended 30 June 2018
Cash flows from operating activities			
Gross rental income per statement of comprehensive income	64.6	65.7	130.7
Less: Current year incentives	(1.2)	(3.6)	(3.8)
Add: Amortised incentives	2.0	2.2	4.3
Add: Working capital movements	(2.5)	(0.3)	(1.2)
Cash flow from gross rental income	62.9	64.0	130.0
Interest income	0.3	0.2	0.3
Property expenses	(17.9)	(19.8)	(37.4)
Other expenses	(7.8)	(4.9)	(10.1)
Interest expense	(1.8)	(4.5)	(4.4)
Income tax	(4.2)	(1.5)	(3.5)
Net cash inflow / (outflow) from operating activities	31.5	33.5	74.9
Cash flows from investing activities			
Capital expenditure on investment properties	(36.0)	(7.9)	(17.5)
Capital expenditure on development properties	(84.4)	(123.7)	(245.7)
Capital expenditure on other assets	(0.1)	(0.7)	(3.0)
Investment in and advances to joint ventures	(0.5)	(2.5)	(8.5)
Disposal of investment properties	188.1	-	-
Capitalised interest on investment properties	(0.7)	-	-
Capitalised interest on development properties	(18.7)	(14.2)	(31.2)
Net cash inflow / (outflow) from investing activities	47.7	(149.0)	(305.9)
Cash flows from financing activities			
Loan facility drawings to fund capital expenditure	120.4	132.3	266.2
Other loan facility drawings / (repayments) ¹	(161.4)	(134.0)	(117.0)
Loan facility cancellations	-	(100.0)	(100.0)
Issue of convertible notes	-	150.0	150.0
Issue of senior secured bonds	-	100.0	100.0
Distributions paid to share holders	(35.7)	(34.5)	(69.6)
Net cash inflow / (outflow) from financing activities	(76.7)	113.8	229.6
Net increase / (decrease) in cash held	2.5	(1.7)	(1.4)
Cash at the beginning of the period	2.9	4.3	4.3
Cash at the end of the period	5.4	2.6	2.9

The accompanying notes on pages 07 to 17 form part of these Financial Statements

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

Notes to the financial statements

For the six months ended 31 December 2018

1. Reporting entity

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

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

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

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

2. Basis of preparation

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

The financial statements have been prepared:

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

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

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

These interim financial statements should be read in conjunction with the financial statements and related notes included in Precinct's Annual Report for the year ended 30 June 2018.

From 1 July 2018 Precinct has adopted NZ IFRS 9 - Financial Instruments and NZ IFRS 15 - Revenue from Contracts with Customers which are effective for annual reporting periods beginning on or after 1 January 2018.

NZ IFRS 9 requires Precinct to present in other comprehensive income the fair value gains and losses attributable to changes in Precinct's own credit risk for financial liabilities designated and measured at fair value through profit or loss. Comparatives have not been restated in accordance with the transition requirements. The credit risk adjustment presented in other comprehensive income for the period ended 31 December 2018 was \$0.9 million (after tax).

NZ IFRS 9 requires the use of a forward-looking expected credit loss model to determine impairment provisioning on trade receivables. Precinct has concluded that the impact of the expected credit loss model is not material for the interim financial statements.

NZ IFRS 15 is based on the principal that revenue is recognised when control of a good or service transfers to a customer. This standard is not applicable to rental income which makes up the majority of Precinct's revenue, however it does apply to operating expense recovery income. Precinct has separately identified the significant performance obligations and revenue streams within gross property income from rentals and gross property income from expense recoveries. Precinct has determined that the impact of this standard is not material, hence, no cumulative opening balance adjustment is required for the interim financial statements.

Notes to the financial statements (continued)

For the six months ended 31 December 2018

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

NZ IFRS 16 - Leases (effective for annual periods beginning on or after 1 January 2019).

Lessor reporting

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

Lessee reporting

Whilst the majority of Precinct's buildings are freehold, Precinct is a lessee under an occupational ground lease in relation to the basement walkway at AON Centre. NZ IFRS 16 requires lessee's to recognise a 'right-of-use' asset representing the fair value of the occupational ground lease and a lease liability reflecting the present value of future lease payments for the occupational ground lease. Precinct has assessed the financial impact of this change and it is not expected to be material. There will be no change to the cash flows recognised as a result of the adoption of the new standard. Precinct has elected to apply a modified retrospective method in adopting NZ IFRS 16.

3. Fair value estimation

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

- Level 1 - Quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (by price) or indirectly (derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. Significant accounting judgements, estimates and assumptions

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

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

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

i. Investment and development properties

ii. Deferred tax assets and deferred tax liabilities

iii. Cross currency interest rate swaps and USPP notes

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

5. Significant events and transactions during the period

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

i. Sale of 10 Brandon Street, Wellington

On 20 August 2018 10 Brandon Street, Wellington was sold for \$10.2 million resulting in a loss on sale of \$0.4 million.

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

On 31 October 2018 a 50% interest in the ANZ Centre, Auckland was sold for \$181.0 million resulting in a loss on sale of \$1.5 million.

Notes to the financial statements (continued)

For the six months ended 31 December 2018

6. Investment and development properties

Market value (fair value) - amounts in \$millions	Valuer ¹	Valuation 30 June 2018	Capitalised incentives	Additions / ² disposals	Revaluation gain / (loss)	Book value 31 December 2018
Investment properties³						
Auckland						
AMP Centre	CBRE	179.0	0.3	1.8	-	181.1
ANZ Centre (50%)	JLL	181.0	(0.4)	0.7	-	181.3
HSBC House	JLL	91.0	(0.2)	9.5	-	100.3
PwC Tower	CBRE	376.0	(0.8)	0.4	-	375.6
Zurich House	JLL	106.0	(0.3)	0.3	-	106.0
Mason Bros. ⁴	Colliers	42.1	(0.1)	-	-	42.0
12 Madden Street ⁴	Colliers	76.7	0.0	0.2	-	76.9
Wellington						
Dimension Data House	Colliers	118.3	0.1	0.8	-	119.2
Mayfair House	Colliers	44.4	(0.1)	(0.1)	-	44.2
No.1 and 3 The Terrace	Bayleys	67.0	(0.1)	8.2	-	75.1
No. 3 The Terrace ⁵	CBRE	11.6	-	-	-	11.6
Pastoral House	Colliers	45.0	0.0	1.3	-	46.3
AON Centre	Bayleys	149.5	0.8	6.2	-	156.5
Charles Fergusson Building ⁶	Colliers	-	-	88.3	-	88.3
Investment properties		1,487.6	(0.8)	117.4	-	1,604.4
Properties held for sale³						
ANZ Centre (50%) ⁷	JLL	181.0	-	(181.0)	-	-
10 Brandon Street ⁸	N/A	10.2	-	(10.2)	-	-
Properties held for sale		191.2	-	(191.2)	-	-
Development properties³						
Commercial Bay	JLL	648.0	0.3	92.1	-	740.4
Bowen Campus Stage One ⁶	Colliers	178.6	-	(65.3)	-	113.3
Bowen Campus Stage Two	Colliers	11.5	-	2.0	-	13.5
10 Madden Street	N/A	-	-	7.1	-	7.1
Development properties		838.1	0.3	36.0	-	874.3

1 30 June 2018 valuer.

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

3 All properties are categorised as level 3 in the fair value hierarchy. All properties are CBD office properties with the exception of Commercial Bay, Bowen Campus (Bowen State Building and Stage Two) and 10 Madden Street which are under development.

4 Mason Bros. and 12 Madden Street are both subject to a pre-paid ground lease for 125 years.

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

6 Subsequent to practical completion of the Charles Fergusson Building on 19 December 2018 the value was transferred from development properties to investment properties.

7 On 31 October 2018 a 50% interest in the ANZ Centre was sold for \$181.0 million resulting in a loss on sale of \$1.5 million.

8 On 20 August 2018 10 Brandon Street was sold for \$10.2 million resulting in a loss on sale of \$0.4 million.

7. Other expenses

<i>Amounts in \$millions</i>	<i>Unaudited six months ended 31 December 2018</i>	<i>Unaudited six months ended 31 December 2017</i>	<i>Audited year ended 30 June 2018</i>
Other expenses			
Audit fees	0.1	0.1	0.2
Directors' fees and expenses	0.4	0.3	0.5
Manager's base fees	4.1	4.0	8.0
Manager's performance fees	2.1	-	-
Other ¹	1.0	0.7	1.5
Total other expenses	7.7	5.1	10.2

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

8. Earnings per share

<i>Amounts in \$millions</i>	<i>Unaudited six months ended 31 December 2018</i>	<i>Unaudited six months ended 31 December 2017</i>	<i>Audited year ended 30 June 2018</i>
Net profit after tax for basic and diluted earnings per share (\$millions)	24.6	17.7	254.9
Weighted average number of shares for basic and diluted earnings per share (millions)	1,211.1	1,211.1	1,211.1

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

9. Other current liabilities

<i>Amounts in \$millions</i>	<i>Notes</i>	<i>Unaudited six months ended 31 December 2018</i>	<i>Audited year ended 30 June 2018</i>
Other current liabilities			
Trade creditors		3.2	3.7
Liquidated damages	14	15.4	-
Accrued expenses		4.7	9.7
Total other current liabilities		23.3	13.4

Notes to the financial statements (continued)

For the six months ended 31 December 2018

10. Interest bearing liabilities

Amounts in \$millions	31 December 2018	30 June 2018
Interest bearing liabilities		
Bank loans	287.5	328.5
US private placement	97.9	97.9
NZ senior secured bond	175.0	175.0
Convertible note	150.0	150.0
Total drawn debt	710.4	751.4
US private placement - fair value adjustments	16.6	15.0
Convertible note - embedded financial derivative adjustment	5.7	1.6
Capitalised borrowing costs	(6.8)	(6.3)
Net interest bearing liabilities	725.8	761.7

Breakdown of borrowings:

Amounts in \$ millions	Held at	Maturity ¹	Coupon ¹	31 December 2018	30 June 2018
Bank loans	Amortised cost	Nov-20	Floating ²	287.5	328.5
Bank loans	Amortised cost	Jul-22	Floating ²	-	-
Bank loans	Amortised cost	Jul-23	Floating ²	-	-
NZ senior secured bond (PCT010)	Amortised cost	Dec-21	5.54%	75.0	75.0
NZ senior secured bond (PCT020)	Amortised cost	Nov-24	4.42%	100.0	100.0
Convertible note (PCTHA)	Amortised cost	Sep-21	4.80%	150.0	150.0
US private placement	Fair value	Jan-25	4.13%	76.4	75.5
US private placement	Fair value	Jan-27	4.23%	38.0	37.4
Total				726.9	766.4

Weighted average term to maturity	3.6 years	3.3 years
Weighted average interest rate before swaps (including funding costs)	4.08%	4.04%

¹ As at 31 December 2018

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

Precinct has committed funding of \$1,182.9 million (June 2018: \$1,182.9 million) including the NZ senior secured bonds, convertible note and US private placement.

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

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

Accounting policy - interest bearing liabilities

Bank loans and the NZ senior secured bonds are recognised initially at fair value less any attributable transaction costs. Subsequent to initial recognition, these liabilities are stated at amortised cost using the effective interest method. The US private placement is recognised at fair value including translation to NZD with any gains or losses recognised in the profit or loss as they arise. This fair value is determined using swap models and present value techniques with observable inputs such as interest rate and cross-currency curves. This measurement falls into level 2 of the fair value hierarchy.

The convertible note embedded financial derivative is recognised at fair value with any gains or losses recognised in the profit or loss as they arise. This fair value is determined using the black-scholes model with observable inputs such as Precinct's share price and its historic standard deviation, the convertible note strike price and the risk free rate. The movement in fair value attributable to changes in Precinct's own credit risk is calculated by determining the changes in credit spreads above observable market interest rates and is recognised in other comprehensive income. This measurement falls into level 2 of the fair value hierarchy.

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

11. Derivative financial instruments

Amounts in \$millions	31 December 2018	30 June 2018
Fair value of derivative financial instruments		
Current assets	-	-
Non-current assets ¹	20.7	18.2
Current liabilities	(0.9)	(0.9)
Non-current liabilities	(41.8)	(32.9)
Total	(22.0)	(15.6)
Notional contract cover (fixed payer)	945.0	1,085.0
Notional contract cover (fixed receiver)	325.0	325.0
Notional contract cover (cross currency swaps - fixed receiver)	97.9	97.9
Percentage of net drawn borrowings fixed	81.6%	84.5%
Weighted average term to maturity (fixed payer)	3.99 years	3.77 years
Weighted average interest rate after swaps (including funding costs)	5.41%	5.27%

¹ This includes the cross currency interest rate swap valuation of \$14.6 million (June 2018: \$11.8 million) and a net credit value adjustment of \$0.7 million (June 2018: \$0.6 million).

Notes to the financial statements (continued)

For the six months ended 31 December 2018

Accounting policy - derivative financial instruments

Precinct uses derivative financial instruments (interest rate and cross currency swaps) to manage its exposure to interest rate and foreign exchange risks arising from operational, financing and investment activities. Derivative financial instruments are recognised initially at fair value and subsequently re-measured and carried at fair value. They are carried as assets when the fair value is positive and liabilities when the fair value is negative. The gain or loss on re-measurement to fair value is recognised directly in profit or loss.

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

12. Reconciliation of net profit after tax to net operating income

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

<i>Amounts in \$millions unless otherwise stated</i>	<i>Unaudited six months ended 31 December 2018</i>	<i>Unaudited six months ended 31 December 2017</i>	<i>Audited year ended 30 June 2018</i>
Net profit after taxation	24.6	17.7	254.9
Unrealised net (gain) / loss in value of investment and development properties	-	14.7	(208.7)
Unrealised net (gain) / loss on financial instruments	12.6	6.9	11.1
Net realised (gain) / loss on sale of investment properties	1.9	-	-
Depreciation recovered on sale	10.7	-	-
Deferred tax (benefit) / expense	(12.9)	(1.6)	17.0
Share of (profit) / loss of joint ventures	0.8	0.5	2.3
Net operating income	37.7	38.2	76.6
Weighted average number of shares for net operating income per share (millions)	1,211.1	1,211.1	1,211.1
Net operating income per share (cents)	3.11	3.15	6.32

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

Dividend policy

Precinct's dividend policy is to pay out approximately 90% of net operating income after tax as dividends, with the retained earnings being used to fund the capital expenditure required to maintain the quality of Precinct's property portfolio. The payment of dividends is not guaranteed by Precinct and Precinct's dividend policy may change from time to time.

13. Capital commitments

Precinct has \$361.4 million of capital commitments as at 31 December 2018 (June 2018: \$233.6 million; December 2017: \$303.8 million) relating to construction contracts.

14. Contingencies

a) Contingent liabilities

There are no contingent liabilities as at 31 December 2018 (June 2018: \$nil; December 2017: \$nil).

b) Contingent assets

Included within the Fletcher Construction Company Limited (FCC) construction contract for Commercial Bay is the right to liquidated damages if certain milestones are not met. To date Precinct has withheld \$15.4 million from payments to FCC for liquidated damages. The amounts withheld have been recognised as part of current liabilities (refer note 9) as ultimate recovery is not able to be considered virtually certain due to the fact that Precinct's right to retain these liquidated damages could be disputed by FCC.

Additional future costs expected to be incurred by Precinct due to delays in Commercial Bay are expected to be covered by liquidated damages.

There are no other significant contingencies as at 31 December 2018 (June 2018: \$nil; December 2017: \$nil).

15. Related party transactions

Fees charged by and owing to the manager:

<i>Amounts in \$ millions</i>	<i>31 December 2018</i>		<i>31 December 2017</i>		<i>30 June 2018</i>	
	<i>Fees charged</i>	<i>Owing at 31 December</i>	<i>Fees charged</i>	<i>Owing at 31 December</i>	<i>Fees charged</i>	<i>Owing at 30 June</i>
Base management services fee	4.1	0.7	4.0	0.7	8.0	0.7
Performance fee	2.1	-	-	-	-	-
Leasing fees	2.8	-	1.6	1.2	2.6	0.9
Development manager fees	3.4	-	1.2	-	3.4	0.9
Acquisition and disposal fees	-	-	-	-	0.5	0.5
Property and facilities management fee	1.9	-	1.5	-	3.0	-
Total	14.3	0.7	8.3	1.9	17.5	3.0

a) Base management services fee

The base management services fee structure is as follows:

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

Notes to the financial statements (continued)

For the six months ended 31 December 2018

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

b) Performance fee

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

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

No performance fee is payable in quarters where equity total returns are negative. As at 31 December 2018 there is a notional performance fee deficit of \$1,965,171 to be carried forward to the calculation of performance fees in future quarters (June 2018: \$918,083 deficit; December 2017: \$1,113,039 deficit).

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

c) Leasing fees

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

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

d) Development manager fees

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

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

e) Acquisition and disposal fees

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

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

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

f) Property and facilities management fee

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

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

g) Other transactions with the manager

Precinct does not employ personnel in its own right. Under the terms of the Management Services Agreement, the manager is appointed to manage and administer Precinct. The manager is responsible for the remuneration of personnel providing management services to Precinct. Precinct's

Directors are considered to be the key management personnel and received Directors' fees for the period ended 31 December 2018 of \$232,048 (June 2018: \$445,720; December 2017: \$222,860).

Precinct received rental income from AMP Haumi Management Limited, AMP Capital Investors (New Zealand) Limited, National Mutual Life Association of Australasia Ltd and AMP Services (NZ) Limited, being the manager or companies related to the manager for premises leased in PWC Tower, AMP Centre and 157 Lambton Quay. Total rent received by Precinct from these parties during the period ended 31 December 2018 was \$1,759,562 (June 2018: \$3,388,399; December 2017 \$1,342,995). As at 31 December 2018 an amount of \$10,834 was owing from Precinct to these related parties (June 2018: \$1,837; December 2017: \$213 amounts owing to Precinct from these related parties).

h) Related party debts

No related party debts have been written off or forgiven during the period (June 2018: \$nil; December 2017: \$nil).

16. Events after balance date

On 18 February 2019 the Board approved the financial statements for issue and approved the payment of a dividend of \$18,166,810 (1.50 cents per share) to be paid on 27 March 2019.

On 18 February 2019 the Board approved the intention to raise approximately \$150.0 million through an underwritten placement and underwritten retail offer. The offer will involve the issue of around [104] million ordinary shares. Shares issued pursuant to the placement and retail offer will qualify for the dividend to be paid on 27 March 2019.



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

We have reviewed the interim financial statements of Precinct Properties New Zealand Limited ("the company") and its subsidiaries (together "the group") on pages 02 to 17, which comprise the statement of financial position of the group as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the group for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibilities

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

Reviewer's Responsibilities

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

Basis of Statement

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

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



Ernst & Young provides other assurance services to the group including the statutory audit of the group's year-end financial statements and audit of individual property operating expense statements. We provide an agreed upon procedures engagement recalculating the performance fee paid or payable to the group's manager. We also provide reporting to the trustee of the group's secured fixed rate bonds and convertible notes in relation to our audit. Other than the provision of those services and in our capacity as auditor we have no relationship with, or interest in, the company or any of its subsidiaries. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 02 to 17, do not present fairly, in all material respects, the financial position of the group as at 31 December 2018 and its financial performance and cash flows for the six month period ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

Our review was completed on 18 February 2019 and our findings are expressed as at that date.

A stylized, handwritten signature of 'Ernst & Young' in black ink, enclosed within a light grey rectangular border.

Chartered Accountants
Auckland