DNZ Delivers 119% Lift in Net Profit after Income Tax

Share Price at a Premium to NTA

Portfolio Occupancy 99.6%

DNZ Property Fund Limited (DNZ) is pleased to announce a positive performance for the year ended 31 March 2013 with a 119% lift in net profit after income tax to $45.5m.

DNZ Chairman Tim Storey said "We continue to produce outstanding financial results for our shareholders through prudent capital management, maintaining a high portfolio occupancy level, reducing lease expiry risk and advancing DNZ's acquisition strategy in the Auckland region."

"DNZ's latest result delivers a final quarter cash dividend of 2.25 cents and a full year cash dividend of 9.0 cents per share. In addition, DNZ's share price over the period has firmed to around $1.70 which is at a premium to net tangible assets (NTA) of the Company. The Boards investment strategy of maintaining a diversified investment portfolio to deliver growth and sustainable total shareholder returns is evident in these results."

DNZ also announces today two separate capital raising initiatives to raise up to $80 million of equity. This new equity will be utilised to partially fund the Silverdale Centre and Westgate Zone 5 Land acquisitions in Auckland and provide capacity for any future acquisitions.

Paul Duffy, Chief Executive of DNZ said "Operationally, management has again performed strongly in reducing DNZ's lease expiry risk and maintaining DNZ's high portfolio occupancy rate, which is one of the highest in the industry at 99.6% (as at 31 March 2013). DNZ's portfolio re-weighting strategy is also evident in these results with the acquisitions at Albany in Auckland, and the pending acquisitions of the Silverdale Centre and the Westgate Zone 5 Land. The successful leasing of two development projects at the O'Rorke Road re-development site in Penrose, Auckland with construction having commenced rounds off a very productive year by management for DNZ shareholders."

Mr Storey congratulated the management team led by CEO, Paul Duffy, for another excellent performance. He noted that the Board has commenced the search to engage a new CEO to replace Mr Duffy before his planned departure not later than 31 March 2014, and was confident a suitable candidate would be appointed well within the timeframe to continue to lead DNZ.

Highlights:

For the year ended 31 March 2013 (year ended 31 March 2012 (FY12) figures in brackets)

- Share price trading at a premium to NTA
- Net rental income of $53.511m ($52.910m)
- Operating profit before other income and income tax of $31.347m ($28.796m) up 8.9%
- Net profit after income tax of $45.541m ($20.771m) up 119.3%
- Distributable profit[1] before income tax of $29.796m ($27.770m)
- Distributable profit after income tax of $23.953m or 9.64 cents per share ($27.770m or 11.22 cents per share)
- Loan to value ratio (LVR) 36.9% (40.6%)
- Dividend Reinvestment Plan (DRP) implemented during the year ended 31 March 2013 (FY13) raising $4.6m of additional equity above NTA

- Cash dividend of 9.0 cents per share for FY13
  - 2.25 cent cash dividend for the fourth quarter (0.582 cents imputation credits)
- Occupancy increased to 99.6% (98.7%)
- Weighted average lease term (WALT) 5.2 years (5.4 years)
- 171 lease transactions over 244,893m^2 for a total annual rental of $39.7m
- No major FY14 lease expiries remain – 3.36% as at 7 May 2013
- Acquired Albany office building (Westpac) for $12.9m and adjacent land for $5.7m
- Re-weighting of the portfolio through $33.6m of asset sales
- Net 2.4% property portfolio valuation increase on a like for like basis[2]
- Satisfactory seismic review of portfolio completed
- Hydraulink and AA Insurance developments at O'Rorke Road, Penrose, Auckland under construction
- Total shareholder return of 30.7% for FY13

Financial Performance

DNZ has delivered a solid operating performance for FY13, driven by a strong management performance that ensured rental growth and high portfolio occupancy.

Net rental income was $53.511m, $0.601m ahead of the previous year and net finance costs were down $2.436m.

Distributable profit after income tax was $23.953m or 9.64 cents per share ($27.770m or 11.22 cents per share for FY12). DNZ fully utilised the tax losses in the previous year that arose under the binding tax ruling regarding the payment by DNZ to terminate its management agreement.

The NTA increased 9 cents during the period to $1.62 at year end ($1.53 as at 31 March 2012).

Capital Management

DNZ maintained a strong balance sheet position over the financial year through a series of prudent capital management initiatives including:

- Entered into $100m of swaps with an additional $20m entered into post balance date
- DRP implemented during FY13 raising $4.6m of additional equity above NTA which was used for capital expenditure
- Re-weighting of the portfolio through $33.6m of divestments and the acquisition of the Albany office building (Westpac) for $12.9m and adjacent land for $5.7m

DNZ's LVR as at 31 March 2013, calculated under its banking facility, was 36.9% (40.6%), with 85% of drawn debt effectively subject to a fixed rate of interest through DNZ's hedging policy. This LVR sits comfortably in DNZ's target of a mid 30% to low 40% range, and well below DNZ's banking covenant limit of 50%. DNZ's weighted average cost of debt (including margins & line fees) was 5.89% as at 31 March 2013.

Portfolio Valuation

The annual independent market valuations at year end resulted in the property portfolio value increasing by a net 2.4%, or $15.7m on a like for like basis[2]. DNZ's property portfolio is now valued at $667.0m with the weighted average capitalisation rate across the portfolio remaining stable at 8.26%[3].

Lease Transactions

DNZ completed 171 lease transactions in the 12 months to 31 March 2013 over 244,893m^2, made up of the following:

- 95 rent reviews over 190,279m^2 for a total annual rental of $29.6m
- 28 lease renewals over 19,285m^2 for a total annual rental of $5.1m
- 48 new lettings completed over 35,329m^2 for a total annual rental of $5.0m

The key components of rental income growth in the portfolio were lease renewals and rental reviews. DNZ has a target of 25-35% of the portfolio's rental reviews being fixed or having a stepped increase at a review date, or being linked to an increase in inflation based on movements in the Consumer Price Index.

Paul Duffy, Chief Executive of DNZ, said "We continue to maintain one of the highest occupancy rates in the sector at 99.6%. DNZ's management team completed 171 transactions during the financial year further increasing occupancy by 0.9%."

"Since 31 March of this year, DNZ has also renewed the Westpac lease over five levels or 4,266m^2 at 1 Grey Street in Wellington. This lease was due to expire in January 2014 and has now been extended to April 2018. The remaining expiries due in the current financial year represent less than 3.4% of contract rental."

Seismic Review

Engineering reviews of all DNZ properties have been completed with ratings/status of the individual properties communicated to all tenants. Two of the three sites that have been classified as earthquake "prone" are held by DNZ for potential redevelopment. Excluding properties contracted for sale as at 31 March 2013, the earthquake "prone" assets represented $13.3m or 2% of the portfolio.

Acquisitions and Development Projects

Albany Office and Bare Land Acquisitions

On 31 August 2012, DNZ purchased the three level office building (plus basement car parking) at 51 Corinthian Drive in Albany, Auckland. The 3,412m^2 property is fully occupied and is 76% leased to Westpac under a new 9 year lease.

Paul Duffy said "This was an excellent investment that had a new nine year lease to a quality anchor tenant, Westpac, in one of Auckland's major growth areas. This acquisition complements DNZ's holdings in Albany including the 1.4 hectare block of bare land that was purchased in March 2013, that sits between the office building and 33 Corinthian Drive, which is also owned by DNZ and is occupied by ASB."

Hydraulink Fluid Connectors Limited

The new integrated facility at Penrose for Hydraulink will feature 770m^2 of office, a 120m^2 showroom, 67 car parks, a fully sprinklered 2,000m^2 high stud warehouse, a 500m^2 canopy and an extensive yard area for container set-down and outside product storage.

The 12 year lease has two yearly rent reviews to market, with Hydraulink having expansion rights over 1,000m^2 of adjacent land for six years.

The project is scheduled for completion in November 2013, with an estimated total cost of $6.4m (including land).

AA Insurance Limited

The development will feature 400m^2 of office, a 1,000m^2 warehouse and 29 car parks, leased on completion to AA Insurance.

The project is scheduled for completion in October 2013, with an estimated total cost of $3.2m (including land).

Paul Duffy said "It is pleasing to have secured quality tenants such as Hydraulink and AA Insurance for 12 and nine year lease periods respectively and to be progressing the redevelopment of DNZ's land holdings at O'Rorke Road in Penrose. These projects will complement the adjacent properties that accommodate the Fletcher Building Laminex head office and distribution centre, and leave just 8,000m^2 of development land available for development projects on this 5.2 hectare site owned by DNZ."

Acquisitions (Post 31 March 2013)

Silverdale Centre

Post balance date, DNZ has unconditionally agreed to purchase the Silverdale Centre, at 61 Silverdale Street, Silverdale, Auckland, for $78 million.

Paul Duffy said "The Silverdale Centre's retail mix is predominantly established national chains with a strong convenience element. Located adjacent to the Millwater residential development, this is an exceptional opportunity for DNZ to invest in a retail centre in one of New Zealand's fastest growing residential catchments."

The Silverdale Centre comprises 36 bulk and specialty retailers including Warehouse Stationery, Noel Leeming, Number One Shoes, Supercheap Auto, Postie, Lighting Plus, Beds R Us, OPSM, ANZ and BNZ, anchored by The Warehouse and a Countdown supermarket. The Centre comprises 22,978m^2 of retail floor area, 980 on-grade and basement car parks and a WALT of approximately 10 years.

Situated on a 7 hectare site, and completed in October 2012, the Silverdale Centre is located adjacent to the existing Silverdale township and the master planned Millwater residential development. Millwater is projected to comprise over 3,000 dwellings and over 10,000 residents on completion.

Settlement is expected to take place on 1 July 2013, but can be brought forward by DNZ giving five working days notice.

Westgate Zone 5 Land

DNZ has signed a conditional agreement to purchase the development land comprising zone 5 of the proposed Westgate Town Centre development in Auckland for $25m. This development land has a resource consent granted to build an enclosed shopping centre of approximately 26,000m^2 (34,000m^2 gross).

Paul Duffy said "This is an outstanding opportunity for DNZ in one of Auckland's major growth nodes. The opportunity to invest in a regional retail greenfields project which is zoned, and holds resource consent, is unique, and the centre is projected to be dominant within its catchment."

Before looking to start development, DNZ will undertake considerable further work to fully develop the proposal and ensure project feasibility, including pre-leasing commitments and long term funding strategy. Any development will be undertaken within the company's strategic objectives and guidelines.

The proposed Westgate Town Centre is a planned 56 hectare mixed use development. Within the Town Centre, Auckland Council continues to invest in new infrastructure including a new library, community rooms, a bus interchange, parks, walkways, a town square and main street. In addition there are planned offices, restaurants, an enclosed retail mall, bulk retail and specialty retail, entertainment and accommodation facilities.

DNZ is purchasing only the zone 5 land for the planned enclosed retail shopping centre, and will then subsequently look to undertake the development of the project and own this as a longer term investment within DNZ Property Fund's diversified property portfolio.

Settlement of the transaction will occur following the satisfaction of the following conditions, which are required to be satisfied by 27 May 2013:

- the vendor satisfying DNZ that the part of the zone 5 development land held under contract with a third party has settled; and
- a lease being granted and subsequently assigned to DNZ in respect of part of the zone 5 development land.

Provided that the conditions are satisfied, settlement will occur within 5 working days of new title being granted in respect of the zone 5 land.

Capital Raise and Trading Halt

DNZ is offering two separate capital raising initiatives to raise up to $80 million of equity to partially fund the Silverdale Centre and Westgate Zone 5 Land acquisitions and provide capacity for any future acquisitions. A summary of the key components of the capital raising initiative is outlined below.

Placement

- Up to $60.0 million private placement to institutional investors and "eligible persons"
- Pricing to be established in a bookbuild conducted by Goldman Sachs (NZ) Limited
- Settlement to occur on 30 May 2013
- New shares will rank equally with existing shares and be eligible for the 2.25cps dividend due to be paid on 20 June 2013

Share Purchase Plan (SPP)

- Offer of up to $20.0 million to eligible NZ resident DNZ shareholders
- Applications will be scaled if aggregated value received is greater than $20.0 million
- Maximum application of $15,000 per shareholder
- Will be priced at the lower of the final private placement price less the cash dividend of 2.25 cents per share due on 20 June 2013 and the volume weighted average end of day market price of the shares during a 10 working day period during the offer period

The placement and SPP are not conditional on the completion of either the acquisition of the Silverdale Centre or the Westgate Zone 5 Land.

A trading halt, effective immediately, has been requested from NZX to allow completion of the bookbuild and placement.

FY13 Fourth Quarter Dividend

For the fourth quarter of the 31 March 2013 financial year, the Board has approved a cash dividend of 2.25 cents per share. This dividend will carry 0.582 imputation credits. The record date for this dividend is 7 June 2013, with payment to shareholders to be made on 20 June 2013.

The final quarter dividend takes the full year cash dividend to shareholders to 9.0 cents per share.

Given the capital raising initiatives, the Board has resolved to suspend the DRP for the fourth quarter dividend. Its reinstatement will be reviewed at the next dividend announcement.

Summary

Mr Storey concluded by saying "Looking forward, the Board confirms dividend guidance of 9.0 cents per share for the financial year ending 31 March 2014. DNZ is well placed, with high occupancy rates and long-term contracted rental income streams. Our quality property portfolio is diversified over the office, retail and industrial property sectors, and located throughout New Zealand, giving us a geographical spread that also helps reduce risk or over exposure in one sector or one market."

"The primary focus of the management team continues to be maintaining occupancy levels and rental income streams. We will continue to engage with, manage and retain tenants through a proactive management focus that delivers strong and sustainable returns to shareholders. DNZ also continues to receive management fees in relation to the management of the $111m property portfolio of Diversified NZ Property Fund Limited for Australian institutional investors."

"We will also continue to look for new opportunities and other initiatives, to add value and further enhance the quality of our portfolio, either through investment in new properties or through our on-going proactive management of our existing tenants and lease tenure within the portfolio."

Notes

1 Distributable profit is a non-gaap financial measure adopted by DNZ to assist DNZ and investors in assessing DNZ's profit available for distribution. It is defined as a net profit/(loss) before income tax adjusted for non-recurring and/or non-cash items and current tax. Further information, including the calculation of Distributable profit and the adjustments to net profit before income tax is set out in note 9 to the audited financial statements for the year ended 31 March 2013.

2 The valuations of all properties disposed of during the 12 months from 1 April 2012 have been disregarded in this calculation. The valuation movement includes the movement on those properties purchased during the year. As at 31 March 2012, the portfolio was independently valued at $658 million.

3 Development land and properties contracted for sale as at 31 March 2013 have been excluded from this calculation.

END

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DNZ Property Fund Overview

DNZ Property Fund Limited owns one of New Zealand's largest diversified investment property portfolios with commercial office, retail and industrial properties located in the main urban areas throughout New Zealand. As at 31 March 2013, DNZ Property Fund owned 48 properties with 258 tenants, a weighted average lease term (WALT) of 5.2 years and an occupancy rate of 99.6% over a net lettable area of 354,502m^2.

DNZ Property Fund Limited is a Portfolio Investment Entity in which investors hold shares and is managed by its own internal management team. DNZ also holds management rights to Diversified NZ Property Fund Limited, a $111 million (as at 31 March 2013) commercial property portfolio.

DNZ's top 10 tenants as at 31 March 2013: Bunnings, Fletcher Building, NZ Government, Progressive Enterprises (Countdown), Foodstuffs (PAK'nSAVE & New World), ASB, Westpac, Meridian Energy, Lion and Mitre 10. These 10 tenants represent 52% of the Company's total contract rental.

Attachments provided to NZX:

1. NZX Appendix 1
2. NZX Appendix 7 – Dividend
3. NZX Appendix 7 – Share Purchase Plan
4. DNZ FY13 Results Presentation
5. DNZ FY13 Financial Statements