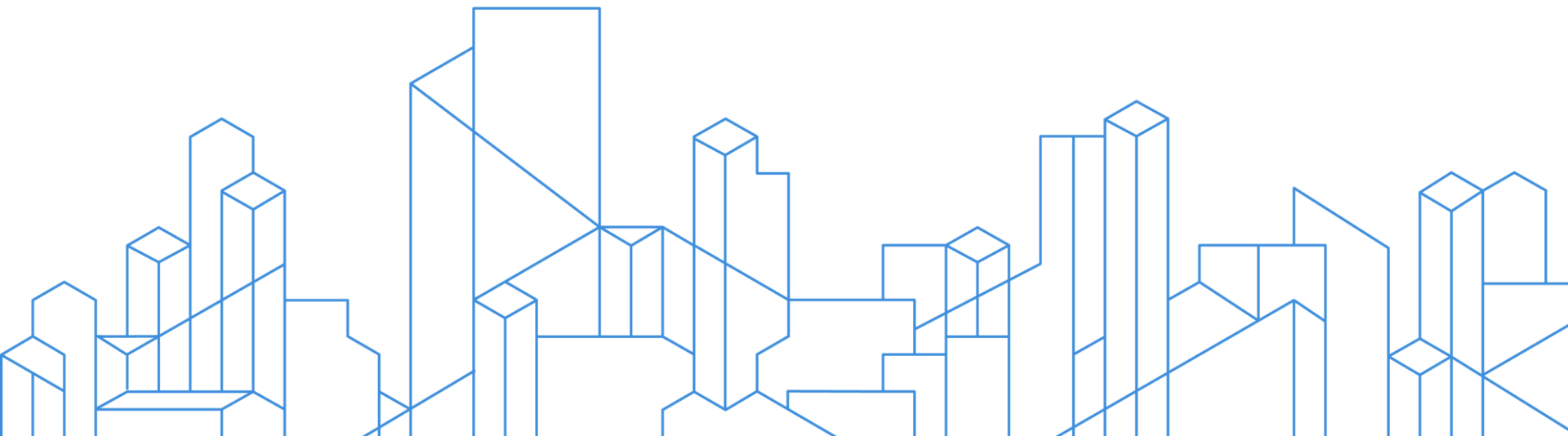


# Kiwi Property Proposal

March 2017



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# Agenda

- 1. Introduction**
- 2. Summary of the Kiwi Property Proposal**
- 3. Rationale for the Kiwi Property Proposal**
- 4. Risks and mitigation strategies**
- 5. Portfolio summary**

# 1. Introduction



# Introduction

- During the course of 2016, NPT received a number of transformational proposals, including from Kiwi Property Group Limited (“Kiwi Property”) (the “Kiwi Property Proposal”) and Augusta Capital Limited (“Augusta”)
- The Board of NPT has undertaken a thorough review and commissioned advice from independent advisors Northington Partners to determine which of the proposals would likely provide the best opportunity to create long-term value for shareholders (including an evaluation of the status quo)
- Following this review, and the advice of Northington Partners, the Board of NPT has concluded that the Kiwi Property Proposal is likely to deliver the best short and long-term benefits for NPT and shareholders
- NPT has subsequently negotiated the terms and, on 27 March 2017, executed the documentation to support implementation of the Kiwi Property Proposal, including the Sale and Purchase Agreements, Management Agreement, Share Subscription Agreement for Kiwi Property’s equity investment and debt funding
- Hence, with these commercial agreements in place, the Kiwi Property Proposal is now only subject to shareholder approval and limited other conditions
- The Board of NPT has released a Notice of Meeting and accompanying materials explaining the Kiwi Property Proposal, and recommends that shareholders vote in favour of Resolution 1 (to approve the Kiwi Property Proposal)
- The Notice of Meeting also contains certain resolutions proposed by Augusta (Resolutions 2-6). The Board of NPT recommends that shareholders vote against Resolutions 2-6

## **2. Summary of the Kiwi Property Proposal**



# Summary of the Kiwi Property Proposal

- NPT subsidiaries will purchase The Majestic Centre in central Wellington and North City Shopping Centre in Porirua (together the “Kiwi Properties”) from a Kiwi Property subsidiary for total consideration of \$230 million. This price is supported by independent market valuations dated 31 December 2016, which were jointly commissioned by Kiwi Property and NPT
- The consideration from NPT is expected to be funded through<sup>1</sup>:
  - an extension of NPT’s bank facilities of up to \$170 million (an additional \$86.6 million drawn);
  - a proposed entitlement offer to raise approximately \$93.9 million (the “Entitlement Offer”); and
  - Kiwi Property subscribing for 19.9% of new NPT shares which is expected to raise approximately \$47.9 million
- In addition, Kiwi Property will acquire the right to manage NPT and its property portfolio under the terms of the Management Agreement in return for a one-off \$6 million cash payment to NPT<sup>2</sup>
- The Kiwi Property Proposal is conditional upon shareholders approving Resolution 1, the successful execution of the Entitlement Offer, NPT obtaining sufficient funding for the Kiwi Property Proposal on terms acceptable to NPT and approval from the Overseas Investment Office

<sup>1</sup> The numbers are approximate and subject to change, dependent on the terms and outcome of the Entitlement Offer and the prevailing value of shares.

<sup>2</sup> If one of the sale and purchase agreements was terminated due to the property becoming “untenable” (as defined in the sale and purchase agreements), NPT could elect to proceed with only one sale and purchase agreement. In this event, Kiwi Property would pay \$4 million to NPT in consideration for the entry into the Management Agreement and would subscribe for such number of new shares so that it would hold approximately 11% of the total number of shares on issue post the Entitlement Offer.

# Key highlights of the Kiwi Property Proposal to NPT and NPT shareholders

- ✓ Provides the best opportunity to create long-term value for shareholders when weighed against alternatives presented to NPT, including the status quo
- ✓ Expected to drive a 9.7% increase to FY18F<sup>1</sup> pro forma Distributable Profit per share and a 7.0% increase to FY18F pro forma dividend per share<sup>2</sup> depending on the terms of the Entitlement Offer<sup>3</sup>
- ✓ More than doubles the size of NPT's property portfolio, from a value of \$170 million to over \$400 million<sup>4</sup>
- ✓ Provides a platform for future growth including through access to management from Kiwi Property
- ✓ Market leading management contract with a right for NPT to terminate without cause after five years<sup>5</sup>
- ✓ Increased market capitalisation post-completion of the Kiwi Property Proposal, which is expected to enhance liquidity and market coverage
- ✓ Management expense ratio<sup>6</sup> reduced from 1.3% in FY16 to approximately 0.7% per annum<sup>7</sup>

<sup>1</sup> NPT's forecast consolidated financial performance for the year ending 31 March 2018.

<sup>2</sup> Based on a 3.85 cents per share FY18F pro forma dividend if the Kiwi Property Proposal is approved, relative to a 3.60 cents per share FY18F dividend on a standalone basis.

<sup>3</sup> Standalone Distributable Profit per share based on FY18F forecast Distributable Profit per share of 3.75 cents for NPT's existing business adjusted by a factor of 0.975 to reflect the pro rata bonus element of the Entitlement Offer assuming a 1-for-1 Entitlement Offer at \$0.58 per New Share; an existing share price of \$0.61 as of 24 March 2017; and shares issued to Kiwi Property at a theoretical ex-rights price of \$0.595. FY18F pro forma Distributable Profit per share post the Kiwi Property Proposal based on the expected incremental earnings from the Kiwi Properties and proposed funding structure assuming they are acquired on 1 April 2017 and assumes a full year contribution to Distributable Profit. The NPT Board considers Distributable Profit as an appropriate measure to evaluate the impact of the Kiwi Property Proposal relative to GAAP profit measures as it removes the impacts of investment property revaluation gains and other one-off items. Schedule 2 of the Notice of Meeting provides a reconciliation of NPT's forecast FY18F net profit before taxation and Distributable Profit following the Kiwi Property Proposal.

<sup>4</sup> Based on NPT book values as of 30 September 2016 and independent valuations of the Kiwi Properties as of 31 December 2016 on an as complete basis assuming all seismic strengthening work has been completed.

<sup>5</sup> Termination by NPT can be made at any time after the fifth anniversary of the commencement date of the Management Agreement upon six months' notice if approved by an Ordinary Resolution of shareholders (excluding Kiwi Property and its Associated Persons) and upon payment of a termination fee equal to the higher of 2.5% of NPT's "Total Assets" and "Fair Market Value" (each as defined in the Management Agreement). Kiwi Property also has the ability to terminate the Management Agreement at any time after the fifth anniversary of the commencement date of the Management Agreement on six months' notice. In the case of such termination by Kiwi Property, NPT must pay a termination fee to Kiwi Property equal to 2.5% of NPT's "Total Assets" (as defined in the Management Agreement).

<sup>6</sup> The ratio of indirect operating expenses to total assets. Indirect operating expenses include the administration expenses of NPT and the "Fund Management Fee" (as defined in the Management Agreement) payable under the Management Agreement (but excluding any "Performance Fee" (as defined in the Management Agreement)).

<sup>7</sup> Based on the size of the NPT portfolio at the time of settlement of the acquisition of the Kiwi Properties and a full 12 months of operating expenses following the commencement of the Management Agreement.



# Adds two quality properties to NPT's portfolio

## The Majestic Centre, Wellington CBD<sup>1</sup>



Value	\$121.8 million
Net lettable area	24,473 sqm
Capitalisation rate <sup>2</sup>	7.25%
Passing yield <sup>3</sup>	6.37%
Occupancy	91.8%
WALT	5.5 years

- One of Wellington's most recognisable office towers, The Majestic Centre offers 21 levels of office accommodation, as well as ground floor retail and six levels of basement parking
- Kiwi Property has recently completed a major seismic strengthening project costing approximately \$84 million, which has increased the strength of the building's main tower to 100% of New Building Standard (NBS)
- Major tenants include Opus International Consultants, Earthquake Commission, Ernst & Young, Summerset, NZ Trade & Enterprise, Cigna Life and the Government of Japan

## North City Shopping Centre, Porirua<sup>1</sup>



Value <sup>4</sup>	\$114.0 million
Net lettable area	25,071 sqm
Capitalisation rate <sup>2</sup>	7.63%
Passing yield <sup>3</sup>	7.97%
Occupancy	99.5%
WALT	3.4 years

- Fully enclosed two-level regional shopping centre
- Located within Porirua's town centre, the centre is anchored by Kmart, Farmers and Reading Cinemas and is adjacent to a New World supermarket (under separate ownership)
- The centre has four mini-major tenancies (Whitcoulls, Paper Plus, Baby Factory, Life Pharmacy) and 86 specialty retail, kiosk and food court tenancies
- Level three of the property has office accommodation, which provides nine suites occupied by predominantly medical and community services tenants

<sup>1</sup> As of 31 December 2016.

<sup>2</sup> The capitalisation rate represents the rate utilised by property valuers and applied to the net income of the property (assuming fully leased) to derive its valuation (with adjustments for market rent variations) (from 31 December 2016 valuations).

<sup>3</sup> Passing yield represents the sum of total rent and expense recoveries from tenants less the total outgoing property expenses divided by the independent valuation.

<sup>4</sup> The independent valuation dated 31 December 2016 assumes that all components of North City Shopping Centre have NBS ratings in excess of 67%. Under the North City sale and purchase agreement, Kiwi Property Holdings Limited is to undertake work at North City Shopping Centre, with work expected to bring all areas of that property up to at least 67% of NBS.

# On completion of the Kiwi Property Proposal, NPT will target superior returns and growth through a 'Core-Plus' strategy



# Consideration and funding of the Kiwi Property Proposal

- Funding for the Kiwi Property Proposal is expected to be derived from<sup>1</sup>:
  - \$86.6 million of bank debt under extended bank debt facilities
  - the \$93.9 million Entitlement Offer
  - the issuance of 80.5 million of new shares to Kiwi Property for approximately \$47.9 million<sup>2</sup>
  - a \$6 million payment to NPT for entering into the Management Agreement
- The issuance of new shares to Kiwi Property will result in Kiwi Property becoming a cornerstone 19.9% shareholder in NPT (post-completion of the Entitlement Offer)
- Depending on the terms and outcome of the Entitlement Offer, gearing at completion of the Kiwi Property Proposal (FY18F pro forma) is expected to be approximately 35%

NPT Group Sources <sup>1</sup>	\$ million	NPT Group Uses <sup>1</sup>	\$ million
Payment from Kiwi Property for the Management Agreement <sup>3</sup>	6.0	Acquisition of the Kiwi Properties	230.0
New shares issued to Kiwi Property <sup>2</sup>	47.9	Transaction costs <sup>4</sup>	4.4
New Shares issued under the Entitlement Offer	93.9		
Extension of existing debt facilities	86.6		
<b>Total sources</b>	<b>234.4</b>	<b>Total uses</b>	<b>234.4</b>

<sup>1</sup> With the exception of the payment received for the Management Agreement and the payment made for the acquisition of the Kiwi Properties, the numbers shown are necessarily approximations as the final numbers will depend on the terms and outcome of the Entitlement Offer and the prevailing value of new shares.

<sup>2</sup> The new shares issued to Kiwi Property in part consideration for the acquisition of the Kiwi Properties will be issued so as to provide Kiwi Property an approximately 19.9% shareholding in NPT post the Entitlement Offer and the issue of shares to Kiwi Property, at an issue price based on the volume weighted average price of shares traded on the Main Board over the 10 trading days up to the date that the Entitlement Offer commences (adjusted for the impact of the Entitlement Offer), provided that if one of the sale and purchase agreements is terminated then Kiwi Property will be issued an amount of new shares which would result in an approximately 11% shareholding in NPT post the Entitlement Offer and the issue of shares to Kiwi Property. For the purposes of the indicative funding sources, Kiwi Property is assumed to hold 19.9% of NPT's shares on issue post the Entitlement Offer. The new shares issued to Kiwi Property are assumed to have a value of approximately \$47.9 million but this may vary depending on the number of New Shares issued under the Entitlement Offer and the prevailing value of Shares.

<sup>3</sup> If one of the sale and purchase agreements is terminated then the payment from Kiwi Property for the Management Agreement will be \$4 million.

<sup>4</sup> Includes estimated total costs relating to the Kiwi Property Proposal, expected costs relating to the Entitlement Offer and \$0.5 million of property due diligence and purchase costs.

# Summary financial metrics

	NPT standalone <sup>1</sup>		FY18F pro forma for Kiwi Property Proposal
	FY17B	FY18F	
Distributable Profit per share (unadjusted for the impact of the Entitlement Offer) (cents)	3.75	3.75	4.01
Distributable Profit per share adjusted for the impact of the Entitlement Offer (cents) <sup>2,3</sup>	3.66	3.66	4.01
Dividends per share (cents) <sup>4</sup>	3.60 <sup>5</sup>	3.60 <sup>6</sup>	3.85
Net Tangible Assets per share (\$)	0.75	0.75	0.67
Pro forma gearing <sup>7</sup>	32.9%	34.6%	35.4%

<sup>1</sup> Represents NPT's standalone FY17 budgeted consolidated financial performance for the year ending 31 March 2017 (comprising actual financial performance for NPT and its subsidiaries for the 10 months ending 31 January 2017 and expected financial performance for NPT and its subsidiaries for the two months beginning on 1 February 2017 and ending 31 March 2017) and NPT's standalone forecast consolidated financial performance for the year ending 31 March 2018.

<sup>2</sup> Distributable Profit per share represents NPT's calculation of underlying earnings, which is defined as net profit before income tax adjusted for non-cash items and/or non-recurring items less current tax, divided by the fully diluted shares on issue.

<sup>3</sup> Standalone Distributable Profit per share based on FY18F forecast Distributable Profit per share of 3.75 cents for NPT's existing business adjusted by a factor of 0.975 to reflect the pro rata bonus element of the Entitlement Offer assuming a 1-for-1 Entitlement Offer at \$0.58 per New Share; an existing share price of \$0.61 as of 24 March 2017; and shares issued to Kiwi Property at a theoretical ex-rights price of \$0.595. FY18F pro forma Distributable Profit per share post the Kiwi Property Proposal based on the expected incremental earnings from the Kiwi Properties and proposed funding structure assuming they are acquired on 1 April 2017 and assumes a full year contribution to Distributable Profit. The NPT Board considers Distributable Profit as an appropriate measure to evaluate the impact of the Kiwi Property Proposal relative to GAAP profit measures as it removes the impacts of investment property revaluation gains and other one-off items. Schedule 2 of the Notice of Meeting provides a reconciliation of NPT's forecast FY18F net profit before taxation and Distributable Profit following the Kiwi Property Proposal.

<sup>4</sup> NPT intends to maintain its current dividend policy of distributing between 90 – 100% of Distributable Profit paid on a quarterly basis. Forecast dividends are based on NPT's expected total dividend of 3.60 cents per share for FY17B and maintaining a dividend of 3.60 cents per share for FY18F on a standalone basis, representing a pay-out of approximately 96% of FY18F Distributable Profit. The same pay-out is assumed under the Kiwi Property Proposal resulting in a dividend of 3.85 cents per share.

<sup>5</sup> NPT's dividend guidance for the year ending 31 March 2017 is 3.60 cents per share with 2.70 cents per share paid or declared for the first three quarters of FY17. However, in the event that the Kiwi Property Proposal proceeds, the intended fourth quarter dividend of 0.90 per share (payable in respect of the 31 March 2017 financial year) would be adjusted to reflect the increased number of shares on issue as a result of the proposed Entitlement Offer. Based on a 1-for-1 Entitlement Offer, this would represent 0.45 cents per share in respect of the fourth quarter dividend.

<sup>6</sup> If the Kiwi Property Proposal does not proceed, NPT's medium term dividends may reduce as the Board expects to adopt a dividend pay-out at the lower end of its dividend policy of distributing 90 – 100% of Distributable Profit in order to recover transaction costs incurred.

<sup>7</sup> Total Debt / Investment Properties and Property Work in Progress.

# Governance

- NPT will continue to have a Board that includes independent directors who are appointed by shareholders as required by the Listing Rules
- The Board will continue to be responsible for the corporate governance of NPT, including oversight of the Management Agreement and performance of Kiwi Property as manager
- Under the Management Agreement, Kiwi Property has the right to request that NPT call a meeting of shareholders at a future time to seek shareholder approval for a change to NPT's constitution to enable Kiwi Property to appoint either one director to the Board<sup>1</sup>, up to two directors to the Board<sup>2</sup>, or such number of directors as is equal to one-third of the total number of directors (rounded to the nearest whole number of directors)<sup>3</sup>:
  - This would require approval by special resolution of shareholders (i.e. by 75% of NPT shareholders entitled to vote and voting)
  - This would also require that waivers be obtained from NZX to permit the constitution to provide for these appointment rights. NZX may or may not agree to grant any required waivers
- Under the Management Agreement, unless and until NPT's constitution is amended as described above, the Board will, upon request by Kiwi Property, fill any casual vacancy on the Board with persons nominated by Kiwi Property provided that the number of directors appointed in this way does not exceed the maximum that would be permitted if the constitution had been amended. Any directors nominated by Kiwi Property and appointed by the Board to fill any casual vacancy will retire and be eligible for election at the next annual meeting of shareholders
  - Kiwi Property has advised that it does not currently intend to exercise this right. While this reflects Kiwi Property's current position it would be entitled to change this view at any time and exercise its rights under the Management Agreement

<sup>1</sup> Where the total number of directors on the Board is five or less.

<sup>2</sup> Where the total number of directors on the Board is six.

<sup>3</sup> Where the total number of directors on the Board is more than six.

### **3. Rationale for the Kiwi Property Proposal**



# Provides scale and improves portfolio quality

- The Kiwi Properties are consistent with NPT's existing investment strategy, which is founded on a diversified nationwide portfolio of retail, commercial and industrial buildings
- The combined portfolio will continue to have attractive property portfolio metrics, but will have a more diverse tenant base, a firmer capitalisation rate and continue to have robust weighted average lease term and occupancy metrics
- The combined portfolio also provides a larger base from which to execute NPT's 'Core-Plus' investment strategy

	NPT standalone		Kiwi Properties		NPT post-completion of the Kiwi Property Proposal
Portfolio value <sup>1</sup> (\$ million)	169.9	+	235.8	▶	405.7
Number of properties	5	+	2	▶	7
Average value of properties (\$ million)	34.0	+	117.9	▶	58.0
Number of tenants	89	+	129	▶	218
Weighted average lease term <sup>2</sup> (years)	5.0	+	4.5	▶	4.7
Capitalisation rate <sup>3</sup>	7.9%	+	7.4%	▶	7.6%
Passing yield <sup>4</sup>	7.9%	+	7.2%	▶	7.5%
Occupancy <sup>2</sup>	98.3%	+	95.7%	▶	97.6%

<sup>1</sup> Based on NPT book values as of 30 September 2016 and independent valuations of the Kiwi Properties as of 31 December 2016 on an as complete basis assuming all seismic strengthening work has been completed.

<sup>2</sup> NPT portfolio and the Kiwi Properties weighted average lease term and occupancy as of 31 December 2016.

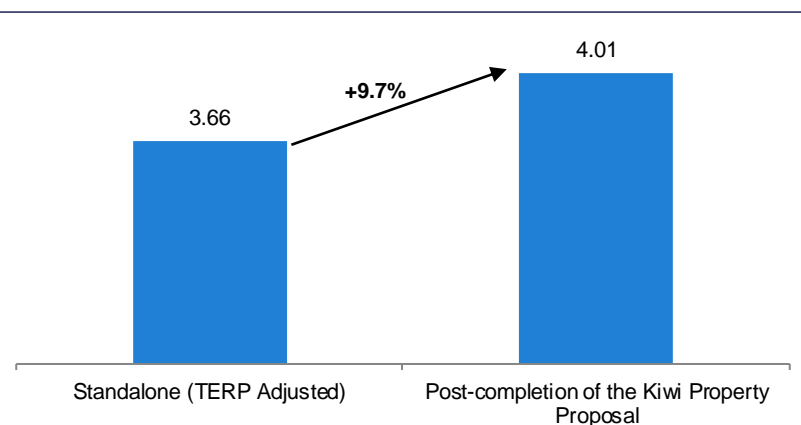
<sup>3</sup> The capitalisation rate represents the rate utilised by property valuers and applied to the net income of the property (assuming fully leased) to derive its valuation (with adjustments for market rent variations) (from 31 March 2016 valuations in respect of NPT and 31 December 2016 valuations for the Kiwi Properties).

<sup>4</sup> Passing yield represents the sum of total rent and expense recoveries from tenants less the total outgoing property expenses divided by the independent valuation (from 31 March 2016 valuations in respect of NPT and 31 December 2016 for the Kiwi Properties).

# Enhanced earnings and dividends for NPT shareholders

- Based on the terms of the acquisition of the Kiwi Properties and the current expected size of the Entitlement Offer, the Board expects that the Kiwi Property Proposal will result in improved distributable earnings to shareholders in the first full year of ownership on a TERP adjusted basis<sup>1</sup>
  - Pro forma Distributable Profit per share expected to increase by 9.7%

**FY18F<sup>1</sup> pro forma Distributable Profit per share<sup>2</sup>**

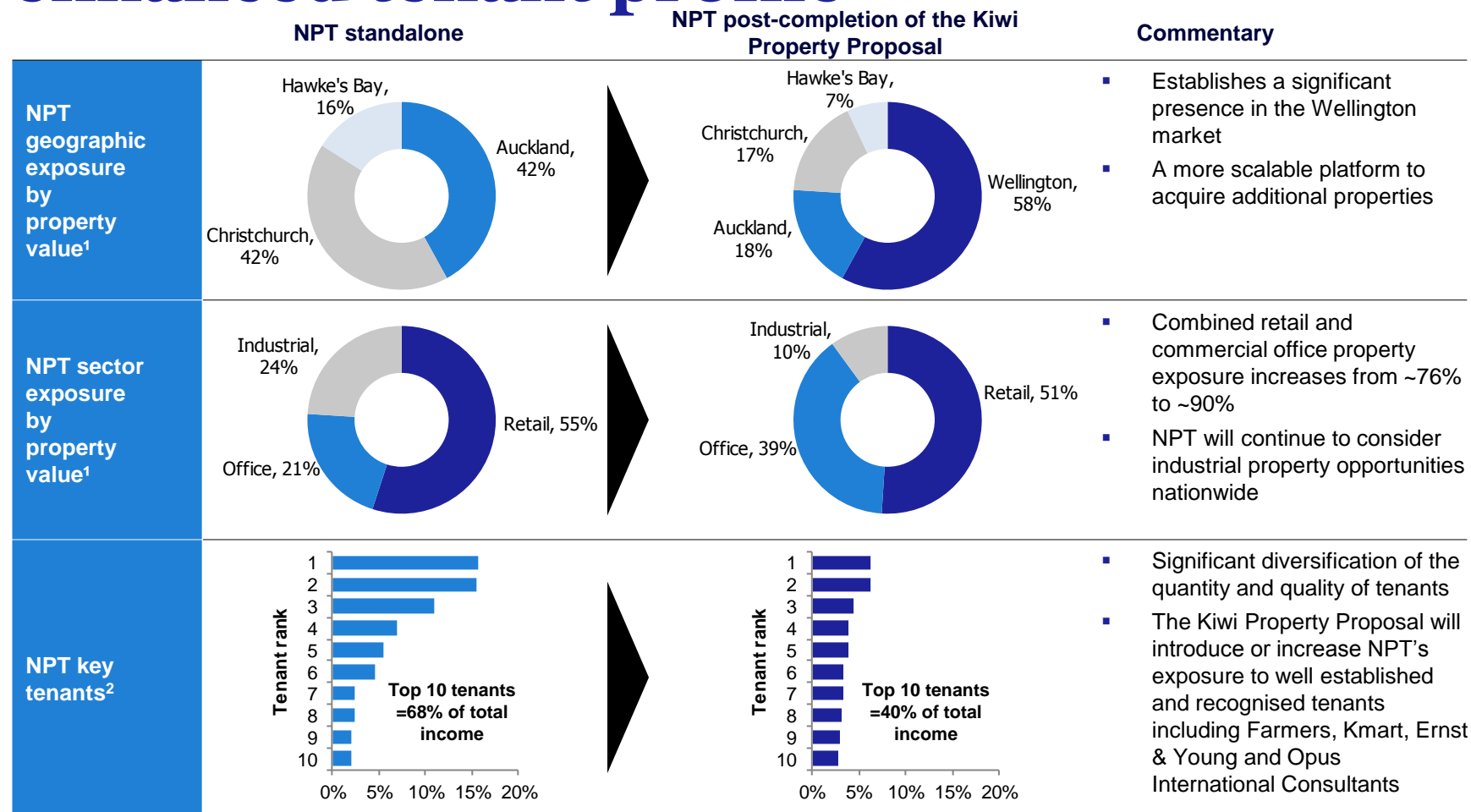


<sup>1</sup> NPT's forecast consolidated financial performance for the year ending 31 March 2018.

<sup>2</sup> Standalone Distributable Profit per share based on FY18F forecast Distributable Profit per share of 3.75 cents for NPT's existing business adjusted by a factor of 0.975 to reflect the pro rata bonus element of the Entitlement Offer assuming a 1-for-1 Entitlement Offer at \$0.58 per New Share; an existing share price of \$0.61 as of 24 March 2017; and shares issued to Kiwi Property at a theoretical ex-rights price of \$0.595. FY18F pro forma Distributable Profit per share post the Kiwi Property Proposal based on the expected incremental earnings from the Kiwi Properties and proposed funding structure assuming they are acquired on 1 April 2017 and assumes a full year contribution to Distributable Profit. The NPT Board considers Distributable Profit as an appropriate measure to evaluate the impact of the Kiwi Property Proposal relative to GAAP profit measures as it removes the impacts of investment property revaluation gains and other one-off items. Schedule 2 of the Notice of Meeting provides a reconciliation of NPT's forecast FY18F net profit before taxation and Distributable Profit following the Kiwi Property Proposal.



# More diverse property portfolio with enhanced tenant profile



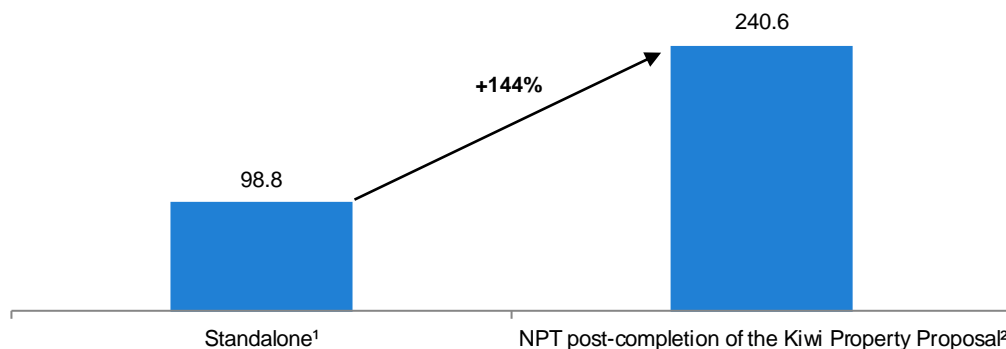
<sup>1</sup> Based on NPT book values as of 30 September 2016 and independent valuations of the Kiwi Properties as of 31 December 2016 on an as complete basis assuming all seismic strengthening has been completed.

<sup>2</sup> Top 10 tenants by total income as at 31 December 2016.

# Increased market cap expected to enhance liquidity and broaden investor interest

- The Kiwi Property Proposal and the Entitlement Offer are expected to more than double NPT's market capitalisation and should over time lead to an expanded shareholder base
  - NPT expects this will result in greater share trading liquidity and an improved NZX property index weighting over time
- The increased scale of NPT should increase the likelihood of greater research coverage and stimulate wider market interest in NPT, providing enhanced access to equity capital
- Kiwi Property's cornerstone 19.9% shareholding post-completion of the Kiwi Property Proposal, as well as access to Kiwi Property's capital management, treasury and investor relations skills should also support NPT's access to capital markets for the benefit of future growth and ongoing improvements in NPT's cost of capital

**Market capitalisation pre and post-completion of the Kiwi Property Proposal (\$ million)**



<sup>1</sup> Based on a share price of \$0.61 as of 24 March 2017 multiplied by 161.9 million shares.

<sup>2</sup> Based on share price of \$0.61 multiplied by 161.9 million shares, plus the value of shares issued under the Entitlement Offer and issued to Kiwi Property, assuming a 1-for-1 Entitlement Offer at \$0.58 per New Share; a share price of \$0.61 as of 24 March 2017; and shares issued to Kiwi Property at the theoretical ex-rights price (TERP) of \$0.595.

# Partnering with Kiwi Property creates a platform for future growth

## Greater platform for future growth

- Immediately following completion of the Kiwi Property Proposal, NPT will have:
  - A portfolio value in excess of \$400 million
  - Expanded debt facilities of up to \$170 million. ~\$58 million is already drawn under existing debt facilities and an additional ~\$87 million will be used to part fund the acquisition of the Kiwi Properties
  - Gearing<sup>1</sup> expected to be maintained within the long-run target level of 35%
- A larger asset base and available debt capacity will provide an enhanced position for NPT to grow, either through new acquisitions and/or by recycling capital out of existing properties into new opportunities

## Benefits of partnering with Kiwi Property for NPT's existing and future portfolio

- Partnering with Kiwi Property through the Management Agreement and its cornerstone 19.9% shareholding is expected to benefit NPT through access to:
  - A funds and property management platform consisting of over 170 people covering all disciplines of property ownership including specialist skills in property management, marketing, development and capital management
  - Kiwi Property's national expertise in office and retail property management, including one of New Zealand's best retail leasing teams
  - Opportunities to access Kiwi Property's network of existing tenants for the benefit of NPT's existing portfolio
  - A broader range of potential investment opportunities which will be procured through, or presented to, Kiwi Property but which might not otherwise be seen by NPT
- NPT's management expense ratio (the ratio of indirect operating expenses<sup>2</sup> to total assets) is expected to reduce from approximately 1.3% in FY16 to approximately 0.7% per annum<sup>3</sup>

<sup>1</sup> Total debt / total assets.

<sup>2</sup> Indirect operating expenses include the administration expenses of NPT and the "Fund Management Fee" (as defined in the Management Agreement) payable under the Management Agreement (but excluding any "Performance Fee" (as defined in the Management Agreement)).

<sup>3</sup> Based on the size of the NPT portfolio at the time of settlement of the acquisition of the Kiwi Properties and a full 12 months of operating expenses following the commencement of the Management Agreement.

# More favourable management structure

- Of the proposals received by NPT, the majority required the externalisation of management through a new management agreement with varying terms for the contract purchase price, ongoing fees and the level of services provided
- In assessing the alternative proposals and subsequently negotiating the Management Agreement with Kiwi Property, the Board of NPT had clear objectives, as outlined below:

**Maximise proceeds from the initial entry into the contract**

- ✓ Kiwi Property will make a higher payment for the externalisation of management than amounts offered under other proposals

**Provide benefits of having an external manager with a strong market presence**

- ✓ Kiwi Property is highly regarded and will be incentivised to act in the best interests of NPT through its 19.9% cornerstone shareholding
- ✓ NPT will obtain access to the resources of Kiwi Property, including a dedicated fund manager

**Maintain independence**

- ✓ Maintenance of NPT independence through a separate board structure

**Allow for future termination of the Management Agreement**

- ✓ NPT has the ability to terminate without cause after five years (with approval by shareholders by ordinary resolution) for a payment by NPT of an amount equal to the greater of 2.5% of “Total Assets” and “Fair Market Value” (each as defined in the Management Agreement)
- ✓ Kiwi Property cannot assign the Management Agreement to a third party without NPT’s consent but can terminate without cause after five years for a payment by NPT of an amount equal to 2.5% of “Total Assets” (as defined in the Management Agreement)<sup>1</sup>

<sup>1</sup> Except where Kiwi Property assigns its rights and obligations to a wholly owned subsidiary or to an entity which has one or more of its equity securities stapled to the shares in Kiwi Property and in each case the relevant entity manages Kiwi Property.

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# Conclusion

- The Kiwi Property Proposal is a **transformational** transaction that would reposition NPT with the scale and resources to best serve its shareholders' interests:
  - Provides access to Kiwi Property's specialist management capabilities to intensively manage assets and drive investment performance
- The proposal brings a high degree of **commercial certainty**:
  - commercial agreements in place (subject to shareholder approval and limited other conditions)
  - time-bound and actionable
- **Aligns the interests** of NPT and Kiwi Property to benefit shareholders:
  - Kiwi Property's interests aligned with NPT shareholders through a 19.9% shareholding
  - Kiwi Property motivated under the terms of the Management Agreement to perform for NPT shareholders



## 4. Risks and mitigation strategies



# Risks and mitigation strategies

	Risk		Mitigation strategies
Transaction costs could be significant	<ul style="list-style-type: none"> <li>▪ If Resolution 1 is not approved by shareholders, or if any of the transactions under the Kiwi Property Proposal are not implemented, NPT will have incurred significant costs even though the transactions would not proceed as proposed</li> <li>▪ NPT estimates total transaction costs for successful implementation of the Kiwi Property Proposal transaction would be approximately \$4.4 million. In the event that the Kiwi Property Proposal does not proceed, NPT expects that approximately \$1.5 million of these costs would still have been incurred</li> </ul>		<ul style="list-style-type: none"> <li>▪ Transaction costs are not material in the context of the Kiwi Property Proposal as a whole. However, they are potentially material to NPT in its current form. Shareholders should take into account the effect of the transaction costs</li> </ul>
Completion of works at North City Shopping Centre	<ul style="list-style-type: none"> <li>▪ Under the North City Sale and Purchase Agreement, Kiwi Property Holdings Limited has agreed to undertake (or manage) certain works in respect of North City at its own cost</li> <li>▪ These works are required to be undertaken under the terms of existing leases or contractual arrangements entered into by Kiwi Property Holdings Limited with the owner of an adjoining property</li> <li>▪ If the works are not completed on time or to the required standard, tenants may seek to enforce rights under leases against NPT as the landlord</li> <li>▪ The consequences could potentially include termination of a lease by an anchor tenant</li> </ul>		<ul style="list-style-type: none"> <li>▪ Kiwi Property has contractual obligations to complete (or manage) these works</li> <li>▪ Kiwi Property will be a 19.9% shareholder in NPT upon completion of the Kiwi Property Proposal, so is incentivised to complete the works to the required standard</li> <li>▪ Kiwi Property is incentivised under the Management Agreement through payment of fees</li> </ul>

# Risks and mitigation strategies (cont.)

	Risk		Mitigation strategies
North City Shopping Centre has been valued on the basis that it has an NBS rating in excess of 67%	<ul style="list-style-type: none"> <li>▪ The works to be undertaken by Kiwi Property Holdings Limited at North City described above are expected to bring the relevant areas of the property up to at least 67% of NBS</li> <li>▪ The valuation report of North City assumes that all components of North City have NBS ratings in excess of 67%</li> <li>▪ There is a risk that these works are not completed in compliance with the specified designs or, if so, will not result in all components of the North City having an NBS rating in excess of 67%</li> </ul>		<ul style="list-style-type: none"> <li>▪ Kiwi Property has obtained external engineering analysis of the works to be undertaken to minimise the risk that the resulting NBS for the North City is below 67% of NBS</li> </ul>
The Majestic Centre seismic works not performing to expectation	<ul style="list-style-type: none"> <li>▪ Kiwi Property has spent approximately \$84 million on seismic works at The Majestic Centre. If these works did not perform to expectation, or further seismic works were required, this could require additional seismic works at a material cost for NPT and shareholders</li> </ul>		<ul style="list-style-type: none"> <li>▪ NPT has the benefit of Kiwi Property's external, independent, engineering advice and sign-offs which have confirmed the NBS rating of each section of The Majestic Centre</li> <li>▪ The Majestic Centre experienced only minor and non-structural damage in the recent 2016 Kaikoura Earthquakes</li> </ul>



# Risks and mitigation strategies (cont.)

	Risk	Mitigation strategies
Performance of external manager	<ul style="list-style-type: none"> <li>▪ If the Kiwi Property Proposal is implemented, NPT will be reliant on the management of Kiwi Property and the expertise of Kiwi Property's management team</li> <li>▪ There is also a risk that Kiwi Property makes acquisition allocation decisions that do not necessarily favour NPT and accordingly that NPT misses out on opportunities due to these decisions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Kiwi Property is the largest listed property vehicle on the NZX Main Board</li> <li>▪ Kiwi Property will also have aligned interests through its 19.9% investment in NPT and will be incentivised to perform through the performance fee provisions in the Management Agreement</li> <li>▪ The Management Agreement may be terminated by NPT after five years</li> <li>▪ Kiwi Property has adopted a Conflicts of Interest Policy under which acquisition and leasing opportunities are dealt with</li> </ul>
NPT may not meet the expected earnings per share or other forward-looking information contained in the Notice of Meeting	<ul style="list-style-type: none"> <li>▪ NPT has carefully prepared the forward-looking financial information contained in the Notice of Meeting to ensure it represents its best estimate of the matters described</li> <li>▪ The forward-looking financial information in the Notice of Meeting has been prepared for illustrative purposes but should not be taken as a guarantee or statement by NPT, the Board or any other person that those results will be achieved</li> </ul>	<ul style="list-style-type: none"> <li>▪ Shareholders should carefully read the assumptions which are contained in Schedule 2 of the Notice of Meeting and be aware that the actual results may vary from the information contained in this Notice of Meeting</li> </ul>

# Risks and mitigation strategies (cont.)

	Risk	Mitigation strategies
<b>The Entitlement Offer may be unsuccessful if not supported by shareholders</b>	<ul style="list-style-type: none"><li>▪ NPT expects that it will need to raise approximately \$94 million under the Entitlement Offer as part of the funding for the acquisition of the Kiwi Properties. Although the Board intends that the Entitlement Offer be underwritten, the underwriting agreement is only expected to be entered into following the Special Meeting</li><li>▪ There is a risk that this underwriting agreement may not be entered into. If it is not underwritten, the Board believes that it will be very difficult to successfully raise the amount required under the Entitlement Offer and therefore the acquisition of the Kiwi Properties may be unable to take place</li></ul>	<ul style="list-style-type: none"><li>▪ New Shares will be offered on a pro rata basis to Shareholders who will be encouraged to take up their entitlements</li><li>▪ In the event that there is a shortfall in subscriptions for New Shares under the Entitlement Offer, institutional shareholders and other institutional investors will be sought to participate in a bookbuild process to subscribe for these unallocated New Shares. The Board has entered into a mandate letter with Forsyth Barr Limited in relation to this process</li><li>▪ NPT has also been undertaking a comprehensive process to prepare for the offer so that it can commence as soon as possible after the Special Meeting</li></ul>

## 5. Portfolio summary



# Overall portfolio summary

Property	Location	Sector	Value (\$ million) <sup>1</sup>	Net lettable area (sqm)	Cap. rate <sup>2</sup>	Passing yield <sup>3</sup>	Occupancy <sup>4</sup>	WALT <sup>4</sup>	Number of tenants
<b>NPT properties</b>									
Eastgate Shopping Centre	Christchurch	Retail	\$58.0	28,679	8.3%	7.9%	96.3%	4.8 years	55
AA Centre	Auckland	Office	\$36.7	12,284	7.8%	8.3%	92.2%	2.6 years	8
22 Stoddard Road	Auckland	Retail	\$35.0	8,412	6.6%	6.4%	100.0%	5.2 years	21
Heinz Wattie's Dist. Centre	Hawke's Bay	Industrial	\$27.2	60,059	8.1%	8.1%	100.0%	10.1 years	2
Print Place	Christchurch	Industrial	\$13.0	12,793	9.8%	10.5%	100.0%	1.5 years	3
<b>Subtotal</b>			<b>\$169.9</b>	<b>122,227</b>	<b>7.9%</b>	<b>7.9%</b>	<b>98.3%</b>	<b>5.0 years</b>	<b>89</b>
<b>Kiwi Property properties</b>									
The Majestic Centre	Wellington	Office	\$121.8	24,473	7.3%	6.4%	91.8%	5.5 years	27
North City Shopping Centre	Wellington	Retail	\$114.0	25,071	7.6%	8.0%	99.5%	3.4 years	102
<b>Subtotal</b>			<b>\$235.8</b>	<b>49,544</b>	<b>7.4%</b>	<b>7.2%</b>	<b>95.7%</b>	<b>4.5 years</b>	<b>129</b>
<b>Total</b>			<b>\$405.7</b>	<b>171,771</b>	<b>7.6%</b>	<b>7.5%</b>	<b>97.6%</b>	<b>4.7 years</b>	<b>218</b>

<sup>1</sup> Based on NPT book values as of 30 September 2016 and independent valuations of the Kiwi Properties as of 31 December 2016 on an as complete basis assuming all seismic strengthening work has been completed.

<sup>2</sup> The capitalisation rate represents the rate utilised by property valuers and applied to the net income of the property (assuming fully leased) to derive its valuation (with adjustments for market rent variations) (from 31 March 2016 valuations in respect of NPT and 31 December 2016 valuations for the Kiwi Properties).

<sup>3</sup> Passing yield represents the sum of total rent and expense recoveries from tenants less the total outgoing property expenses divided by the independent valuation (from 31 March 2016 valuations in respect of NPT and 31 December 2016 for the Kiwi Properties).

<sup>4</sup> NPT portfolio and the Kiwi Properties weighted average lease term and occupancy as of 31 December 2016.

# NPT property profiles

## Eastgate Shopping Centre, Christchurch



Value	\$58.0 million
Net lettable area	28,679 sqm
Capitalisation rate	8.3%
Passing yield	7.9%
Occupancy	96.3%
WALT	4.8 years



- Eastgate occupies a high-profile position about 3km east of the Christchurch CBD
- 36 specialty stores and a food court to complement its anchor tenants The Warehouse, Warehouse Stationery and Countdown
- Also home to the local library and The Loft, New Zealand's first integrated social and health services centre
- Eastgate has rebounded well post-earthquake, with development works now completed

## AA Centre, Auckland



Value	\$36.7 million
Net lettable area	12,284 sqm
Capitalisation rate	7.8%
Passing yield	8.3%
Occupancy	92.2%
WALT	2.6 years



- The AA Centre is an 18-level high-rise office tower with ground floor retail space and a basement car park
- Located on the corner of Albert and Victoria Streets in the Auckland CBD, this central location adjoins the popular Federal Street entertainment and dining precinct
- Unit titled building with NPT owning the majority of the floors
- Major tenants include the NZ Automobile Association, Department of Internal Affairs, AA Insurance and Ministry of Justice

# NPT property profiles (cont.)

## 22 Stoddard Road, Auckland



Value	\$35.0 million
Net lettable area	8,412 sqm
Capitalisation rate	6.6%
Passing yield	6.4%
Occupancy	100.0%
WALT	5.2 years

- 22 Stoddard is well located in the strengthening catchment of Mt Roskill in Auckland and benefits from having a New World supermarket on an immediately adjoining site
- Anchored by The Warehouse, ANZ and Westpac, the property has 20 speciality retail stores and over 300 carparks

## Heinz Wattie's Distribution Centre, Hawke's Bay

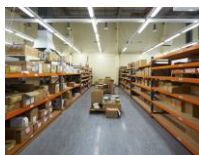


Value	\$27.2 million
Net lettable area	60,059 sqm
Capitalisation rate	8.1%
Passing yield	8.1%
Occupancy	100.0%
WALT	10.1 years

- Six hectare distribution centre is located in the central North Island
- Home to iconic New Zealand brand Heinz Wattie's and is an integral part of its logistics chain, being adjacent to its production facility
- One of New Zealand's largest standalone warehouses

# NPT property profiles (cont.)

## Print Place, Christchurch



Value	\$13.0 million
Net lettable area	12,793 sqm
Capitalisation rate	9.8%
Passing yield	10.5%
Occupancy	100.0%
WALT	1.5 years

- Industrial property set in attractive grounds including a high-stud warehouse and factory space with associated office space
- This property is well located in the Middleton industrial area of Christchurch with excellent access to the southern motorway system