NZX announcement – 18 August 2016

PCT delivers annual profit of $138.2 million and lifts guidance

Performance summary for the twelve months ended 30 June 2016

12.9% rise in net profit after tax and 3.7% lift in dividend guidance

- Net profit after tax increased by 12.9% to $138.2 million (2015: $122.4 million)
- Net operating income[1] increased to $72.8 million (2015: $68.3 million)
- Property portfolio revaluation gain of $81.2 million (2015: $64.8 million)
- NTA per share of $1.165 (2015: $1.105), an increase of 5.4%
- Full year dividend of 5.4 cps (2015: 5.40 cps), representing a 90% payout ratio
- Earnings guidance for FY17 of 6.2 cps, with the FY17 dividend expected to lift 3.7% to 5.6 cps

Securing the growth strategy

- Commenced $1 billion of developments in the period with an estimated return on cost of 18%
- Secured future earnings growth through leasing success, with all office developments now 74% pre-leased on a weighted average lease term of 13.1 years.
- Major new office leasing announced today at Commercial Bay with top tier law firm MinterEllisonRuddWatts choosing to relocate to the new PwC Tower at Commercial Bay taking pre-leasing, by income, at the new tower to 60%.
- Secured major international fashion retailer H&M for its CBD flagship store at Commercial Bay
- Commitment by the Crown to 68,000 sqm on a weighted average lease term of 14.6 years at Bowen Campus, Pastoral House, Mayfair House and 3 The Terrace, as well as an extension to the existing lease at 1 The Terrace.
- Achieved 86% pre-leasing at Wynyard Stage 1 with Mason Brothers on track for completion in four months' time and the Innovation Building on track for completion mid next year.

Reducing funding risks

- Secured a new five year $860 million facility, extending the weighted average debt maturity profile to 5.1 years at 30 June 2016 (30 June 2015: 4.6 years) and ensuring no refinancing risk during peak development period.
- Precinct is in a strong financial position with gearing of 14.4% and sufficient funding capacity to deliver its committed developments.

Strengthened portfolio

- Weighted average lease term across the portfolio extended to 6.3 years (2014: 5.4 years), increasing further out to 8.2 years after including developments.
- Record activity levels with 135,000 sqm of leasing in the period.
- The portfolio is under-rented by 3.6% (2015: (1.8%)), with Auckland 6.6% under-rented and Wellington at market.

Note: Further information can be found within the 2016 Annual Report and results presentation. You can find these at www.precinct.co.nz/annual-report-2016

[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 2016 today, with a net profit after tax of $138.2 million. This compared with $122.4 million for the same period last year, with the increase mainly attributable to a strong revaluation gain of $81.2 million. Net operating income increased 6.6% to $72.8 million versus $68.3 million the year before. With gearing at very low levels during the year in preparation for the development spend, net operating income per share was 6.01 cps (2015: 6.19 cps), consistent with market guidance.

Scott Pritchard, Precinct's CEO, said "It has been very satisfying to record significant progress across several fronts over the year. The operational and financial results for the year as well as the commitments to Commercial Bay and Wynyard Quarter Stage One were significant highlights. However, the post balance date commitment by the Crown to 68,000 sqm of Wellington office space was arguably the key achievement as it will transform the quality of our Wellington government portfolio."

Post balance date, law firm MinterEllisonRuddWatts committed to the new PwC Tower at Commercial Bay taking pre-leasing at the new tower to 60%. "We welcome MinterEllisonRuddWatts into the portfolio and are delighted with our leasing progress given we are 3 years from the completion date." Scott Pritchard, Precinct's CEO, said.

As well as Commercial Bay, Auckland leasing continues to be very strong. HSBC Bank extended their current lease in 1 Queen Street and committed to relocate in 2019 to 188 Quay Street taking naming rights over the building. Real estate agency firm Colliers International have also committed to relocate to 188 Quay Street, which largely removes the vacancy risk from PwC's relocation to Commercial Bay.

"Including the Government leasing, our team have leased an impressive 135,000 sqm of office space in the year which is equivalent to over four PwC Towers. Following this success leasing risk has substantially reduced, enabling us to have greater confidence in our ability to deliver our long term strategy and earnings growth."

We ended the year in a strong position. Our buildings were 98% occupied (2015: 98%) with an overall WALT of 6.3 years (2015: 5.0 years), extending out to 8.2 years when the three developments are included.

The Auckland city centre office market remains extremely strong with a continuation of historically low vacancy levels. The Auckland city centre retail environment continues to strengthen driven by strong demand from a unique blend of international and local retailers, improvement in dining and entertainment precincts and strong growth in tourist numbers. In Wellington, the conclusion of the Government's Wellington Accommodation Project will remove uncertainty in the market providing stability.

A strong Auckland occupier and investment market, along with historically low vacancy led to a 5.0% portfolio revaluation gain of $81.2 million. This resulted in Precinct's net tangible assets (NTA) increasing from $1.105 to $1.165.

Delivering the strategy

In the period Precinct committed to $765 million of development projects and in August 2016 committed to Bowen Campus, a $203 million project. Precinct currently has $968 million of development in progress with a forecast value on completion of $1.14 billion. Consistent with strategy, these developments will transform the quality of the portfolio, increase the weighting to Auckland and improve the long term earnings outlook. Of the 89,500 sqm of office space under development around 74% is pre-leased (excluding retail) on a weighted average lease term of 13.1 years.

The Commercial Bay development is Precinct's most significant project following commitment in December 2015. Since commitment, the existing centre has been closed down and demolition is underway. Works to date remain on programme with Fletcher Construction overseeing the deconstruction of the site by Ward Demolition.

Leasing of the office tower was 52% on commitment in December. There has been strong leasing interest post commitment and following the recent leasing with MinterEllisonRuddWatts, the tower is now 60% leased. Retail leasing achieved a major milestone for the positioning of the centre with global fashion brand H&M committing to its flagship city centre store.

The next 12 months is expected to result in further retail and office leasing with strong enquiry levels for both aspects of this mixed use development.

During the period Auckland Council publically notified the decision of the independent commissioners to approve the rezone of Queen Elizabeth Square, which is required in order for Precinct's acquisition to go unconditional. This decision was appealed to the Environment Court and a hearing was held in July 2016. The decision of the Environment

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Court is expected soon, which will determine whether or not this acquisition and the incorporation of the Square into the Commercial Bay development proceeds.

Government RFP and Bowen Campus

Across Bowen Campus, Pastoral House and Mayfair House the Crown have committed to 15 year leases with varying commencement dates, while the 12 year lease at 3 The Terrace provides for an overall transaction weighted average lease term of 14.6 years.

The Bowen Campus project is expected to have a total cost of $203 million, a value on completion of $230 million and generate a yield on cost of 7.5%.

Wynyard Stage 1

Leasing success at Wynyard Quarter Stage 1 has led to the development being 86% leased, by income (December 2015: 70%). The increase demonstrates the quality of the real estate and its location on the Waterfront.

Overall the project will generate net contract income of $6.7 million on completion with a weighted average lease term of 11.2 years. The forecast project cost remains $84 million with an estimated yield on cost of 8.0%, providing meaningful earnings accretion.

Pleasingly, across all developments, the anticipated yield on cost remains at around 7.5% which provides Precinct with the potential for very strong underlying earnings growth given the developments will be funded from committed bank debt funding.

Full year result overview

A strong revaluation gain resulted in net profit after tax increasing to $138.2 million (2015: $122.4 million). Net operating income (distributable earnings), which adjusts for a number of non-cash items, also increased to $72.8 million (2015: $68.3 million). Importantly, net operating income per share of 6.01 cents (2015: 6.19 cents) was in line with the earnings guidance provided in August 2014, following significant debt reduction.

Net property income was $104.5 million, 14.1% lower than the previous year (2015: $121.6 million). The fall in rental revenue was a direct result of selling $274 million of non-core assets over the past 18 months. Also in the period construction of Commercial Bay began at the site of the Downtown Shopping Centre which further reduced rental income. Adjusting for transactions, like for like net property income rose by 0.6% with Auckland increasing by 3% and Wellington experiencing a 2.6% decline.

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Precinct's net tangible assets per share at balance date increased 5.4% to $1.165 (2014: $1.105). The increase in net tangible assets is due to the revaluation gain and Precinct's retained earnings policy, partly offset by the fair value loss in financial instruments.

Further financial information can be found within the 2016 Annual Report. You can find these at www.precinct.co.nz/annual-report-2016

2016 Dividend payment

Precinct shareholders will receive a final dividend of 1.35 cents per share plus imputation credits of 0.5250 cents per share. Offshore investors will receive an additional supplementary dividend of 0.2382 cents per share to offset non-resident withholding tax. The record date is 15 September 2016. Payment will be made on 29 September 2016.

Outlook and guidance

The board expects full year earnings for the 2017 financial year of approximately 6.2 cents per share (cps), before performance fees and expects to pay a dividend of 5.6 cps. This represents a 3.7% increase in dividend to shareholders. The lift in earnings comes despite the reduction in revenue from the closure of Downtown Shopping Centre and Bowen Campus redevelopment, which is expected to be more than offset by the reduction in interest, tax and management fee expenses.

We have now converted our plans into commitments, with $1 billion of projects underway. Over the past 12 months we have achieved key milestones on these projects in particular with regard to leasing pre-commitments. We have confidence in the earnings growth and the value that will be created from the completed 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.

A key priority for the coming year will be to maintain the leasing momentum at Commercial Bay for both the retail and office developments.

Key metrics remain strong. Occupancy of 98% and a long weighted average lease term, including developments, of 8.2 years enables us to have confidence in our ability to deliver our long term strategy and earnings growth.

Ends

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About Precinct (PCT)

Precinct is New Zealand's only listed CBD specialist investing predominately in premium and A-grade commercial office property. Listed on the NZX Main Board, PCT currently owns 13 New Zealand buildings – Auckland's PwC Tower, AMP Centre, ANZ Centre, Zurich House, HSBC House and Commercial Bay (Downtown Shopping Centre); 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	2015	2015
Net profit after taxation	**138.2**	**122.4**
Unrealised net (gain) in value of investment properties	(81.2)	(64.8)
Realised loss on sale of investment properties	2.7	1.6
Unrealised net loss / (gain) on financial instruments	16.4	11.9
Depreciation recovered on sale	10.0	3.8
Deferred tax expense / (benefit)	(13.3)	(6.6)
Net operating income	**72.8**	**68.3**