NZX announcement – 19 February 2019

Interim results and positioning for future opportunities

Performance summary for the six months ended 31 December 2018

Financial summary

- Total comprehensive income after tax of $25.5 million, up 44.1% (1H18: $17.7 million).
- Net operating income[1] of $37.7 million (1H18: $38.2 million) or 3.11 cents per share (cps) and 3.24 cps before performance fee (1H18: 3.15 cps).
- Strong net property income (NPI) achieved during the period of $47.3 million, consistent with previous comparable period (1H18: $47.6 million), despite the sale of a 50% interest in the ANZ Centre.

Capital management

- Asset recycling with $191 million of assets sold during the period.
  - This includes the sale of a 50% interest of the ANZ Centre in Auckland for $181 million, to a fund controlled by Invesco and the disposal of 10 Brandon Street in Wellington.
- Refinancing of $460 million bank debt facility.

Solid leasing demand and strengthened investment portfolio

- Increased occupancy to 100% (30 June 2018: 99%) with a weighted average lease term (WALT) across the portfolio of 8.5 years (30 June 2018: 8.7 years).
- 21 leasing transactions totalling over 12,000 square metres completed during the period.
  - New leasing completed 11.3% above previous contract rent.
- Announcing today, the purchase of the remaining 50% equity interest in coworking space provider, Generator for $7.4 million.
  - Acquisition in line with Precinct's strategy, 100% interest in Generator allows our business to be at the forefront of the growing coworking/flexible space market.

Advancing our development projects

Commercial Bay

- Increased leasing with retail commitments now at 84% (June 2018: 76%) and office commitments at 80% (June 2018: 78%).
  - Some minor slippage observed (c.1 month) to the construction programme which may impact previously disclosed completion dates of September 2019 for retail and December 2019 for office.
- Announcing our commitment to the $298 million redevelopment of Precinct's next major investment, One Queen Street in August 2018.
  - Further progress has secured the unconditional commitment of Bell Gully to around 3,800 square metres of office space at One Queen Street, taking the project to 76% pre-

[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.

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committed following the previously announced commitment by InterContinental Hotels Group to 11 levels of the building.

Wynyard Quarter Stage Two

- Committing to the development of Wynyard Quarter Stage Two, part of the wider Innovation Precinct with major leasing to Media Design School (MDS) secured.
  - Stage Two commitments represent 60% of the projects office area.
  - Continue to see good levels of enquiry for the remaining vacant space.

Bowen Campus

- The Charles Ferguson Building reached practical completion in December 2018, now occupied by Ministry of Primary Industries.
- Bowen State Building on budget and on schedule for practical completion this year. Building to be fully income producing from April.
- Design advanced for Bowen Campus Stage Two and discussions with potential occupiers ongoing.

Scott Pritchard, Precinct's CEO, said "Increased activity across both the investment and development portfolio in Auckland and Wellington has led to a number of new leasing deals. In addition to leasing progress at Commercial Bay, other major leasing transactions include Medical Council of New Zealand at AON Centre, MDS at 10 Madden Street and Bell Gully at One Queen Street".

$150 million equity offer announced today to position the business for future opportunities

- Raising $150 million through a $130 million underwritten placement (Placement) and a $20 million underwritten retail offer (Retail Offer) (with ability to accept oversubscriptions of up to $10 million).
- Price of new shares to be determined via a bookbuild (subject to an underwritten floor price of $1.45 per share. The retail offer price will be the same as the placement clearing price.
- The Retail Offer allows for all New Zealand resident shareholders to subscribe for up to $50,000 of new shares – details will be sent to all eligible shareholders.
- Equity raised will repay bank debt and provide additional funding capacity to deliver on medium term opportunities including Bowen Campus Stage Two and Wynyard Quarter Stages Three and Four.
- Reduces 31 December 2018 gearing from 24.3% to 18.5%.
- Earnings guidance for FY19 unchanged at approximately 6.60 cps.
- Dividend guidance maintained at 6.00 cps representing a YoY increase of 3.4%. All shares issued under the Placement and Retail Offer will be eligible for the second quarter dividend to be paid on 27 March 2019.

Note: Further information can be found within the 2019 Interim Financial Statements and results presentation. You can find these at https://www.precinct.co.nz/interim-reporting/2019-interim-results

Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the six months ended 31 December 2018 today. Total comprehensive income after tax of $25.5 million compares with $17.7 million for the same period last year, with the difference mainly attributable to the prior period fair value movement of 10 Brandon Street in Wellington and movement in financial instruments this period. Net operating income, which adjusts for a number of non-cash items, of $37.7 million remains consistent with the previous comparable period (1H18: $38.2 million), despite the sale of a 50% interest in the ANZ Centre.

Scott Pritchard, Precinct's CEO, said "The first half of the 2019 financial year has been another period of immense activity for our business. As we continue to advance our long-term strategy and take an active management approach with both our investment and development portfolio's, we remain focused on delivering strong results across our business this year".

"We are achieving continued growth for our shareholders and enhancing our business by transforming the portfolio into a higher quality set of assets. Achieving occupancy of 100% across our investment portfolio in both Auckland and Wellington reflects the quality of the portfolio, leasing transactions completed during the last six months and strong demand for premium inner-city office space".

"We continue to advance our active developments and are pleased with the achievements in the period which include the progress made on the retail and office commitments at Commercial Bay and completing the Charles Ferguson Building in Wellington. As the development stages of these projects are coming to an end, we are looking ahead to our recently committed developments of both One Queen Street and Wynyard Quarter Stage Two".

"Precinct's announcement to raise $150 million of equity through an underwritten Placement and Retail Offer will allow Precinct to repay bank debt and further supports our future development opportunities by providing additional funding capacity".

Interim results

Continued strength in our occupier markets, strong leasing and ongoing market rental growth have contributed to NPI in the period of $47.3 million (1H18: $47.6 million).

The completion of H&M at Commercial Bay and the Charles Fergusson Building in Wellington led to an increase in NPI in the period. This increase was largely offset by the sale of a 50%

interest in the ANZ Centre and the sale of 10 Brandon Street. After adjusting for assets under development and the sales, like for like NPI was 1.0% higher than the previous comparable period. On a like for like basis, Auckland NPI was 1.8% higher.

Dividends attributable to shareholders for the six months ending 31 December 2018 totalled 3.00 cps (31 December 2017: 2.90 cps) representing an increase of 3.4%.

Net interest expense of $1.5 million was consistent to the comparable period (31 December 2017: $1.6 million) due to interest relating to developments being capitalised.

Excluding performance fees, other expenses increased by $0.5 million. Precinct outperformed the benchmark New Zealand-listed property sector return (excluding Precinct) resulting in a performance fee of $2.1 million being payable in the first half.

Current tax expense fell to $0.4 million (31 December 2017: $2.7 million). This was a result of the significant amount of leasing achieved across the development portfolio and the disposal of depreciable assets.

The fall in the NZD interest rate swap curve led to a fair value loss in interest rate swaps. This loss combined with a fair value loss in the convertible note option due to Precinct's share price increasing to $1.48 (June 2018: $1.35), led to an overall loss in financial instruments of $11.4 million (31 December 2017: $6.9 million loss).

Generator recorded a loss for the period, Precinct's 50% share was $0.8 million (31 December 2017: $0.5 million). This loss was primarily a result of continued business growth, with the business opening around 3,000 square metres of additional coworking space at Britomart Place in the period. Importantly the business continues to meet expectations and is expected to report a profit in the 2020 financial year.

Included within the Commercial Bay construction contract is the right to liquidated damages if certain milestones are not met. As at 31 December 2018, $15.4 million of liquidated damages have been withheld from the contractor. The amounts withheld have been recognised as part of current liabilities and a contingent asset has been identified as ultimate recovery is not able to be considered virtually certain since Precinct's right to retain these liquidated damages could be disputed.

An internal review of the 30 June 2018 property valuations undertaken at 31 December 2018 indicated no material value movement in the period for all the assets. The fair value loss in financial instruments was the primary reason for the value of net tangible assets per share at interim balance date falling to $1.39 (30 June 2018: $1.40).

Investment portfolio performance

Strong leasing continues across our investment portfolio with overall portfolio occupancy increasing to 100% at 31 December 2018 (30 June 2018: 99%) and WALT being maintained at 8.5 years (30 June 2018: 8.7 years).

With over 12,000 square metres of space leased over the last 6 months to 31 December 2018, positive leasing momentum continues in both Auckland and Wellington. These leasing transactions have been completed 11.3% above previous contract rent. In addition, 32 rent reviews have occurred during the period resulting in a 4.5% uplift on valuation rents.

Leasing all the remaining vacant space at AON Centre at 21% above previous passing rental has been a significant achievement in first half of the 2019 financial year. The Medical Council of New Zealand have committed to 1,875 square metres which includes 800 square metres of new mezzanine space that is now being fitted out for occupation in May 2019.

Terms agreed with a large NZ based occupier at No.1 The Terrace over 7,900 square metres is another positive result. It will remove all pending vacancy from the Government WAP 2 process. Once confirmed, the lease will commence in January 2020 following a full base build refurbishment of No.1 The Terrace tower floors and includes a seismic upgrade to 100%.

Generator acquisition

Announcing Precinct's acquisition of the remaining 50% interest in Generator New Zealand Limited today, is consistent with our strategic focus on building client relationships, increasing our service levels and creating workspaces that meet the requirements of today's businesses.

Having exposure to this developing market since 2017 has given us the opportunity to be at the forefront of this evolving office market. With an expanded footprint providing approximately 1,245 desks across 12,600 square metres, Generator has seen strong and consistent growth since it was established in 2011. Committed occupancy levels are around 80% and the business is now operating on a sustainable basis. Successfully growing its business, Generator now has a significant presence in the CBD and Wynyard precincts, making up over half of the Auckland city centre coworking/flexible market.

A 100% interest in Generator represents a unique offering for Precinct to meet the growth in demand for those office occupiers now considering flexible solutions. It further expands Precinct's traditional client base by accessing a portion of the occupier market that we wouldn't otherwise serve; small and medium-sized enterprises. As this sector moves ahead in 2019, this is an area of investment for Precinct where we expect to see further consistent growth and returns.

Capital management

In October 2018, we successfully settled the sale of a 50% interest in the ANZ Centre in Auckland for $181 million, to a fund controlled by Invesco. This sale was in line with our business strategy and enabled us to recycle capital into higher yielding development opportunities. In addition, we also progressed the sale of 10 Brandon Street in Wellington which has now settled. These two sales total $191 million of assets sold in the first half of the 2019 financial year.

In the period, Precinct also refinanced its $460 million bank debt facility which was due to expire in November 2020. The refinance extended the tenor of the existing facilities and reduced refinancing risk to our business.

At balance date Precinct has total borrowings (including convertible notes) of $710.4 million (30 June 2018: $751.4 million) and total assets of $2.5 billion (30 June 2018: $2.5 billion). Gearing as measured under borrower covenants, which disregards subordinated debt, has decreased during the period to 24.3% (30 June 2018: 25.0%).

Development update

Wynyard Quarter

Committing to the development of Wynyard Quarter Stage Two during the period reflects an important step forward in the development of the wider Innovation Precinct and the next stage of the project's evolution. We announced the development of the second stage of Wynyard, 10 Madden Street, in November 2018 on an uncommitted basis and were pleased to lease 4,760 square metres to Media Design School (MDS). Being in a location which is in close proximity to global technology companies and other New Zealand start-up businesses was a key attraction for MDS to be located in the Innovation Precinct.

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Commercial Bay

Continued demand at Commercial Bay has resulted in retail commitments lifting to 84% and office commitments to 80%. With leasing transactions being consistent with feasibility, the expected profit on completion of this project remains forecast to be around $280 million, representing a development profit of more than 40%.

Progress continues on site with minor slippage of around one month observed to the construction programme which may impact the previously disclosed completion dates of September 2019 for the retail centre and December 2019 for the new PwC Tower. We will continue to closely monitor this development with the next two months being critical in progressing the project. Following some minor value accretive scope changes, the total project cost is now forecast to be $690 million (30 June 2018: $685 million).

Having a diverse offering available to consumers at the precinct has been a key priority throughout the project. During the period, we are pleased to have welcomed New Zealand's leading digital services provider, Spark to Commercial Bay. Spark will open its three-level flagship store within the precinct and will be located on Customs Street and Little Queen Street. Spark will use this premium location to redefine the experience of visiting a Spark store providing its customers with a unique offering.

We also continue to advance our unique retail mix at Commercial Bay with several well-known food and beverage operators who remain confidential at this stage. We look forward to sharing more details in the coming weeks.

One Queen Street

Construction of the $298 million redevelopment at One Queen Street (currently HSBC House) remains on schedule to commence in the first half of 2020 with the hotel expected to open in mid 2022. Similarly, the commercial office and hospitality space are due to open during 2022.

Securing leading law firm Bell Gully during the period, three years ahead of practical completion reinforces the quality of the Commercial Bay precinct and demand for premium office space located at this unrivalled waterfront destination in Auckland's city centre.

The project is now 76% pre-committed following the previously announced commitment by InterContinental Hotels Group to 11 levels of the building.

Bowen Campus

In Wellington, we are pleased to have now completed the Charles Ferguson Building. Construction works remain on programme at the Bowen State Building. We also continue to advance the design of Bowen Campus Stage Two having been granted a resource consent in the period for a further two commercial office buildings on site. We continue to progress discussions with a number of potential occupiers.

Equity Offer

We are announcing today that we are raising $150 million of new equity via a Placement and Retail Offer.

The Placement of $130 million is fully underwritten at a floor price of $1.45 per new share. A bookbuild will be conducted today by the Joint Lead Managers, First NZ Capital and Credit Suisse while Precinct is in trading halt. All New Zealand resident shareholders will be able to subscribe for up to $50,000 of new shares via a Retail Offer of $20 million (underwritten) with the ability to accept oversubscriptions of up to $10 million, at the same final price as the placement (to be determined by bookbuild today).

The net proceeds of the equity raising, together with the proceeds of asset sales will reduce Precinct's gearing providing additional funding capacity to assist with our future development opportunities.

Our equity raising structure is fair for all of our existing shareholders. All shareholders (unless restricted due to legal constraints) will be able to participate fairly (through either the Placement or Retail Share Offer) and should scaling be required, it will be done in reference to existing shareholder holdings.

Haumi, our largest shareholder (~18.8%) will not be participating. Haumi remains very supportive of Precinct, the growth story and this equity raising and has no intentions to either sell down or divest the management contract. Following completion of the equity issue Haumi's holding will reduce to around 17.3%.

Further details regarding the Retail Offer can be found at www.shareoffer.co.nz/precinct.

Equity Offer key dates:

Placement bookbuild while Precinct in Trading halt	19 February 2019
Retail Offer Record Date	18 February 2019
Retail Offer Opening Date	22 February 2019
Retail Offer Closing Date	5 March 2019
Retail Offer Allotment date	11 March 2019
Dividend (second Quarter) Payment Date	27 March 2019

Dividend payment

Precinct shareholders will receive a second-quarter dividend of 1.50 cps (plus imputation credits). Offshore investors will receive an additional supplementary dividend to offset non-resident withholding tax (see note 2). The record date is 13 March 2019 with payment to be made on 27 March 2019.

All shares issued pursuant to the equity offer will qualify for this dividend.

Outlook and guidance

As we continue on our growth path in 2019 to maximise our value potential and transform the cities and communities we operate in, widening our investment into other city centre real estate to include retail, hotels and coworking/flexible space, is offering greater opportunity for Precinct to increase shareholder value.

We believe our well performing investment portfolio, the acquisition of the remaining 50% interest in Generator and our active development pipeline all support Precinct's strong market position and we remain well positioned to deliver on our long-term strategy.

Full year operating earnings after tax for the 2019 financial year are expected to be approximately 6.60 cps, before performance fees. Dividend guidance also remains unchanged at 6.00 cps, representing a 3.4% increase in dividends to shareholders.

Ends

Further information can be found within Precinct's 2019 Interim Financial Statements and results presentation. You can find this at:

https://www.precinct.co.nz/interim-reporting/2019-interim-results

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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 Auckland's PwC Tower, AMP Centre, ANZ Centre (50%), Zurich House, HSBC House, Mason Bros. Building, 12 Madden Street, 10 Madden Street and Commercial Bay; and Wellington's AON Centre, Dimension Data House, No. 1 and No. 3 The Terrace, Pastoral House, Mayfair 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	2019	2018
Net profit after taxation	**24.6**	**17.7**
Unrealised net (gain) / loss in value of investment and development properties	-	14.7
Unrealised net (gain) / loss on financial instruments	12.6	6.9
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)
Share of (profit) / loss of joint ventures	0.8	0.5
Net operating income	**37.7**	**38.2**

Note 2

A supplementary dividend is paid to non-resident shareholders to offset the amount of non-resident withholding tax ("NRWT") that New Zealand companies are required to deduct from dividends paid to non-resident shareholders. A supplementary dividend is paid to ensure equitable treatment between non-resident shareholders and resident shareholders (whose dividends are not subject to NRWT).

There's no disadvantage to Precinct or our shareholders, and non-resident shareholders don't get a larger cash dividend than an equivalent New Zealand resident shareholder.

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