PEET

Peet Limited

ABN 56 008 665 834

Appendix 4D and Consolidated Financial Statements for the half-year ended 31 December 2018

Appendix 4D

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Results for announcement to the market

Entity: Peet Limited and its controlled entities
Reporting Period: 31 December 2018
Previous Corresponding Period: 31 December 2017

				$'million
Revenue	Down	13%	to	$108.5
Statutory profit after tax attributable to owners of Peet Limited	Up	5.6%	to	$23.1
Basic and diluted earnings per share (cents)	Up	6.0%	to	4.74c

Dividends	Cents per security	% Franked per security
Current Year		
Interim dividend 2019	2.0	Fully franked
Previous Year		
Final dividend 2018	3.0	Fully franked
Interim dividend 2018	2.0	Fully franked

Results Commentary

Key results[1]

- Operating profit[2] and statutory profit[3] after tax of $23.1 million, up 5.6%
- Earnings per share of 4.7 cents, up 6%
- 1,417 lots[4] settled, up 32%
- Contracts on hand [5] as at 31 December 2018 of 1,804 with a value of $456 million
- Gearing[6] of 22.2%
- Fully franked interim dividend of 2.0 cents per share

Financial commentary

The Peet Group achieved an operating profit[2] and statutory profit[3] after tax of $23.1 million for the half-year ended 31 December 2018, which represents an increase of 5.6% compared with the previous corresponding period. This represents a solid result underpinned by an increase in settlements across the Group's national portfolio.

The performance has resulted in earnings per share of 4.74 cents, representing an increase of 6% compared with the previous corresponding period.

The first half of FY19 saw a decrease in the number of sales achieved across the Group's projects, with the number of sales impacted by changing lending conditions, the completion of several Syndicates in Victoria and a general moderation of market conditions, particularly in that state. Peet does not have a direct exposure to the Sydney market.

The change in lending conditions has seen delays in buyers being able to secure finance approvals and more stringent assessment criteria impacting the availability of finance, particularly for first home-buyers. Peet expects a normalisation of the finance approvals process to emerge as property buyers become accustomed to financiers' new lending requirements.

Revenue for the period was impacted by lower project management fees as a result of lower sales activity and a strategic englobo land sale in Victoria in 1H18.

The Group continues to execute its Funds Management strategy, which contributed approximately 50% of the Group's first half earnings. Earnings from the Funds Management business include share of net profit of associates, which is an after interest and tax amount. The Group achieved EBITDA[7] during the half year of $36.3 million, compared to $41.7 million in the previous corresponding period. The EBITDA for 1H19 adjusting for interest, tax and depreciation on the net profit of associates increases to $40.6 million.

The Funds Management business continued to achieve strong margins (69% in 1H19 and 70% in 1H18) and contributed to the Group's overall EBITDA[7] margin for 1H19 of 31%. This compares to an EBITDA[7] margin of 33% for the previous corresponding period.

The Group continues to maintain a strong balance sheet on the back of prudent capital management, including the active management of its landbank.

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[1] Comparative period is half year ended 31 December 2017 unless stated otherwise. The non-IFRS measures have not been audited.

[2] Operating profit is a non-IFRS measure that is determined to present the ongoing activities of the Group in a way that reflects its operating performance. Operating profit excludes unrealised fair value gains/(losses) arising from the effect of revaluing assets and liabilities and adjustments for realised transactions outside the core ongoing business activities.

[3] Statutory profit after tax means net profit measured in accordance with Australian Accounting Standards, attributable to the owners of Peet Limited. The effective tax rate is lower than the statutory tax rate due to additional tax-deductible employee benefits and higher share of profits from associates and JVs.

4 Includes equivalent lots.

[5] Includes equivalent lots. Excludes englobo sales.

[6] Calculated as (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets). Excludes syndicates consolidated under AASB10.

7 EBITDA is a non-IFRS measure that includes effects of non-cash movements in investments in associates and joint ventures.

The Group has pro-actively managed the recent strong property cycle in Melbourne and by FY20, excluding any new acquisitions, will have only three active projects in Melbourne. Peet has avoided replenishing its land bank in Victoria and New South Wales and divested a number of assets in Melbourne over the last several years to capitalise on that strong cycle. The capital raised from these sales has been redeployed across strategically targeted opportunities in Queensland, Western Australia and South Australia over the past three years, ensuring a strong market position in improving markets with a low cost base enabling the Group to deliver an affordable price point.

During 1H19, the Group secured an 80-hectare property in Perth's northern coastal corridor, with approvals in place to develop more than 1,000 lots. The property acquisition has been funded by the establishment of a new wholesale syndicate. Peet retains a 19.9% interest in the syndicate and will act as development manager of the property.

The Group derived solid cash inflows from operations (before payments for purchase of land) in 1H19 and kept its gearing[8] at the lower end of its target range of 20% to 30% (22.2% at 31 December 2018).

Operational commentary

The Group achieved sales of 964 lots[9] (down 28% on the corresponding period) and settlements of 1,417 lots[9] (up 32%) during 1H19. Sales were impacted by the moderating market conditions in VIC, mixed conditions in other markets, the completion of several Syndicates in Victoria and the changes in bank lending conditions.

At 31 December 2018, there were 1,804 contracts on hand[10], with a gross value of $456 million, compared with 2,257 contracts on hand as at 30 June 2018 (with a gross value of $616 million).

Funds management projects

The Group's Funds Management business performed solidly in 1H19 on the back of a strong share of profits from settlements in the Victorian and Queensland projects. The EBITDA[11] was down as a result of a reduction in fee income from reduced sales.

- 474 lots[9] sold for a gross value of $103.9 million, compared with 739 lots[9] ($183.1 million) in 1H18.
- 938 lots[9] settled for a gross value of $220.8 million, compared with 700 lots[9] ($158.7 million) in 1H18.
- 847 contracts on hand[9] as at 31 December 2018 with a total value of $194.0 million.
- EBITDA[11] of $14.4 million compared with $16.2 million in the previous corresponding period.
- EBITDA[11] margin of 69%, compared with 70% in the previous corresponding period.

Development projects

The reduced contribution from the Group's Development business is a result of lower englobo settltments in 1H19, with the settlement of a land parcel in Rockbank (VIC) contributing positively to 1H18 performance. However, strong settlements from Craigieburn (VIC) contributed to a still solid 1H19 performance by the Development business.

- 285 lots[9] sold for a gross value of $39.2 million, compared with 231 lots[9] in 1H18 ($77.6 million).
- 217 lots[9] settled for a gross value of $68.8 million, compared with 145 lots[9] in 1H18 ($74.0 million).
- 528 contracts on hand[10] as at 31 December 2018, with a total value of $121.5 million.
- EBITDA of $21.6 million compared with $25.4 million in the previous corresponding period.
- EBITDA margin of 29%, compared with 32% in the previous corresponding period.

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8 Calculated as (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets). Excludes syndicates consolidated under AASB10.

9 Includes equivalent lots.

10 Includes equivalent lots. Excludes englobo sales.

11 EBITDA is a non-IFRS measure that includes effects of non-cash movements in investments in associates and joint ventures.

Joint arrangements

The improved contribution from the Group's Joint Venture business in 1H19 is predominantly due to higher settlements achieved across the majority of the Group's joint venture projects, including the Googong (ACT/NSW) and Eden's Crossing (QLD) projects.

- 205 lots[12] sold for a gross value of $43.8 million, compared with 372 lots[12] in 1H18 ($98.2 million).
- 262 lots[12] settled for a gross value of $57.5 million, compared with 232 lots[12] in 1H18 ($52.1 million).
- 429 contracts on hand[12] as at 31 December 2018 with a total value of $140.5 million.
- EBITDA[13] of $5.9 million compared with $5.5 million in the previous corresponding period.
- EBITDA[13] margin of 28% compared with 25% in the previous corresponding period.

Land portfolio metrics

		1H19	1H18	Change Up/(down)
Lot sales[12]		964	1,342	(28%)
Lot settlements[12]		1,417	1,077	32%
Contracts on hand [14] (comparison as at 30 June 2018)	Number	1,804	2,257	
	Value	$456m	$616m	

Capital management

The Group continues to apply a prudent focus on capital management and at 31 December 2018, the Group's gearing[15] was 22.2%, compared to 18.2% at 30 June 2018.

At the end of the period, the Group had interest-bearing debt (including Peet Bonds) of $238.4 million, compared with $217.2 million at 30 June 2018. Approximately 92% of the Group's interest-bearing debt was hedged as at 31 December 2018, compared with 91% at 30 June 2018.

Peet enters 2H19 with a strong balance sheet, including cash and debt facility headroom of approximately $100 million as at 31 December 2018 and a weighted average debt maturity of two and half years.

During 1H19, Peet Limited implemented a 12-month on-market share buy-back of up to 5% of its issued ordinary shares. As at 31 December 2018, the Company had acquired 6.4 million of its ordinary shares, representing approximately 26% of the total shares to be acquired.

[12] Includes equivalent lots.

[13] EBITDA is a non-IFRS measure that includes effects of non-cash movements in investments in associates and joint ventures.

[14] Includes equivalent lots. Excludes englobo sales.

[15] Calculated as (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets). Excludes syndicates consolidated under AASB 10.

Dividend payments

Subsequent to 31 December 2018, the Directors have declared an interim dividend of 2.0 cents per share, fully franked, in respect of the year ending 30 June 2019, which is in line with the interim dividend for the year ended 30 June 2018. The dividend is to be paid on 9 April 2019, with a record date of 22 March 2019.

The Dividend Reinvestment Plan remains deactivated.

Group strategy

The Group has continued to operate in line with its strategy which is based on leveraging the diversity of its national land bank; working in partnership with wholesale, institutional and retail investors; and continuing to meet market demand for a mix of product in the growth corridors of major Australian cities.

The key elements of Peet's strategy include:

- accelerating production where possible and appropriate, and active management of product mix;
- selectively acquiring residential land holdings as cycles, markets and opportunities allow to restock the project pipeline with a focus on securing low cost projects, and predominantly under our funds management platform;
- expanding market share by broadening its product offering in Completed Homes and Medium Density product;
- delivering affordable product targeted at the low and middle market segments; and
- maintaining a strong balance sheet and cash flow position.

Outlook

Market conditions and the availability of credit for customers are expected to remain difficult for the next 12 months.

Peet expects that Victorian residential property market conditions will continue to moderate as the current cycle changes.

The Group has a positive medium to long term outlook underpinned by its large and diverse land bank with a low cost base that has strong exposure to affordable markets. Peet has avoided acquiring land holdings across Victoria and New South Wales during the past three years and divested a number of non-core assets in Victoria and redeployed capital into improving and affordable markets.

Peet has a lowly geared balance sheet with strong visibility of future operating cashflows, including from new projects commencing development within the next two to three years.

Brendan Gore
Managing Director and Chief Executive Officer
26 February 2019

Directors’ Report

Your Directors present their report on the Consolidated Entity consisting of Peet Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors

The following persons were Directors of Peet Limited during the half-year and up to the date of this report:

Tony Lennon (Chairman)

Brendan Gore

Anthony Lennon

Trevor Allen

Vicki Krause

Robert McKinnon

Review of operations

Net profit after tax for the half-year ended 31 December 2018 attributable to owners of Peet Limited was $23.1 million (2017: $21.9 million). The review of operations for the Group for the half-year ended 31 December 2018 and the results of those operations are covered in the Results Commentary section on pages 2 to 5.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/91, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that legislative instrument.

Signed for, and on behalf of the Board in accordance with a resolution of the Board of Directors.

Brendan Gore

Managing Director and Chief Executive Officer

26 February 2019

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Auditor's Independence Declaration to the Directors of Peet Limited

As lead auditor for the review of the half-year financial report of Peet Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Peet Limited and the entities it controlled during the financial period.

Ernst & Young

G Lotter
Partner
26 February 2019

	Notes	December 2018 $'000	December 2017 $'000
Revenue	3	108,509	124,218
Expenses	4	(85,944)	(93,961)
Finance costs (net of capitalised borrowing costs)	4	(3,015)	(4,402)
Share of net profit of associates and joint ventures		8,622	3,328
Profit before income tax		**28,172**	**29,183**
Income tax expense	5	(5,128)	(7,470)
Profit for the period		**23,044**	**21,713**
Attributable to:			
Owners of Peet Limited		23,109	21,878
Non-controlling interests		(65)	(165)
		23,044	**21,713**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Realised losses on cash flow hedges transferred to profit or loss		617	745
Unrealised losses on cash flow hedges		(729)	(341)
Income tax relating to components of other comprehensive income		34	(121)
Other comprehensive income for the period, net of tax		**(78)**	**283**
Total comprehensive income for the period		**22,966**	**21,996**
Attributable to:			
Owners of Peet Limited		23,031	22,161
Non-controlling interests		(65)	(165)
		22,966	**21,996**

Earnings per share for profit attributable to the ordinary equity holders of the Company

	Notes	Cents	Cents
Basic and diluted earnings per share	6	4.74	4.47

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2018

PEET

	Notes	December 2018 $'000	June 2018 $'000
Current assets			
Cash and cash equivalents		48,018	76,749
Receivables		11,427	10,770
Contract assets		10,152	16,622
Inventories		110,979	119,259
Total current assets		**180,576**	**223,400**
Non-current assets			
Receivables		102,982	95,665
Inventories		412,925	375,540
Investments accounted for using the equity method		235,435	222,820
Property, plant and equipment		5,461	5,411
Intangible assets		5,813	6,087
Total non-current assets		**762,616**	**705,523**
Total assets		**943,192**	**928,923**
Current liabilities			
Payables		90,013	82,066
Land vendor liabilities		4,700	14,700
Current tax liabilities		14,047	15,398
Provisions		6,352	5,826
Total current liabilities		**115,112**	**117,990**
Non-current liabilities			
Land vendor liabilities		5,619	5,380
Borrowings	7	238,443	217,204
Derivative financial instruments		3,902	3,777
Deferred tax liabilities		30,631	32,844
Provisions		267	285
Total non-current liabilities		**278,862**	**259,490**
Total liabilities		**393,974**	**377,480**
Net assets		**549,218**	**551,443**
Equity			
Contributed equity	8	379,160	385,955
Reserves		2,130	3,397
Retained profits		156,773	150,871
Capital and reserves attributable to owners of Peet Limited		**538,063**	**540,223**
Non-controlling interests		11,155	11,220
Total equity		**549,218**	**551,443**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	Notes	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2017		**385,955**	**1,417**	**126,258**	**513,630**	**11,692**	**525,322**
Profit for the period		-	-	21,878	21,878	(165)	21,713
Other comprehensive income		-	283	-	283	-	283
Total comprehensive income for the period		**-**	**283**	**21,878**	**22,161**	**(165)**	**21,996**
Dividends paid		-	-	(14,699)	(14,699)	-	(14,699)
Vesting of performance rights		-	(1,882)	-	(1,882)	-	(1,882)
Share based payments		-	1,122	-	1,122	-	1,122
Balance at 31 December 2017		**385,955**	**940**	**133,437**	**520,332**	**11,527**	**531,859**
Balance at 1 July 2018 as previously stated		**385,955**	**3,397**	**150,871**	**540,223**	**11,220**	**551,443**
Effect of adoption of new accounting standards	1	-	-	(2,508)	(2,508)	-	(2,508)
Balance at 1 July 2018 (restated)		**385,955**	**3,397**	**148,363**	**537,715**	**11,220**	**548,935**
Profit for the period		-	-	23,109	23,109	(65)	23,044
Other comprehensive income		-	(78)	-	(78)	-	(78)
Total comprehensive income for the period		**-**	**(78)**	**23,109**	**23,031**	**(65)**	**22,966**
Dividends paid	10	-	-	(14,699)	(14,699)	-	(14,699)
Share buyback, including transaction costs		(6,795)	-	-	(6,795)	-	(6,795)
Vesting of performance rights		-	(2,085)	-	(2,085)	-	(2,085)
Share based payments		-	896	-	896	-	896
Balance at 31 December 2018		**379,160**	**2,130**	**156,773**	**538,063**	**11,155**	**549,218**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	December 2018 $'000	December 2017 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	120,666	154,387
Payments to suppliers and employees (inclusive of GST)	(99,259)	(91,615)
Payments for purchase of land	(22,525)	(16,905)
Interest and other finance costs paid	(7,145)	(8,186)
Distributions and dividends received from associates and joint ventures	5,275	2,438
Interest received	285	320
Income tax paid	(7,592)	(9,674)
Net cash (outflow)/ inflow from operating activities	**(10,295)**	**30,765**
Cash flows from investing activities		
Payments for property, plant and equipment	(1,150)	(1,594)
Payments for investment in associates and JVs	(4,782)	(8,725)
Proceeds from capital returns from associates and JVs	567	707
Loans to associates and JVs	(13,400)	(3,720)
Repayment of loans by associates and JVs	1,000	123
Net cash outflow from investing activities	**(17,765)**	**(13,209)**
Cash flows from financing activities		
Dividends paid	(14,699)	(14,699)
Repayment of borrowings	-	(69,636)
Proceeds from borrowings	20,823	263
Proceeds from issue of Peet bonds (net of transaction costs)	-	49,005
Share buyback (including transaction costs)	(6,795)	-
Net cash outflow from financing activities	**(671)**	**(35,067)**
Net decrease in cash and cash equivalents	(28,731)	(17,511)
Cash and cash equivalents at the beginning of the period	76,749	88,367
Cash and cash equivalents at end of the period	**48,018**	**70,856**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Basis of preparation of consolidated financial statements

This general purpose condensed financial report for the half-year ended 31 December 2018 is for the Consolidated Entity consisting of Peet Limited and its subsidiaries ("Group"). Peet Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: Level 7, 200 St Georges Terrace, Perth WA 6000. The financial report was authorised for issue by the Directors on 26 February 2019. The financial report has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2018 and any public announcements made by Peet Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the condensed financial report are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2018, except for the adoption of new standards effective as at 1 July 2018. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 15 *Revenue from Contracts with Customers ("AASB 15")* and AASB 9 *Financial Instruments* ("*AASB 9*"). The nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the condensed financial report of the Group.

(a) AASB 15

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted AASB 15 as of 1 July 2018 using the full retrospective method of adoption. Under this approach, the Group has elected to apply the standard only to contracts that are not completed contracts at the beginning of the comparative period being 1 July 2017.

Impact of adoption

Other than a balance sheet reclassification adjustment relating to the presentation of contract assets and liabilities, the adoption AASB 15 had no significant impact on the Group.

In accordance with AASB 15, when either party to a contract has performed, the Group is required to present the contract in the Consolidated Balance Sheet as a contract asset or contract liability depending on the relationship between the Group's performance and the customer's payment. The Group is obliged to present any unconditional right to payment as a receivable. Contract assets are considered to be unconditional if the right to receive payment is only conditional on the passage of time. Accordingly, a contract asset is recognised for the earned consideration that is conditional. Under AASB 118, amounts due from customers were previously included in receivables.

The impact of the application of AASB 15 is analysed by financial statement line items below.

	At 1 July 2017	AASB 15 reclassification	Restated at 1July 2017	At 1 July 2018	AASB 15 reclassification	Restated at 1July 2018
Receivables	53,319	(25,005)	28,314	27,392	(16,622)	10,770
Contract assets	-	25,005	25,005	-	16,622	16,622
Total current assets	53,319	-	53,319	27,392	-	27,392

New accounting policy

The Group's new accounting policy for revenue from contracts with customers is detailed below:

The main streams of revenue recognised by the Group relate to the sale of land and the provision of management and selling services. Revenue from contracts with customers is recognised when or as the Group transfers control of the goods and services to a customer at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for those goods and services. Revenue is recognised when or as each performance obligation is satisfied at the amount of the transaction price allocated to that performance obligation. If the consideration in the contract includes a variable amount, the Group estimates the amount of the consideration to which it is entitled in exchange for transferring the goods and services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal of the amount of the cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. When a performance obligation is satisfied by transferring a promised good or service to the customer before the customer pays consideration or before payment is due, the Group presents the contract as a contract asset, unless the Group's rights to the amount of consideration are unconditional, in which case the Group recognises a receivable.

Costs incurred to fulfil a contract are expensed as incurred.

The Group's main streams of revenue from contracts with customers are:

1. Sale of land

   Revenue from the sale of land is recognised on settlement of the sale. This represents the point when control (title) has passed to the customer.

2. Project management services

   Project management represents a single performance obligation that is satisfied over time for the oversight and management of the development. The consideration receivable under the contract allocated to project management is variable and is measured using an expected value approach subject to a constraint. Revenue is recognised using an output method based on development milestones reached.

3. Selling services

   A sale service represents a performance obligation to facilitate the sale of an individual lot which is satisfied over the short period of time relating to the procedural steps of finalising the sale of the property to a purchaser. The consideration receivable under the contract allocated to selling services is considered to be variable consideration and is measured on a portfolio basis using an expected value approach subject to a constraint.

(b) AASB 9

AASB 9 replaces aspects of AASB 139 *Financial Instruments* ("AASB 139") that relate to the recognition, classification and measurement of financial assets and financial liabilities, including derecognition, impairment and hedge accounting. AASB 9 also amends other standards dealing with financial instruments such as AASB 7 *Financial Instruments: Disclosures*.

The Group applied AASB 9 with the initial application date being 1 July 2018. The Group has not restated comparative information which continues to be reported under AASB 139. Differences arising from the adoption of AASB 9 have been recognised directly in retained earnings.

The nature of the adjustments is described below:

I. *Classification and measurement*

Under AASB 9 debt instruments are measured at fair value through profit or loss, amortised cost or fair value through other comprehensive income (OCI). The classification is based on two criterion: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was done on the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the financial asset.

Under AASB 139 all financial assets were classified as loans and receivables carried at amortised cost. Under AASB 9 with the exception of certain loans to associates and joint ventures, all financial assets are classified as financial assets at amortised cost. Under AASB 9, certain loans to associates and joint ventures did not meet the criteria to be classified at amortised cost in accordance with AASB 9 because the cash flows do not represent payments of principal and interest solely and will be reclassified from loans and receivables carried at amortised cost under AASB 139 to financial assets at fair value through profit and loss under AASB 9. There were no changes in the classification of the Group's financial liabilities. The change in classification of the Group's financial assets has resulted in a measurement adjustments of $1.8 million arising on adoption of

AASB 9 which has been reflected as an adjustment to opening retained earnings of $1.25 million (net of tax) at 1 July 2018.

II. *Impairment*

AASB 9 also changes the accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to recognise an allowance for ECL for all debt instruments not held at fair value through profit and loss. For cash and cash equivalents, all balances were assessed as having low credit risk as they are either on demand or short-term deposits held with reputable financial institutions. For trade receivables and contract assets, the Group has applied AASB 9's simplified approach and has calculated the expected credit loss based on lifetime expected credit losses. No trade receivables and contract assets were in default at the date of initial application.

As at 1 July 2018, the Group reviewed and assessed the existing financial assets carried at amortised cost for impairment using reasonable and supportable information. The ECL is determined by applying a probability-weighted estimate of credit loss. Upon adoption of AASB 9, the Group has recognised an impairment on the Group's financial assets carried at amortised cost of $1.8 million which resulted in a reduction in retained earnings of $1.26 million (net of tax) at 1 July 2018.

III. *Hedge accounting*

The new hedge accounting rules align the accounting for hedging instruments more closely to the Group's financial risk management practices. The interest rate swaps in place at 30 June 2018 designated as cash flow hedges under AASB 139 qualify as cash flow hedges under AASB 9 and accordingly are treated as continuing hedges under AASB 9.

New accounting policy

The Group's new accounting policy for financial assets arising on adoption of AASB 9 and applied from 1 July 2018 is detailed below:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets - Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to section 1(a) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

• Financial assets at amortised cost (debt instruments)

• Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

• Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

• Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments

of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, and loans to associates and JVs included under Receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes loans to associates and JVs and derivative instruments.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Segment reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the executive management group.

The executive management group assesses the performance of the operating segments based on multiple measures including EBITDA[1], EBIT[2] and profit after tax.

The share of profits from associates and joint ventures is included as segment revenue as it is treated as revenue for internal reporting purposes.

The Group operates only in Australia.

The executive management group considers the business to have the following three reportable business segments:

Funds management

Peet enters into asset and funds management agreements with external capital providers. Peet and/or the external capital provider commit equity funds towards the acquisition of land and this is generally supplemented with debt funds either at the time of acquisition or during the development phase of a project.

The Group derives fees from underwriting, capital raising and asset identification services. Ongoing project related fees (mainly project management and selling fees as well as performance fees) are then derived by the Group for the duration of a particular project.

Company owned projects

The Group acquires parcels of land in Australia, primarily for residential development purposes. Certain land holdings will also produce non-residential blocks of land.

Joint arrangements

Joint arrangements are entered into with government, statutory authorities and private landowners. The form of these arrangements can vary from project to project but generally involves Peet undertaking the development of land on behalf of the landowner or in conjunction with the co-owner. The Group is typically entitled to ongoing fees for management of the development project and also a share of the profits.

Inter-segment eliminations and other unallocated

Segment revenue, expenses and results include transfers between segments. Such transfers are based on an arm's length basis and are eliminated on consolidation.

The adoption of AASB 10 Consolidated Financial Statements from 1 July 2013, resulted in certain property syndicates being consolidated. These entities however, continue to be managed and reported to the executive management group as part of the funds management business segment. Adjustments are included in "Inter-Segment Eliminations and Other Unallocated" to reconcile reportable business segment information to the Group's consolidated statement of profit or loss.

1. EBITDA: Earnings Before Interest (including interest and finance charges amortised through cost of sales) Tax, Depreciation and Amortisation.
2. EBIT: Earnings Before Interest (including interest and finance charges amortised through cost of sales) and Tax.

2. Segment reporting

	Funds management		Company owned projects		Joint arrangements		Inter-segment eliminations and other unallocated		Consolidated	
	December 2018 $'000	December 2017 $'000	December 2018 $'000	December 2017 $'000	December 2018 $'000	December 2017 $'000	December 2018 $'000	December 2017 $'000	December 2018 $'000	December 2017 $'000
Sales to external customers	10,987	21,382	73,190	78,139	18,647	19,669	1,461	3,240	104,285	122,430
Other revenue	3,788	-	103	1,023	156	482	177	283	4,224	1,788
Share of net profit of associates and JVs	6,076	1,827	-	-	2,418	1,514	128	(13)	8,622	3,328
Total	**20,851**	**23,209**	**73,293**	**79,162**	**21,221**	**21,665**	**1,766**	**3,510**	**117,131**	**127,546**
Corporate overheads							(5,845)	(5,728)	(5,845)	(5,728)
EBITDA	**14,366**	**16,222**	**21,596**	**25,388**	**5,942**	**5,483**	**(5,645)**	**(5,386)**	**36,259**	**41,707**
Depreciation and amortisation	(50)	(25)	(77)	(902)	(155)	(21)	(918)	(924)	(1,200)	(1,872)
EBIT	**14,316**	**16,197**	**21,519**	**24,486**	**5,787**	**5,462**	**(6,563)**	**(6,310)**	**35,059**	**39,835**
Financing costs (includes interest and finance costs expensed through cost of sales)									(6,887)	(10,652)
Profit before income tax									**28,172**	**29,183**
Income tax expense									(5,128)	(7,470)
Profit for the period									**23,044**	**21,713**
Loss attributable to non-controlling interests									65	165
Profit attributable to owners of Peet Limited									**23,109**	**21,878**

PEET

3. Revenue

	December 2018 $'000	December 2017 $'000
Revenue from contracts with customers		
- Sale of land	90,355	97,016
- Project management and selling services	13,930	25,414
Other revenue	4,224	1,788
	108,509	**124,218**

4. Profit before income tax

	December 2018 $'000	December 2017 $'000
Profit before income tax includes the following specific expenses:		
Expenses		
Land and development cost	48,550	49,723
Capitalised interest and finance expense	3,872	6,250
Total land and development cost	**52,422**	**55,973**
Depreciation	647	1,288
Amortisation	553	584
Total depreciation and amortisation	**1,200**	**1,872**
Employee benefits expense	15,660	17,575
Project management, selling and other operating costs	7,804	10,415
Other expenses	8,858	8,126
Total other expenses	**32,322**	**36,116**
Total expenses	**85,944**	**93,961**
Finance costs		
Interest and finance charges paid/payable	4,142	4,329
Interest on bonds	5,673	5,615
Amount capitalised	(6,800)	(5,542)
Total finance costs	**3,015**	**4,402**

5. Income tax

	December 2018 $'000	December 2017 $'000
Major components of tax expense		
Current tax	6,241	6,706
Deferred tax	(1,113)	764
	5,128	**7,470**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	28,172	29,183
Tax at Australian tax rate of 30% (2017: 30%)	8,452	8,755
Tax effect of amounts which are not deductible		
Share of net profit of associates	(1,036)	189
Employee benefits	(357)	(866)
Franking rebate	(1,189)	(732)
Other	(742)	124
	5,128	**7,470**

6. Earnings per share

	December 2018	December 2017
Profit attributable to the ordinary equity holders of the Company ($'000)	23,109	21,878
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	487,887,999	489,980,559
Basic and diluted earnings per share (cents)	4.74	4.47

There are 1,200,000 options excluded from the calculation of diluted earnings per share as they are anti-dilutive. They could potentially dilute basic earnings per share in the future.

7. Borrowings

	December 2018		June 2018	
	Facility Amount	Utilised Amount[2]	Facility Amount	Utilised Amount[2]
	$'000	$'000	$'000	$'000
Bank loans[1]	**178,000**	**90,430**	**178,000**	**69,456**

	Face value	Carrying amount[3]	Face value	Carrying amount[3]
	$'000	$'000	$'000	$'000
Peet bonds				
Series 1, Tranche 1	100,000	98,768	100,000	98,577
Series 2, Tranche 1	50,000	49,245	50,000	49,171
	150,000	**148,013**	**150,000**	**147,748**

[1] Secured

[2] Excludes bank guarantees. Refer note 9 for bank guarantees information.

[3] Net of transaction costs.

The borrowings are disclosed as follows in the balance sheet:

	December 2018 $'000	June 2018 $'000
Borrowings – Current	-	-
Borrowings – Non-current	238,443	217,204
Total borrowings	238,443	217,204
Cash and cash equivalents	(48,018)	(76,749)
Net debt	190,425	140,455

8. Contributed equity

In August 2018, the Company announced that it will implement an on-market share buy-back of up-to 5% of its issued ordinary shares. During the half-year ended 31 December 2018, the Company bought back 6,423,507 shares for consideration of $6.8m.

The number of ordinary shares on issue and contributed equity at 31 December 2018 is 483,557,052 shares and $379.2 million (30 June 2018: 489,980,559 shares and $386.0 million), respectively.

9. Contingencies and commitments

9.1 Contingencies

	December 2018 $'000	June 2018 $'000
Bank guarantees outstanding	25,990	24,585
Insurance bonds outstanding	16,942	18,680
	42,932	**43,265**

The Directors are not aware of any circumstances or information, which would lead them to believe that these contingent liabilities will eventuate and consequently no provisions are included in the accounts in respect of these matters.

9.2 Commitments

At 31 December 2018, the Group had commitments of $38.6 million (30 June 2018: $40.3 million) to purchase lots from associates and joint ventures, at arms-length, to be on-sold to third party buyers through the Group's Peet Complete program.

10. Dividends

(a) Dividends paid

The Directors declared a final fully franked dividend of 3.00 cents per share in respect of the year ended 30 June 2018. The dividend of $14.7 million was paid on 5 October 2018.

(b) Dividends not recognised at period end

Subsequent to 31 December 2018, the Directors have declared an interim dividend of 2.0 cents per share fully franked in respect of the year ending 30 June 2018. The dividend is to be paid on Tuesday, 9 April 2019, with a record date of Friday, 22 March 2019.

11. Fair value measurements

Measurement

The Group, upon adoption of AASB 9 *Financial Instruments,* have reclassified certain loans to associates and joint ventures from loans and receivables carried at amortised cost to financial assets carried at fair value through profit or loss. The fair values of these financial assets have been estimated using discounted cashflows with significant unobservable inputs at each reporting date. (level 3 of the fair value hierarchy).

At 31 December 2018, the carrying amount and fair value of these loans to associates and joint ventures is $50.7 million and $48.4 million, respectively.

The Group measures its derivative financial liabilities at fair value at each reporting date. These derivatives are measured using significant observable inputs (level 2 of the fair value hierarchy). The fair value at 31 December 2018 is $3.9 million (30 June 2018: $3.8 million).

There have been no transfers between levels during the period.

Disclosure

Except for the Peet bonds, the carrying value of financial assets and liabilities is considered to approximate fair values.

The quoted market value (on ASX) as at 31 December 2018 of a Peet bond Series 1, Tranche 1 is $102.75 and of a Peet bond Series 2, Tranche 1 is $103.75.

At 31 December 2018, the carrying value of Peet bonds is $148.0 million (fair value $154.0 million).

12. Events after the end of the reporting period

No matters or circumstances have arisen since the end of the half-year, which have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 20 are in accordance with the *Corporations Act 2001,* including:

(i) complying with AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Peet Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

BRENDAN GORE
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
26 February 2019

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Independent auditor's review report to the Members of Peet Limited and its controlled entities

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Peet Limited (the Company) and its controlled entities (collectively the Group), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

G Lotter
Partner
Perth
26 February 2019